BRIEFING MATERIAL FOR THE OSAKA
CHAMBER OF COMMERCE AND INDUSTRY

INVESTMENT MISSION TO CANADA

MAY 24 TO JUNE 9, 1988

INVESTMENT CANADA

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Our file: 835-6-13

May 19, 1988

Mr. Tokutaro Kawai
Managing Director
Daiwa House Industry Co., Ltd.
1-5-16, Awaza
Nishi-ku
Osaka 550
Japan

Dear Mr. Kawai:

re: Osaka Chamber of Commerce and Industry
Investment Mission to Canada
May 25 to June 9, 1988

On behalf of the Government of Canada we welcome you and members of the Osaka Chamber of Commerce and Industry to Canada. We hope your tour of our country will be pleasant, interesting and fruitful.

In the following pages you will find some briefing material that has been prepared to answer some of the questions that we understand are of interest to you. You will have many more! We hope that, by the end of your tour, you will have found some answers and that you will agree that Canadians make good business partners!

With best wishes to you all,

Yours sincerely,

Jean Arès
Vice President
Investment Development

Att.

P.O. Box 2800, Station 'D', Ottawa, Ontario, Canada K1P 6A5 Telex 0534450
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CANADA FACT SHEET

Type of Government	Constitutional Monarchy
Head of State	The Queen, Represented by Governor General Jeanne Sauve
Head of Government	Prime Minister Brian Mulroney
Secretary of State for External Affairs	Joe Clark
Minister for International Trade	John Crosbie
Finance Minister	Michael Wilson
Area	9,970,610 km2
Population	25.6 million (1987)
GNP	C$493,012 billion (1986) C$537,199 billion (1987)
GNP Per Capita	C$19,445 (1986) C$20,963 (1987)
GDP	C$509.9 billion (1986) C$553.9 billion (1987)
GDP Per Capita	C$19,503 (1986) C$21,291 (1987 estimate)
Inflation Rate	4.4% (1987)
Unemployment Rate	8.9% (1987)
Current Account Deficit	C$8.9 billion (1987)

ECONOMIC CONDITIONS IN CANADA

Growth. The Canadian economy in 1988 is moving into a sixth year of recovery from the 1981-82 recession. While growth levels slowed from 4% in 1985 to 3.1% in 1986, Canadian performance improved in 1987 with 3.8% growth. 2.8% growth is anticipated in 1988 and 3% in 1989.

Inflation. Strong gains against inflation have been made. Canada's double digit CPI figure of the early 1980's fell to less than 6% in 1983 to 4.1% in 1986. The inflation rate grew slightly to 4.4% in 1987 but is expected to fall to 4.0% in 1988 and 3.9% in 1989. By the early 1990's, the inflation rate is expected to average about 3.4%.

Unemployment remains a serious problem in Canada despite the fact that our record on employment growth is unequalled among major countries. Our rate of 9.6% in 1986 fell to 8.9% in 1987 and will decline further to 7% by 1993.

Short term interest rates trended downwards to 8.5% in mid-1986 after rapid increases early in the year when the Canadian dollar came under strong pressure. On March 19, 1987 the bank rate dropped to 7.14% (lowest level since 1974) while the prime rate declined to 8.75%. On March 24, 1988 the bank rate and the prime rates were 8.78% and 9.75% respectively. Interest rates are expected to average 8.6% over the 1988/89 fiscal year.

Investment. 1987 business plant and equipment investment was up 9% and investment in non-residential construction was up 1.5%. These figures indicate an overall improvement in the business community climate.

The current account deficit rose from less than $600 million in 1985 to about $9 billion in 1986 to $8.9 billion in 1987. This was due to a deterioration in terms of trade as a result of declines in energy, grain and other commodity prices and also to a deterioration in trade in services and strong import demand in Canada. Canadian export of merchandise increased by about 5% in 1987, most of this to the United States and Japan.

The federal budget deficit has been brought down from a record high of $38.3 billion in 1984-85 (8.6% of GDP) to $29.3 billion in 1987/88 (5.3% of GDP). The deficit is predicted to drop to $28.9 billion in 1988/89 and to $28.6 billion in 1989/90. By 1993, the deficit is expected to be $19.5 billion.

Labour Costs. Unit labour costs rose by 2.7% in 1987, a much slower rate of growth than that of most Western countries. Wage gains remain lower than the rate of inflation.

Consumer Spending reached its highest level in 1987 since the mid-1960's and reflects the fact that the 1987 personal savings rate fell to 9%, its lowest level in 15 years.

Before - Tax Corporate Profits rose by more than 25% in 1987.

FORECAST FOR CANADIAN MARKET GROWTH

The Canada / U.S. Free Trade Agreement (FTA) will provide a boost to the Canadian economy. The Canadian economy has performed very well in recent years, and is predicted to further improve as a result of the FTA.

The Economic Council of Canada's April 1988 report, **Venturing Forth: An Assessment of the Canada-U.S. Trade Agreement,** anticipates that, by 1998, Canada will have experienced the following consequences as a result of the Agreement:

* a net increase of 25,000 jobs per year. For every person who loses a job because of free trade, 2.3 new jobs will be created (and they will be higher paying jobs)
* 2.5%, or $10.9 billion more economic growth
* 5.5% less inflation
* 0.9% less unemployment
* 2.3% increase in disposable income
* 5% increase in investment

The Council's summary conclusion is fitting:

> "Our analysis suggests that Canada-U.S. free trade, as governed by the agreement, will provide significant benefits to Canada in the form of lower prices, higher productivity, more efficient allocation of resources, and a more stable business climate. This will, in turn, result in higher levels of earnings and investments...."

The Department of Finance has also predicted a stronger Canadian economy due to the FTA. They forecast that by 1993, the Agreement would:

* increase business investment in plant and equipment by more than 4% in real terms;
* cause Canadian manufacturing output to rise more than 10.5%;
* increase consumer spending by 2%;
* raise Canadian exports in volume terms by 3.4%;
* produce a GDP approximately 2% higher than without the Agreement;
* reduce average production costs for Canadian manufacturing by more than 2%; and
* increase the real income of Canadians by at least 2.5%.

CANADA: AN INTEGRAL PART OF THE NORTH AMERICAN MARKET

The Canadian Location

Proximity, time zones, and common linguistic and cultural ties have created several regional economic markets in North America following a north-south flow. During the last 100 years, the natural community of interest between populations north and south of the border has resulted in the growth of a North American market in which Canada and the US have become each other's best customer. Exports to the US account for approximately 77 % of total Canadian exports. Similarly, about 68 % of Canadian imports come from the US.

North American Market

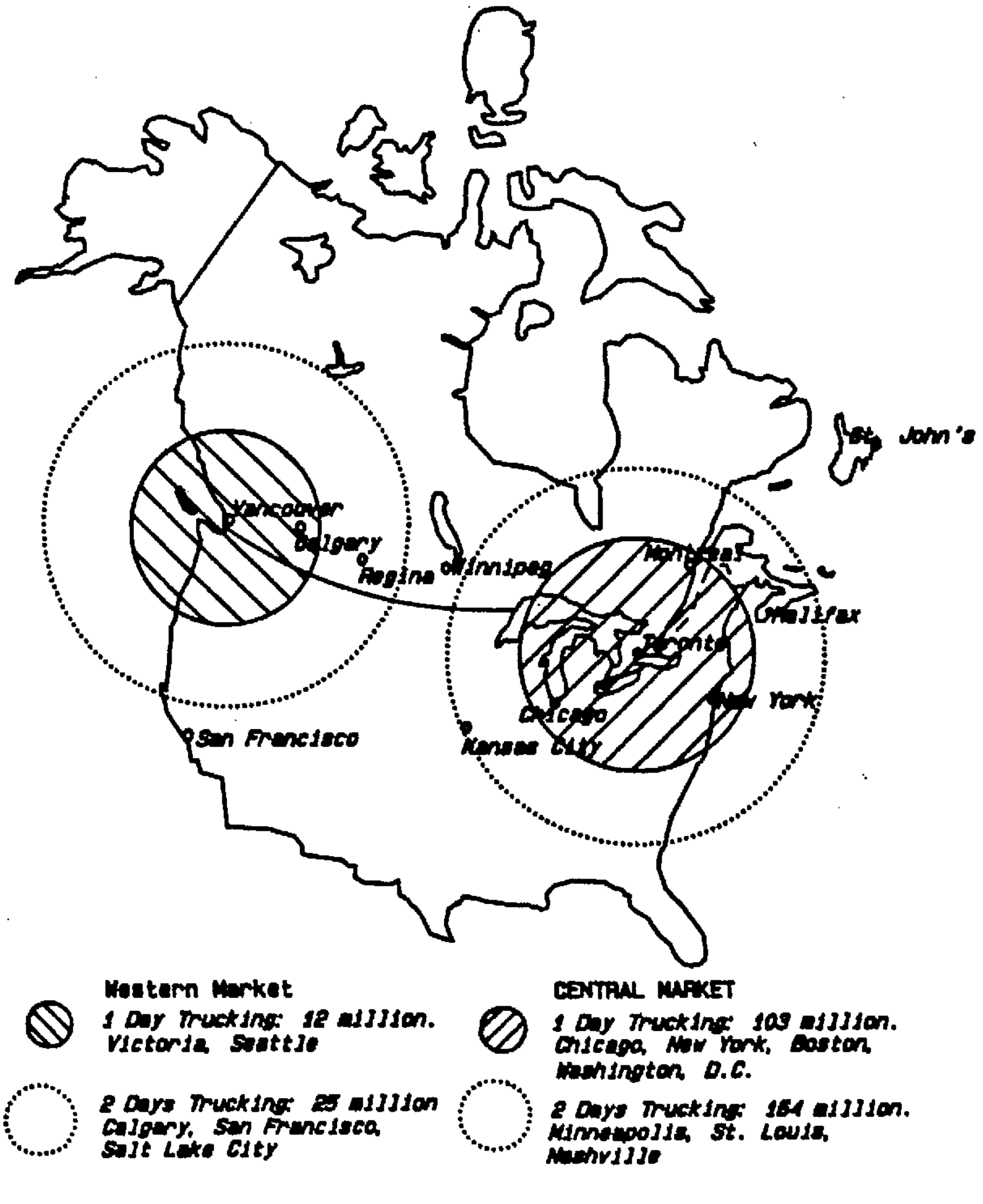
Many major American business centres, including Seattle, Minneapolis, Chicago, Philadelphia and New York, are within one day's trucking distance of Canada. Countless other US cities, such as San Francisco, Denver, Kansas City and Nashville are only two days away by truck.

The Canadian and US markets are so integrated that the four regional north-south markets account for nearly all of the two-way flow of Canada-US merchandise trade. The total flow amounted to $168 billion on a customs valuation basis, and is forecast to increase in future years. For example, the US Atlantic region imported nearly $35 billion of Canadian goods, the Midwest region absorbed nearly $38 billion, the Prairie states over $6 billion and the Western region some $8 billion.

Development of Duty-Free Trade

The north-south flow of goods within the North American regional markets has grown substantially in recent years. This is partly the result of bilateral agreements such as the Canada-US Autopact and the Canada-US Defence Development and Defence Production Sharing Arrangement. These two agreements essentially remove all tariff and non-tariff barriers on Canadian-manufactured auto products and defence-related equipment entering the US. Canada and the US are both signatories to and supporters of the General Agreement on Tariffs and Trade (GATT), which has provided a multilateral forum and agenda for the removal of tariff barriers. Under existing GATT Agreements, by 1987 approximately 80 % of Canada's exports to the US are scheduled to be duty-free. An additional 10% of Canadian exports will carry a duty of less than five percent. In essence, tariffs raise few, if any, barriers to Canadian exports to the US.

Access to North American Markets



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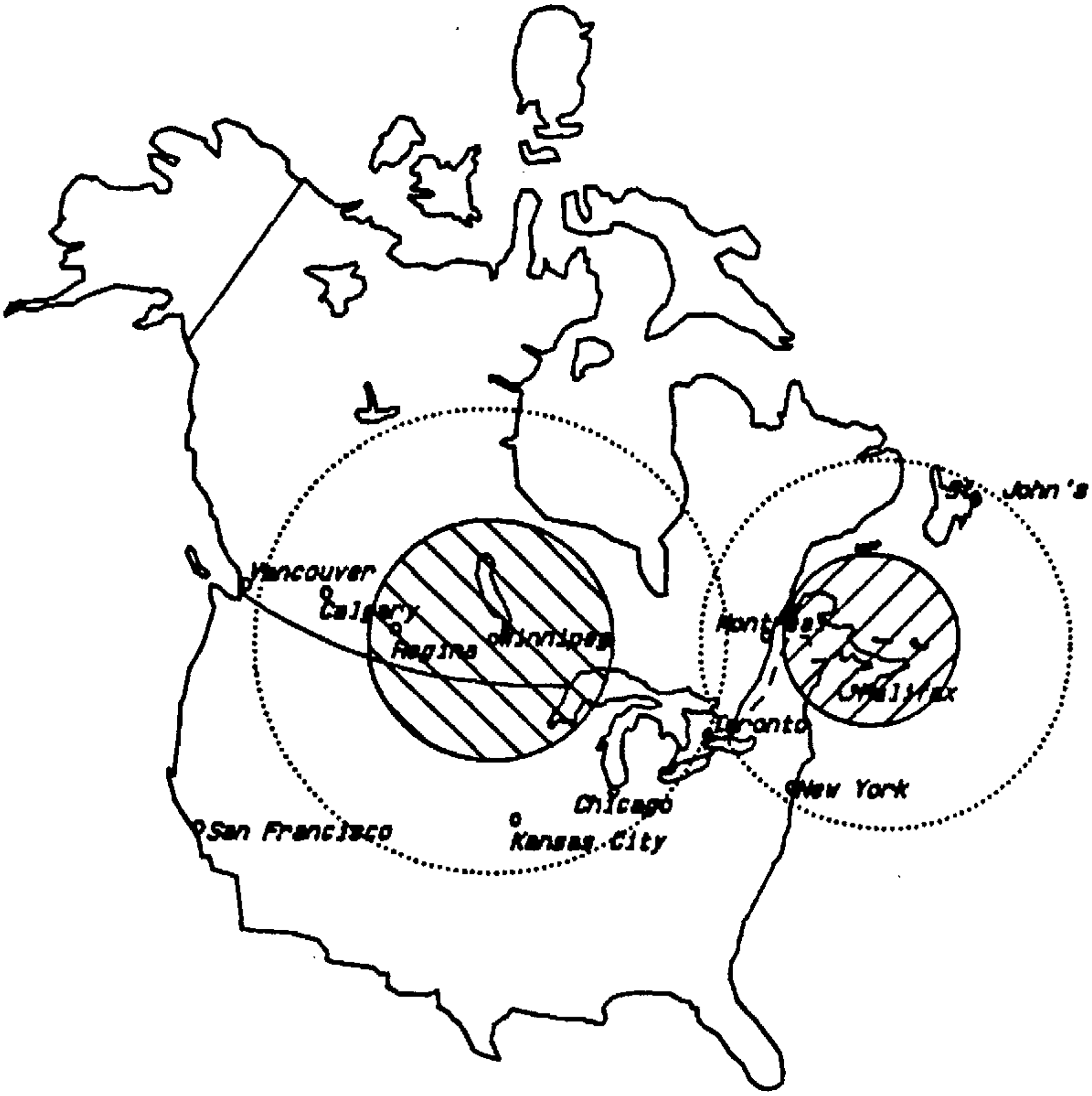

Mid-West Market

1 Day Trucking: 16 million.
Regina, Bismarck, Minneapolis, Thunder Bay

2 Days Trucking: 64 million.
Denver, Kansas City, Chicago, Detroit

Eastern Market

1 Day Trucking: 3 million.
Quebec City, St. John, Portland

2 Days Trucking: 47 million.
New York, Boston Montreal, Philadelphia

COMPETITIVE ADVANTAGES OF CANADA VERSUS U.S.

* Corporate Profitability

The corporate sector in Canada has consistently been profitable. Since 1982, pre-tax corporate profits in Canada have consistently exceeded those in the U.S.. Canadian pre-tax corporate profits grew at an average annual rate of 17.7% between 1982 and 1986. By contrast, in the U.S. they grew at the rate of 8.3% over the same period. For 1987, profits for Canadian industrial corporations were $31.7 billion, 37% higher than 1986.

* Economic Growth Rates

Canada is the seventh largest of the industrialized market economies. Between 1983 and 1986, its GDP grew at an average annual rate of 4.6%, making it the fastest growing of the major OECD economies. This has continued into 1987, with growth at an annual rate of more than 6% in the first two quarters, and 4.4% in the third quarter.

The health of the Canadian economy is shown by its job creation record. In 1987 alone, the Canadian economy generated half a million new jobs, more on a proportional basis than the U.S. or any Western European country. Since 1972 Canada has had the best job-creation performance of any country in the OECD.

* Capital Formation/Domestic Investment

Gross fixed capital formation, as a percentage of GDP, averaged 21.5% in Canada over the 1980-85 period, second only to Japan among the G7 countries. By comparison, the U.S. averaged 18.1% during this same period.

* Foreign Investment

In 1987, non-Canadians invested a record C$8.9 billion of Foreign Direct Investment (FDI) in Canada and repatriated C$4.5 billion, for a net investment in Canada by foreign investors in 1987 of C$4.4 billion. In the area of Canadian Direct Investment Abroad (DIA), Canadian businesses in 1987 invested C$8.2 abroad and repatriated C$2.2 billion for a net minus DIA of $6 billion.

The total stock of FDI in Canada was C$103.1 billion in 1987, of which C$75.2 (72.9 per cent) came from the U.S.

The total stock of Canadian DIA in 1987 came to C$59.9 billion, of which C$43.3 billion (72.3 per cent) went to the U.S. Canadian direct investments in the U.S. made up about 11 per cent of the total FDI in that country in 1986.

CANADA-U.S. FREE TRADE AGREEMENT: IMPLICATIONS FOR JAPAN

Background:

Following 18 months of negotiations, Canada and the United States arrived at an agreement in principle on October 4, 1987. Over the course of the next two months, the Elements of the Agreement were translated into a legal text which was formally tabled in the House of Commons on December 11, 1987. The FTA was signed by Prime Minister Mulroney and President Reagan on January 2, 1988. The FTA will be implemented by the passage of amending legislation by the national legislatures in each country during 1988 and is expected to enter into force on January 1, 1989. The Canadian Government estimates that, as a result of the Agreement, real income will be raised by at least 2.5 percent over the long term and that 120,000 new jobs will be created over the first five years of the Agreement. This will strengthen consumer spending, offering more opportunity for Japanese exporters.

In essence, the FTA provides for: the elimination of all bilateral tariffs and other border restrictions within ten years, backed up by stronger rules of origin, special measures to enhance market access for each other's exports in the areas of agriculture, energy, automotive products, and wine and distilled spirits; liberalization of the regulatory framework surrounding government procurement, investment and financial services; a precedent-setting code providing for national treatment in future legislation in a broad range of service sectors; and a variety of institutional provisions to guarantee impartial application of trade remedy laws and to oversee implementation of the FTA.

In its relations with third countries over the past two years, Canada has consistently stressed that the FTA is entirely compatible with Article XXIV of the GATT, which explicitly allows for the formation of regional free trade areas. All of the conditions attached to Article XXIV, particularly the requirement that "substantially all the trade" between the concerned parties be included, have been met in full.

Impact on Japan:

Japan has been keenly interested in the outcome of the FTA process. Canada and the United States comprise more than 40% of the market for Japanese products. In 1987 Japanese exports to North America exceeded U.S. $85 billion. Canada has received approximately 2% of Japanese direct investment abroad, whereas the U.S. has received 44%. The financial sectors in Canada and the U.S. have also attracted considerable Japanese equity investment as a result of Japan's massive trade surpluses (over US$100 billion in 1986 and US$92 billion in 1987) and its high domestic savings rates. Total Japanese portfolio holdings in Canada are estimated to be about $35 billion, primarily in government bonds.

The Japanese Government has taken a supportive approach to the trade liberalization philosophy underlying the FTA. During his meeting with Prime Minister Mulroney in January 1988, Prime Minister Takeshita expressed the "hope and expectation" that positive results would flow from the Agreement. Japanese support for the Agreement is predicated on the understanding that the FTA would be compatible with the GATT and would not adversely affect third countries. Prime Minister Mulroney assured Prime Minister Takeshita that this is the case and that the Agreement represented an important first step towards reducing trade barriers worldwide.

Impact on Japan regarding FTA Tariff Elimination:

The removal of tariffs on items in which Japanese and American suppliers are in direct competition, such as on consumer electronics, telecommunications and machinery, will increase the need for Japanese exporters to become more competitive.

Impact on Japan regarding FTA Financial Services:

The concessions granted to American financial institutions, particularly with respect to exempting the U.S. banks from the 16% asset ceiling on the size of the foreign bank sector in Canada, have not been extended to Japanese financial institutions. The question of the extension of certain FTA provisions to third countries will be reviewed by the Government of Canada at an appropriate time.

Impact on Japan regarding FTA Investment Provisions:

The FTA does not change the ground rules regarding Japanese or other third country investment but it does extend certain benefits to U.S. investors not at present offered to investors from other countries. Japanese and American investors receive different treatment in that the review threshold is raised solely with respect to direct U.S. acquisitions, and phased out altogether with respect to indirect U.S. acquisitions. The pre-FTA Canadian investment regulations apply to the Japanese except where a Japanese company acquires a U.S.-controlled Canadian company (directly or indirectly), in which case the FTA threshold limit for review would apply. On the other hand, the FTA should make Canada a more attractive location for Japanese investment seeking to take advantage of the cost benefits of locating in Canada while enjoying secure access to the U.S. market.

Impact on Japan Regarding the FTA Automotive Provisions:

The FTA automotive provisions can be described as "Auto Pact Plus". Not only have the fundamentals of the Auto Pact been retained, but new opportunities for production and employment in Canada have been added. New rules of national origin will determine if a car is eligible for duty-free treatment. If companies want to export duty-free to the United States, or if United States transplants want to ship to Canada, their labour and North American parts must equal at least half the value of each vehicle's production cost. The FTA creates incentives for parts producers located in Canada to procure higher levels of domestic parts.

The Japanese have several concerns about the automotive sector under FTA such as the ineligibility for Auto Pact status, higher content requirements to qualify for FTA tariff treatment and the elimination over time of duty remission schemes. Such concerns were raised during the negotiations between Canada and the United States in an attempt to address them.

For example, the FTA provides a mechanism for Canada to honour its duty remission commitments with Honda and Toyota. This allows for continuity of the commitments made in previous Memoranda of Understanding. Subject to ministerial approval, each company will receive duty remission benefits commensurate with Canadian value-added performance. At lower performance levels, the remission benefits are nominal when compared to those received by Auto Pact producers, but increase as performance begins to approach that required under the Pact. All benefits will terminate by January 1, 1996 although companies will continue to receive some duty remission based on Canadian value-added exports to countries other than the United States until January 1, 1998.

The FTA builds on the Auto Pact by keeping intact safeguards and the list of qualified participating firms. As such, Honda and Toyota will not be eligible to join the Auto Pact and will not therefore be able to import duty-free from outside North America. As General Motors, Chrysler and Ford retain the option of importing on a duty-free basis from third countries, Honda and Toyota will be subject to heightened competition and face an increase in costs when duty drawbacks on components are terminated in 1994.

Japanese auto makers have also expressed interest in the new rule of origin for duty-free entry under the FTA. The new rule, based as it is on direct manufacturing costs, ensures a greater degree of North American content. It further provides a clear direction to Honda and Toyota to use higher levels of North American parts. This reinforces a trend set by the continuing appreciation of the yen and should serve to accelerate investment by Japanese parts suppliers in North America.

In sum, there are several positive consequences flowing from the FTA for offshore automakers who established facilities in Canada. Products which qualify under the rule of origin receive preferred duty treatment, permitting rationalization on a North-South basis. Production-based duty remission arrangements Canada has with Japanese and Korean automakers building plants in Canada will be honoured until 1996. Duty remissions on parts exports to third countries continue for 10 years. Elimination of customs user fees will result in reduced costs and administrative burdens for exporters from Canada.

Impact on Japan of FTA Energy Provisions:

It appears that there will be little impact in this sector. The FTA largely formalizes the deregulation initiatives taken by the Canadian Government since 1984. The Japanese have expressed some concern over security of supply in times of shortage. However, the FTA states that it is subject to the Emergency Sharing System (ESS) of the International Energy Agency (IEA). Under the ESS, Canada would likely be required not only to maintain its exports to other IEA countries but to increase them. While the upgrading requirement for uranium exports to the USA has been eliminated, the policy will continue to apply to all exports of Canadian uranium for end use in third countries such as Japan. Under the Agreement, Canada retains the ability to place restrictions on energy imports from third parties. As for foreign investment, the FTA should enhance investor confidence by creating a more stable trading environment. The existing Canadianization policies, laws and regulations in the energy sector have been grandfathered.

CANADA/JAPAN TRADE

Over the past decade, trade between Canada and Japan has quadrupled. Japan is now Canada's largest single overseas market. In 1987, two-way trade reached C$14.5 billion (up from C$13.5 billion in 1986), of which Canadian exports to Japan totalled $7.0 billion and imports from Japan totalled $7.5 billion. Canadian exports to Japan in 1987 increased 19% over those in 1986. In 1987, export gains were concentrated in wood and paper products, non-ferrous metals, industrial machinery, equipment and tools, and consumer goods. Japan continues to offer great potential as an economic partner for Canada, particularly with our growing emphasis on the Pacific Rim. With the development of Japan into a major industrial and trading power, Canadian business in Japan faces major opportunities and challenges in expanding trade, promoting investment in Canada and acquiring technology.

While Canada enjoyed an uninterrupted trade surplus with Japan from 1973 to 1983, it recorded a deficit of C$70 million in 1984. This deficit accelerated to C$400 million in 1985 and C$1.7 billion in 1986. The trading relationship improved considerably in 1987 with the Canadian deficit with Japan dropping sharply to $514 million. To alleviate some of the large bilateral trade imbalances between Japan and her principal trading partners, Japan took welcome steps to liberalize her domestic market and stimulate domestic demand. The room for growth in Japanese consumption in the social goods sectors such as housing, combined with Japanese government undertakings to liberalize its import regime, should offer new and lucrative export opportunities to many Canadian industries.

The Canadian export performance should also benefit from signs of an ongoing economic recovery in Japan. Japan is adjusting well to the revaluation of the yen. There are indications that major Japanese firms boosted their unconsolidated pretax profits in 1987, the first increase in three years. Such an increase reflects a rise in domestic demand and personal consumption amid a steady economic recovery. There are also signs that the Japanese economy will quicken its inflation - adjusted growth pace in 1988. According to OECD projections, Japanese imports are expected to rise 25.3% between 1987 and 1989.

Canadian exports to Japan in 1987 were primarily concentrated in basic crude materials (39.8% metal ores, concentrates, and scrap, fur skins) and fabricated materials (37.8% wood and paper, textiles, chemicals, iron and steel, non-ferrous metals). Agriculture and fishery products, including processed foods and beverages, accounted for 17% of Canada's exports to Japan in 1987, with finished industrial and consumer goods accounting for 5 per cent. At the end of 1986, Canada ranked eighth as a source of imports to Japan. In the coming years, Canadian government and business will increase efforts to become an ever more important source of Japanese imports. In 1987, Canada continued to take full advantage of the changes in the Japanese economy in order to maximize trading opportunities.

The Government of Canada's comprehensive Strategy for Japan seeks to ensure greater and more frequent interaction between our countries, so that we may pursue mutually beneficial trade goods. In particular, Canada aims to protect and expand her market share of resource products to Japan, increase sales of Canadian value-added products and fully manufactured goods and improve access to Japanese markets in forestry, agricultural and fish products. In addition, the Strategy envisions Canadian industry having access to Japanese production and product technologies, and stimulating Japanese investment in Canadian manufacturing. With respect to the latter goal, it is believed that the Canada-United States Free Trade Agreement will encourage Japanese investment here because of our enhanced access to the U.S. market.

Numerous consultative mechanisms exist between Canada and Japan. For example, the Canada Japan Business Cooperation Committee (CJBCC), under the Chairmanship of David Culver, Chairman and Chief Executive Officer of Alcan Aluminium Limited, consists of senior executives of major corporations in both countries. Its aim is to foster closer interaction between the private sectors. Another mechanism is the Joint Economic Committee which meets every 18 months at the deputy minister level to coordinate trade, technology and investment relations. The eighth meeting of the Committee will be held in Tokyo in 1988.

Further economic consultation was seen in 1986 with the exchange of visits between Prime Ministers Brian Mulroney and Yasuhiro Nakasone and the January 1988 visit by the newly-elected Noboru Takeshita to Canada. Such meetings promote greater awareness of each country's economic objectives and provide opportunities to improve the bilateral relationship and address the major trade issues facing the international economic order.

The major statistical indicators of the relationship for Canada are:

Two-way Trade	=	$14.5 billion (1987)
	=	$13.5 billion (1986)
Canadian Exports	=	$7.0 billion (1987)
	=	$5.9 billion (1986)
Japanese Exports	=	$7.5 billion (1987)
	=	$7.6 billion (1986)
Direct Investment	=	$3.8 billion (1987)
(estimated)	=	$2.8 billion (1986)
Portfolio Investment	=	$35.9 billion (1987)
in Canadian bonds	=	$30.5 billion (1986)
(estimated)		
Tourism to Canada	=	$299 million (1987)
(total spending)	=	$220 million (1986)

CANADA/JAPAN INVESTMENT RELATIONS

Japan is a significant overseas investor with multinational capabilities and a willingness to expand its manufacturing base abroad. The rate of Japanese direct overseas investment has increased rapidly with the revaluation of the yen. In fact, 25 per cent of all Japanese direct overseas investment took place in 1986. Figures for 1987 indicate that the trend is likely to continue for some time. Japanese business has looked with growing interest to Canada as it examines manufacturing locations in the North American market. Recent automobile assembly investments by Honda, Toyota and Suzuki in Ontario reflect this interest. Such developments have prompted their parts suppliers to begin assessing nearby locations. Japanese investment in 1987 was concentrated in the electronics, paper, auto parts and industrial corporate sectors.

Further encouraging investment is seen in the following examples

* **Kao Corporation**'s opening of a facility in Arnprior, Ontario to manufacture floppy disks for computers;
* **Oji Paper**'s recent announcement of a joint venture with Canfor for worldwide export. New capital expenditure for this project could amount to a billion dollars.
* **Mitsui Petrochemicals Industries** has signed a contract with Allelix of Mississauga, Ontario to obtain manufacturing technology for an anticancer agent.
* **Nishikawa Kasei Co.** is planning to manufacture auto instrument panels near Toronto.
* **Toyoda Gosei Co.**, a Toyota component supplier has taken a 65% interest in Waterville TG Inc., a Quebec-based rubber parts firm.
* The January 1988 announcement by **Honda Canada Inc.** of an $80-million expansion of its plant in Alliston, Ontario.
* The February 1988 announcement by Magna International and Japan's **Mitsui & Co.** of a $49 million auto parts plant to be built in Tillsonburg, Ontario by April 1989.
* The February 1988 announcement by **Daishowa Paper Mfg. Co.** that it will build a $500 million pulp plant at Peace River, Alberta. The plant is to go into production in the fall of 1990.

Canada strongly favours Japanese direct investment particularly in the manufacturing sector and has an active promotion program in Japan.

The Japanese Economic Mission (Kanao) visited Canada in 1986 following the introduction of the Investment Canada Act in July 1985. Regarding Japanese investment in Canada, the business delegation members were encouraged by the policies initiated by the federal and provincial governments to promote and improve the Canadian investment environment. The Mission's discovery of a "new Canada" of high technology and growth will encourage the continued expansion of the Japanese investment base in Canada beyond the resource sector. The Mission is reported to have observed many indications that Japan-Canada relations will expand from that of purchaser of resources to include more diverse relations based on mutual exchange within the entire manufacturing field.
Securing market access has always been a major factor in the decisions of Japanese manufacturers to locate in North America. The enhancement of access to the large United States market obtained by Canada in the recently concluded Canada-United States Free Trade Agreement will play a significant role in future Japanese investment in Canada. Under the Agreement, Canada will continue to be an attractive environment for Japan because of resource availability, low cost energy, competitive labour costs, productivity, quality of life and the above-mentioned access to the United States market.

CANADIAN INVESTMENT POLICY

Investment Canada has been mandated to reflect in a highly visible way the vision and direction of the government and its commitment to stimulating investment, encouraging the transfer of ideas and technology, creating employment and fostering entrepreneurship.

The government has recognized that investment in its broadest sense is critical if Canada is to remain competitive. Guided by these principles, Investment Canada has consciously taken a strategic approach to addressing the new investment environment that exists in Canada and internationally. We have had the opportunity to present our strategic analysis and outlook to the provinces and select private sector groups, and they have concurred that this government's approach to investment is one with which they agree.

The investment environment has changed dramatically over the past few years due to economic uncertainty and volatility, the tremendous increase in the use of technology, new determinants for competitiveness and the trend towards product specialization and enhanced product quality. In addition, there have been fundamental shifts in sources of investments, their destinations and the criteria for investment.

Investment, because of rapid technology diffusion rates and market pressures, is also taking on new forms. Where traditionally the branch plant was the main answer, we are increasingly seeing the development of "strategic alliances" with other countries and companies. These reflect ventures, technology transfer, management exchange, marketing and co-production agreements, licensing, etc.

Investment Canada in collaboration with External Affairs, the Department of Regional Industrial Expansion and other federal agencies, the provinces and the private sector, is positioning itself to confront these changes, to ensure that the investment development program and services are designed to respond to new market realities, and to encourage the type of investment which will enhance Canadian industry and ensure its future competitiveness. Investment Canada recognizes the need not only to increase awareness among Canadians of the importance of new investment, but to increase the awareness of the international investment community that Canada is an attractive and profitable place to do business.

In its efforts to encourage all forms of investment in Canada, Investment Canada is acting as a focal point in marshalling Canadian private and public sectors' efforts. In this regard, its objectives will not be realized unless we can demonstrate consistency and a level of certainty for business as reflected in government policies.

Investment Canada is committed to consulting with the provinces and territories in order to ensure that federal promotional activities will reflect regional priorities within a cohesive national investment development strategy. Finally, no investment development effort can be successful without the full co-operation of the private sector, which is being generated in a wide variety of ways.

In light of the government's priorities, the input of other government departments, provinces, and the private sector, and based on our assessment of the international environment, we have identified the following as being key priorities:

- To encourage innovation and the use of more technology to make existing industries more competitive;
- To heighten the level of entrepreneurship and to stimulate new ideas and business opportunities;
- To encourage and facilitate the development of strategic alliances and co-operative relationships, resulting in the private and public sector working together, and to stimulate productive relationships between firms within Canada and abroad;
- To encourage greenfield investment;
- To encourage business expansion and retention;
- To promote global competitiveness and thinking; and
- Further to stimulate capital markets for Canadian companies and to promote increased portfolio investment.

Investment Canada's Services

In concentrating on these priorities and in order to facilitate efforts of investors, Investment Canada offers a number of services. For information on: energy costs across the country; regional centres of advanced technology; technological infrastructure; industrial profiles; federal and provincial industrial incentives; and joint ventures and licensing arrangements; or for assistance to: identify contacts in the public and private sectors coast to coast; define your investment proposals, identify potential investment opportunities and partners; identify sources of capital and technology, call (613) 995-0465. For information on the interpretation and application of the Investment Canada Act or general information on other federal legislation that affects your business, call our legal staff at (613) 995-9260, or consult your nearest Canadian embassy or consulate.

Canada's Foreign Investment Policy

In June 1985, the Investment Canada act, creating Investment Canada became law, replacing the Foreign Investment Review Act. The fundamental purpose of Investment Canada is to encourage and facilitate investment from domestic and international sources. The agency is also conducting research to provide policy advice that will ensure that Canada is an attractive and productive place to do business.

Changes in the global economic system dictate that Canada must immediately and substantially improve its international competitiveness to provide jobs for Canadians in the future. As an integral part of becoming more internationally competitive, the level of business investment in Canada must increase.

Canada's new attitude towards foreign investment is perhaps best summarized in a paper presented by the Right Honourable Joe Clark, Secretary of State for External Affairs, entitled "Competitiveness and Security: Directions for Canada's International Relations":

> Investment is essential to competitiveness. It sustains expansion, creates jobs, generates technological skills and knowledge, provides a capital stock for future expansion and eases and facilitates the process of economic structural adjustment. Our own recent investment performance has been dampened by sluggish growth and soft resource prices. High real interest rates have encouraged many investors to put their money into debt instruments rather than equity. Much of the investment in Canada will be generated at home but we will need more, and the competition for foreign investment may be intense. Our ability to attract foreign investment depends on our productivity, our receptivity and the returns investors can expect.

The Investment Canada Act is the cornerstone of Canada's foreign investment policy.

THE INVESTMENT CANADA ACT

The Investment Canada Act recognizes that Canada must compete internationally for capital and technology and to ensure opportunities to expand abroad with capital and technology developed in Canada. At the same time, we must retain the option to intervene to ensure that foreign control of major economic and culturally sensitive activities is in the Canadian interest. Thus, the main thrust of the act gives the government a mandate to encourage investment in Canada by Canadians and non-Canadians, while retaining authority to review and assess takeovers of important Canadian businesses by non-Canadian investors, as well as the establishment of new businesses in culturally-sensitive sectors by non-Canadians, to ensure net benefit to Canada.

Investment Canada has been created to advise and assist the minister in the administration of the act. It will also carry out the new positive role which the act has bestowed upon it. There are two separate and distinct aspects of the new mandate - the encouragement of investment (both domestic and foreign) in Canada, and the regulatory function involving the review and assessment of significant investments by non-Canadians in Canadian businesses. The administration of the act is the responsibility of the Minister of Regional Industrial Expansion.

Encouragement of Investment

As part of its new mandate, Investment Canada seeks to encourage and facilitate the growth of business investment, including the transfer of know-how and technology. One of the primary roles of the new agency is therefore to ascertain and respond to the aims and needs of both Canadian and non-Canadian investors. This is done in conjunction with Canada's trade services at home and abroad, as well as other government departments which have similar objectives.

Investment Canada will also work closely with the provinces and the banking and business communities, as well as other agencies, in order to carry out its new mandate.

The Regulatory Aspects of the Act

In contrast to the old Foreign Investment Review Act (FIRA), the Act has raised the threshold for the review of foreign investment proposals and exempted certain other transactions from review. The net effect of the act is that approximately 10% of the foreign investment proposals which had previously been subject to review under FIRA will be reviewable. Generally, proposals which will not be reviewable will be: the establishment of a new Canadian business; the acquisition of control of a Canadian business whose assets are $5 million or less; and the incidental acquisition of control of a Canadian business through the acquisition of control of its parent outside Canada, provided the assets of the Canadian business do not exceed either $50 million or 50% of the value of the assets of the global transaction. For smaller acquisitions and establishments of new businesses, non-Canadian investors need only notify the agency of the investment.

Reviewable proposals are those acquisitions of control of a Canadian business which exceed the aforementioned thresholds and, at the option of the government, those acquisitions below the thresholds or new business proposals in Canada's cultural industries that are prescribed in the Investment Canada Regulations.

Review of Proposals Relating to National Identity and Cultural Heritage(NICH)

The new Act recognizes that Canada requires safeguards for its national identity and cultural heritage and has retained the option of the review procedure for investments in certain cultural activities, specifically the publication, distribution, exhibition or sale of:

- books, magazines, periodicals or newspapers in print or machine-readable form;
- film or video products;
- audio or video music recordings; and
- music in print or machine-readable form.

On June 6, 1985, the Minister of Communications issued a policy statement on foreign investment in the book publishing and distribution industry.

REMITTANCE OF FUNDS

There are no restrictions on the foreign investor's ability to repatriate his investment or profits. Canada has no exchange controls and the Canadian currency is freely convertible to US or other currencies. There are, however, withholding taxes on the payment to non-residents of dividends, interest, salaries, bonuses, commissions or other amounts for services rendered.

OTHER LIMITATIONS

Federal Limitations

Certain activities which are regulated by federal legislation have limits as to the level of foreign ownership of a business in a particular industrial sector or of an entire industry sector. The following is a list of some of the federal legislation limiting foreign ownership, and a brief description of how foreign ownership is limited.

Federal Act	Description of the Limitations
Bank Act	Canadian Schedule A banks can have no total foreign ownership greater than 25%. Schedule B banks (foreign-owned banks in Canada) are limited, as a group, to 16% of the total domestic assets of the entire Canadian banking system.
Broadcasting Act	Foreign ownership in Broadcasting Act facilities, including television stations, radio stations and networks of stations, is limited to 20 %.
Canadian and British Insurance Company Act	There are no ownership restrictions with respect to the establishment of a life insurance company in Canada by a foreign investor. However, this act limits non-resident ownership in an existing Canadian-owned life insurance company to 26% in the aggregate. Shareholdings by individual non-residents are limited to 10 %.
Trust Companies Act	Limits foreign ownership in a trust company to a total of 25% of the capital stockwith no single foreign shareholder owning more than 10 % of the capital stock.
Loan Companies Act	Limits the foreign ownership in a loan company the same. Percentage ownership as that stipulated for a trust company - 25 % of total and 10 % of single ownership.

Provincial Limitations

Some of the provinces have laws which limit the business activities of foreign investors in provincially sensitive areas. Limitations on foreign investors vary from province to province, and range from a special tax on the acquisition of agricultural land, to ownership limitations in nursing homes, to laws similar to federal legislation with respect to provincially incorporated financial institutions and insurance companies. Book publishing and distribution are particularly sensitive areas covered by legislation in Ontario and Quebec.

CANADA/JAPAN FINANCIAL RELATIONS

As a result of a reciprocal banking agreement that was concluded in 1980, Japanese and Canadian participation in each other's banking sectors has grown noticeably. The six largest Canadian banks have branches in Tokyo. Canadian banks have generally avoided traditional lending activity and have concentrated on such fee-based activities as trade financing, foreign exchange dealing, trading in money market securities, and the arrangement of currency and interest rate swaps. Seven Canadian investment and trust companies also have offices or representatives in Tokyo: Richardson Greenshields of Canada Ltd., Dominion Securities Inc., Wood Gundy Inc., McLeod Young Weir Ltd., Royal Trust Corporation of Canada, CIBC Limited (Merchant Bank) and Orion Royal Bank Ltd.

Eleven Schedule B banks in Canada are Japanese-owned: The Bank of Tokyo Canada, Dai-Ichi Kangyo Bank, Fuji Bank Canada, The Industrial Bank of Japan, The Mitsui Bank of Japan, Sanwa Bank, Daiwa Bank Ltd., Taiyo Kobe Bank, Tokai Bank, Sumitomo Bank, and The Export-Import Bank of Japan. They account for about $4.9 billion (11.6 per cent) of the total assets of foreign banks operating here. They concentrate their business in trade financing, servicing the needs of Canadian subsidiaries of other (primarily industrial) Japanese companies and make commercial loans to Canadian clients of funds raised in international capital markets. Foreign banks in general have an 11%-12% market share in Canada.

Pursuant to the Canadian federal government's recent market liberalization initiative, Sanyo Securities and Yamaichi have been given approval to establish subsidiaries. The Canadian government has authorized Nomura, Nikko and Daiwa Securities to establish stock brokerage operations in Canada on April 26, 1988.

Japanese investors hold exceptionally large shares of their portfolios in Canadian dollar instruments. For instance, Postal Life Insurance, the government-operated insurance system and largest life insurance institution in Japan, has 28% of its overseas assets in Canadian dollars with only 23% in U.S. dollars. Nippon Life, the largest private life insurance company, also has major holdings of Canadian dollars. Currently, eight Japanese institutions hold over $1 billion each in Canadian portfolio investments.

The Tokyo Stock Market (TSE) and other stock markets in Japan have recently become more significant in global terms. The value of shares on the TSE already exceeds its counterpart in New York by 25% and developments on the TSE were watched closely throughout the world during the stock market crisis of October 1987. Fuelled in part by the massive pool of Japanese savings and the extensive practice of cross-holdings of shares by major corporations, the TSE has displayed remarkable strength since the crash with its trading index now back to over 90% of pre-crash levels.

CANADA/JAPAN INDUSTRIAL COOPERATION

Industrial cooperation between Canada and Japan brings significant benefits to the Canadian manufacturing sector, contributes to correcting the imbalance in the trade relationship, and fosters greater understanding of each other's economic opportunities.

On September 3, 1985, the Canadian Department of Regional Industrial Expansion and the Japanese Ministry of International Trade and Industry announced an Arrangement to Promote Industrial Cooperation between Canada and Japan. The purpose of the Arrangement is to encourage more joint ventures, licensing agreements, joint research and development projects and increased two-way investment between the private sectors of both countries. Canada proposed nine sectors for joint action: advanced manufacturing technologies, ceramics, microelectronics, advanced industrial materials, space, biotechnology, steel making, office equipment, and telecommunications. Three sectors were selected for initial activity: advanced manufacturing technologies, microelectronics, and ceramics. In 1986, two new priority sectors were added: space and biotechnology.

The Industrial Cooperation Arrangement is a very successful vehicle for Canadian companies. The leadership of Japanese industry in applied product and production technology has great potential for improving the competitiveness of Canadian industry in the North American market. A project introduced by the Department of External Affairs under the title Technology Awareness and Acquisition Project (TAAP-Japan) seeks to introduce Canadian manufacturers to Japanese manufacturers who are leaders in their section. On return to Canada the industry missions are required to meet formally with Canadian companies in their sector to advise them of the potential for, and means of, accessing leading applied industrial technologies in Japan.

Since its inception, the Arrangement has proven most beneficial in providing Canadian companies with a better opportunity to visit key Japanese manufacturers and industrial laboratories. As a result of these missions, many new business relationships have been initiated which should bring new products and production technology knowledge to the Canadian manufacturing sector. Some 25 joint ventures have been confirmed or are under discussion with Japanese companies. In 1986, eleven hundred Canadian business people have attended 26 seminars across the country as a follow-up to the missions. In 1987, 30 seminars were attended by approximately 1400 Canadian business people.

A review of the Arrangement was conducted by Canadian and Japanese officials in Tokyo in January 1988. With respect to advanced manufacturing technology, a number of subsectors - such as robotics technology - were identified as a focus for future consideration. In the microelectronics sector, both countries welcomed the announcement that the Canadian Semiconductor Design Association (CSDA) has joined the International Semiconductor Co-operation Centre (INSEC). Furthermore, Japan stated that the assistance its Electronics Industry Association provides to Canadian companies wishing to enter into business arrangements with Japanese companies would continue.

Information services were also a focus for discussion with both countries observing that the June 1988 Paris World Computing Services Industry (WCSI) Congress would provide an excellent opportunity for their respective software companies to meet. As for biotechnology, Japan supported Canadian proposals for the promotion of information, personnel exchanges and formal affiliation between BIDEC and IBAC, the new Canadian biotechnology industry association. Canadian participation in the BIDEC-sponsored Second International Biofair in Tokyo in October 1988 was also discussed. A Japanese Biotechnology mission came to Canada April 18-29, 1988 and visited CANBIOCON, a leading exhibition and conference held in Montreal on April 19-21.

The 1988 review of the Arrangement further noted the progress made in the advanced ceramics and aerospace sectors. Regarding the former, both sides noted the increased exchange of members and publications and agreed to consider the possibility of sending a Japanese mission to Canada to meet with Canadian ceramics companies. On aerospace, the slow but constant progress in Canada-Japan collaboration was highlighted. Promising areas for possible increased cooperation in the future include: remote sensing, microgravity experimentation, communications (particularly mobile communications) and space-related robotics.

The Department of Regional Industrial Expansion has entered into discussions with the leading Japanese trading houses operating in Canada concerning diversification of their Canadian business interests. Many of the larger trading houses are looking to broaden their business base in Canada by entering the manufacturing and service sectors. One result of these discussions has been the signing of a Letter of Understanding with three trading houses: **Mitsubishi** (June 1986), **C. Itoh** (March 1987), and **Nissho Iwai** (July 1987). These documents essentially call for increased cooperation by identifying business opportunities of benefit to both the trading houses involved and Canadian firms. These arrangements have resulted in a number of trade deals and joint-ventures.

THE CANADIAN LABOUR FORCE

Canadian workers are highly skilled and well-educated. Compensation costs can be as much as 35% lower than the US; and labour legislation is fair and progressive, benefiting both employers and employees.

Canada also offers a number of incentive programs and services to employers who wish to develop and utilize available human resources.

In 1986, the Canadian civilian labour force averaged 12.9 million (57.1% men and 42.9% women), representing half of the total population and 65.7% of the population aged 15 or over.

TABLE 1
GEOGRAPHIC DISTRIBUTION OF LABOUR FORCE, 1986

Region	Number (000)	%
Atlantic provinces	996	7.7
Quebec	3,221	25.0
Ontario	4,897	38.1
Prairie provinces	2,299	17.9
British Columbia	1,457	11.3
TOTAL	12,870	100.00

Source: Statistics Canada, Bank of Canada Review.

The service-producing sector accounted for the largest proportion (69.5%) of the labour force. The industrial distribution is shown in Table 2.

TABLE 2
INDUSTRIAL DISTRIBUTION OF LABOUR FORCE, 1986

Industry	Number (000)	%
Goods-producing	3,832	29.8
Agriculture	518	4.0
Other primary	342	2.7
Manufacturing	2,210	17.2
Construction	761	5.9
Service-producing	8,942	69.5
Transportation, communications, utilities	965	7.5
Trade	2,274	17.7
Finance, insurance, real estate	687	5.3
Community, business, personal services	4,150	32.3
Public administration	866	6.7
Unclassified	97	0.8
TOTAL	12,870	100.00

The Canadian labour force is well-educated. In 1986, 88.9% had undertaken education beyond grade 8; 38.3% had at least some post-secondary education; and 1.4% possessed university degrees. Table 3 provides an educational profile of the labour force.

TABLE 3
EDUCATIONAL ATTAINMENT OF LABOUR FORCE, 1986

Education Completed (000)	Number	%
Grades 0 - 8	1,434	11.1
Grades 9 - 13	6,512	50.6
Post-secondary including university	4,924	38.3
University degree	1,723	13.4

Comparative Wages

International comparisons of wages and salaries are difficult to make on any standardized basis due to many factors, including exchange rates, varying hours of work, varying educational and professional standards, and different levels of social benefits provided by both the state and the employer. However, it is helpful to compare wage rates and total compensation in countries which share similar standards of living and professional standards. Table 4 shows the annual salaries and total compensation of four occupation groupings (clerical, blue collar, white collar, and professional) in nine North American cities (three in Canada, and six in the the US). Generally, total compensation costs in Canada fall below those in the US, in some instances up to 35 %.

CANADIAN LABOUR FORCE: 1986

International comparisons of average hourly earnings and compensation in manufacturing for 1986 are shown in Table 5. Hourly compensation is defined as: all payments made directly to the worker - pay for time worked (basic time and piece rates plus overtime premiums and cost-of-living adjustments); pay for time not worked (vacations, holidays, and other leave); all bonuses and other special payments; the cost of payments in kind before payroll deductions of any kind; and employer contributions to legally required insurance programs and contractual and private benefit plans. In addition, for some countries, compensation is adjusted for other taxes on payrolls or employment (or reduced to reflect subsidies), even if they are not for the direct benefit of workers, because such taxes are regarded as labour costs. However, hourly compensation does not include all items of labour costs. Recruitment, employee training, and plant facilities and services (such as cafeterias and medical clinics) are not covered because data are not available for most countries. For consistency, compensation is measured on an hours-worked basis for every country.

TABLE 4
COMPARISON OF WAGES AND BENEFITS IN SELECTED CANADIAN AND US CITIES ($CDN)
1986

	Machinist		Production Mgr		Electrical Engr		Secretary	
	Salary	Salary & benefits	Salary	Salary & benefits	Salary	Salary & benefits	Salary	Salary & benefits
Montreal	30,300	35,754	48,900	57,702	38,400	45,312	20,900	24,662
Toronto	29,600	34,869	46,400	54,659	39,200	46,178	20,400	24,031
Vancouver	33,200	38,844	51,400	60,138	41,000	47,970	23,900	27,963
Boston	38,194	48,392	57,917	73,381	49,028	62,118	26,701	33,830
New York	38,611	48,920	59,097	74,876	48,611	61,590	27,042	34,262
Chicago	40,694	51,559	55,278	70,037	50,000	63,350	27,222	34,490
Dallas	43,056	53,605	58,056	72,280	49,722	61,904	27,917	34,757
L. A.	41,667	52,375	54,750	68,821	52,778	66,342	29,028	36,488
Atlanta	40,417	50,319	54,167	67,438	47,222	58,791	27,014	33,623

Source: Montreal Urban Community, Office of Economic Expansion.

TABLE 5
AVERAGE HOURLY EARNINGS AND COMPENSATION IN MANUFACTURING, 1986

	Ave. Hourly Earnings ($C)	Index (Canada = 100)	Ave. Hourly Compensation ($C)	Index (Canada = 100)
Canada	11.87	100.0	15.23	100.0
United States	13.52	113.9	18.19	119.4
United Kingdom	7.85	66.1	10.36	68.0
West Germany	10.79	90.9	18.67	122.6
Japan	11.36	95.7	13.20	86.7

Source: US Department of Labour, Bureau of Labor Statistics.

Work Stoppages

Table 6 shows a significant reduction in time lost to work stoppages in Canada from 1980 to 1985. Overall, there was a 65 % decrease in time lost. While significant declines were experienced in all industrial sectors, the greatest reductions were in construction, which in 1985 amounted to only one % of the 1980 total, and in public administration which in 1985 amounted to only eight percent of the 1980 total. As a percentage of total work days, time lost to work stoppages is a miniscule 0.13%, and is significantly less than time lost to sickness and accidents.

TABLE 6

TIME LOST TO WORK STOPPAGES (000 person days)

Jurisdiction	1980	1981	1982	1983	1984	1985
Atlantic provinces	1,327	262	206	440	246	184
Quebec	3,952	1,470	1,281	2,313	1,116	1,124
Ontario	1,676	2,259	2,207	760	1,414	1,232
Prairie provinces	677	457	767	57	154	191
British Columbia	390	2,787	988	769	825	126
Subtotal	8,022	7,235	5,449	4,339	3,755	2,857
Federal	954	1,644	347	105	116	324
TOTAL	8,976	8,879	5,796	4,444	3,871	3,181

TIME LOST TO WORK STOPPAGE (000 person-days)

Industry	1980	1981	1982	1983	1984	1985
Primary	1,152	938	272	196	47	99
Manufacturing	3,137	4,644	1,691	1,385	2,356	1,578
Construction	1,107	43	2,200	244	213	11
Transport and utilities	729	1514	566	275	550	479
Trade, finance and services	2,150	1,021	636	2,032	635	959
Public administration	700	717	251	312	71	55
TOTAL	8,975	8,877	5,616	4,444	3,872	3,181

International Comparisons

International comparisons of strikes and lockouts are often difficult and inaccurate because of differing social, political and organizational structures. Data collection and statistical methodologies for labour disputes differ widely among countries. There are variations in the definitions used by individual countries, as well as many differing minimum requirements for the duration and size of a stoppage. Some countries do not include strikes based on political motives.

Canada-US Comparisons: Canadian reporting of work stoppages is more comprehensive than in the US, which does not report on strikes involving less than 1,000 workers or those stoppages lasting less than one shift, regardless of the number of workers involved. If Canada were to report only labour disputes involving 1,000 or more workers in the same manner, the percentage of estimated working time lost in 1985 would fall to approximately 0.05 % from the reported figure of 0.13 %.

Newfoundland

Premier:	Brian Peckford (Progressive Conservative)
Capital:	St. John's
Total area:	405,720 square kilometres

Newfoundland's economy is highly dependent on primary resource industries including fishing, mining and forest products. Manufacturing is confined primarily to resource processing (e.g. fish canneries and newsprint manufacturing). Offshore oil developments such as Hibernia have not proceeded as quickly as was first envisioned, mostly as a result of low oil prices.

The provincial economy grew at a real rate of 1.7% in 1986, based on strong performances by the fishing and forest industries. The fishing industry was buoyed by: high demand, especially in North America, for the low-cholesterol product which pushed prices for groundfish up by 10 to 25%; good availability of stock, particularly groundfish; and a weakened Canadian dollar vis-a-vis major European currencies. The largest provincial fish company, Fish Products International, posted a profit of $46.6 million after three years of losses.

The forest industry performed well, due to strengthened demand for newsprint, but the value of mineral production was down by over 12%.

The level of investment in the province declined principally as a result of severely reduced activity in the oil and gas sector. By year-end, only one oil rig was active offshore.

New capital investment was down by 0.6%, as a result of a decrease in the oil and gas sector, but residential construction was up by 13%.

Wages and salaries rose by 3.2% in 1986, and average weekly earnings were up 2.9%. The latter were 5.2% below the Canadian average. Consumer prices in St. John's were up 3.0% over 1985.

The average 1986 labour force grew by 2,000, and employment rose by 5,000 resulting in a net reduction of 3,000 in the number of unemployed. The unemployment rate decreased slightly to 20.0%, the highest among the ten provinces and some 11.4 points above the national average

NEWFOUNDLAND

SELECTED ECONOMIC INDICATORS

		1985	1986
Population on June 1	(000)	580.7	580.2
Labour force	(000)	224	226
Employed	(000)	176	181
Unemployed	(000)	48	45
Wages and salaries	($ billions)	3.1	3.2
Avg. earnings/wk industry	($)	396.91	408.44
Farm cash receipts	($ billions)	.04	.04
Mineral production	($ millions)	870	764
Manufacturing shipments	($ billions)	1.4	1.6
Retail sales	($ billions)	2.3	2.4
New capital investment	($ millions)	1,961	1,949
Value of building permits	($ millions)	183.6	207.5
Housing starts	(000)	2.9	2.9
Consumer Price Index	(1981 = 100)	127.8	131.6

Prince Edward Island

Premier: Joe Ghiz (Liberal)
Capital: Charlottetown
Total area: 5,660 square kilometres

Prince Edward Island's economy also depends on the primary sector, with agriculture (particularly potatoes) and fishing its mainstays. But the government service sector is now playing an important role in the provincial economy as a result of the relocation of the federal Veteran Affairs Department to Charlottetown.

The provincial economy grew by 2.5% in real terms in 1986 as a result of strong agricultural and fishing sectors.

During 1986, potato prices recovered, providing almost 18% more revenue compared to 1985. Overall, farm cash receipts were up 11.8%. As in Newfoundland, the fishery showed strength. In addition to groundfish, shellfish prices have shown an improvement.

Other areas of strength were reflected in a 149% increase in new capital investment and a rise in the value of building permits by 22.3%, reflecting a strong housing market. The non-residential construction sector is at a peak, however, as government sector construction is for the most part ready to wind down.

Average weekly wages rose by 2.6%, 19.2% below the Canadian average. Consumer prices in Charlottetown rose by only 2.0%.

Both the labour force and the number of employed rose by an average of 1,000 during 1986, resulting in the number of unemployed remaining the same at 8000, or 13.4%. This figure was about 40 percent above the national average.

SELECTED ECONOMIC INDICATORS

		1985	1986
Population on June 1	(000)	127.4	128.1
Labour force	(000)	59	60
Employed	(000)	51	52
Unemployed	(000)	8	8
Wages and salaries	($ billions)	0.6	0.7
Average weekly earnings, industry	($)	339.30	348.10
Farm cash receipts	($ billions)	.18	.20
Mineral production	($ millions)	2	2
Manufacturing shipments	($ billions)	0.3	0.3
Retail sales	($ billions)	0.5	0.6
New capital investment	($ millions)	269	309
Value of building permits	($ millions)	87.4	106.9
Housing starts	(000)	0.8	1.1
Consumer Price Index	(1981 = 100)	124.5	127.0

Nova Scotia

Premier: John Buchanan (Progressive Conservative)
Capital: Halifax
Total area: 55,490 square kilometres

The Nova Scotia economy, resource-based as are those of the other Atlantic provinces, experienced a decline in 1986. The province is dependent upon fishing, minerals, forestry and agriculture.

The provincial economy grew by 2.5% in real terms in 1986, reflecting the effects of cutbacks in oil and gas exploration and development.

The fishery sector performed well despite an anti-dumping duty of 26% on salt fish and a 6.8% countervailing tariff imposed by the US on fresh groundfish. Improvements in demand and increased industry competitiveness combined to give strength to this sector.

The forest industry was affected by the softwood lumber export duty, but recent improvements in plants and costs have left the industry in a good competitive position. The mining and oil and gas sectors were down as the demand for coal was weak and offshore oil and gas activity was curtailed.

New capital investment rose marginally in 1986, up 1.2 percent, but this was mainly due to a strong residential construction sector. The value of building permits rose by 13.1 percent. However, with manufacturing shipments down and the oil and gas sector cut back, strength was only in the residential construction sector.

Wages in 1986 were up 5.2% and average weekly earnings by 3.7%. This latter figure was 9.4% below the Canadian average. Farm cash receipts were up marginally and consumer prices in Halifax were up by 3.5%. The labour force grew by an average of 7,000, as did employment. The number of unemployed remained level, at a rate of 13.3%, almost 40% above the national average.

SELECTED ECONOMIC INDICATORS

		1985	1986
Population on June 1	(000)	879.8	883.8
Labour force	(000)	391	398
Employed	(000)	337	344
Unemployed	(000)	54	53
Wages and salaries	($ billions)	5.8	6.1
Avg. earnings/wk industry	($)	376.46	390.33
Farm cash receipts	($ billions)	.26	.27
Mineral production	($ millions)	325	357
Manufacturing shipments	($ billions)	4.8	4.7
Retail sales	($ billions)	4.6	4.8
New capital investment	($ millions)	2,762	2,794
Value of building permits	($ millions)	667.8	755.6
Housing starts	(000)	6.9	7.6
Consumer Price Index	(1981 = 100)	127.3	131.7

New Brunswick

Premier:	Frank McKenna (Liberal)
Capital:	Fredericton
Total area:	73,440 square kilometres

During 1986, New Brunswick's real Gross Provincial Product rose by 3.0 percent, the highest rate of growth among the Atlantic provinces. The provincial economy is dependent upon fishing, forest products, minerals and manufacturing (particularly pulp and paper, shipbuilding, and some new high technology areas).

The fishing industry, which consists mainly of shellfish and herring, was weaker than expected in 1986, mainly due to declines in crab catches. The forest sector was boosted by high levels of residential construction in Canada and the US. While the softwood export tax of 15 percent began to affect the industry as the year progressed, the réalignment of the Canadian dollar vis-a'-vis European currencies helped the market for pulp and paper and other wood products.

Wages and salaries were up 4.4 percent in 1986; average weekly earnings rose by 3.9 percent. This latter figure was 7.2 percent below the national average. Farm cash receipts did not change. Consumer prices in Saint John increased by 3.4 percent.

The labour force grew by 8,000 and employment by 9,000, resulting in a net decline in the average number of unemployed of 1,000. The unemployment rate, at 14.5 percent, was 51 percent higher than the national average.

SELECTED ECONOMIC INDICATORS

		1985	1986
Population on June 1	(000)	719.6	721.1
Labour force	(000)	304	312
Employed	(000)	258	267
Unemployed	(000)	46	45
Wages and salaries	($ billions)	4.5	4.7
Average weekly earnings, industry	($)	384.92	399.94
Farm cash receipts	($ billions)	.22	.22
Mineral production	($ millions)	509	526
Manufacturing shipments	($ billions)	4.4	4.6
Retail sales	($ billions)	3.2	3.5
New capital investment	($ millions)	1,966	1,879
Value of building permits	($ millions)	372.7	461.1
Housing starts	(000)	4.1	4.0
Consumer Price Index	(1981 = 100)	128.0	132.

Quebec

Premier: Robert Bourassa (Liberal)
Capital: Quebec City
Total area: 1,540,680 square kilometres

The Quebec economy grew by 3.5 percent in real terms in 1986. During 1986, Quebec underwent a boom in residential construction, with the number of housing starts 25.6 percent above the level of the previous year. The value of building permits in 1986 was 31.6 percent above 1985. The housing boom also affected the demand for furniture and appliances, raising the value of retail sales by 9.1 percent. The furniture and building materials industries hold important positions in the provincial economy.

During 1986, new capital investment rose by 6.6 percent; however, manufacturing shipments rose by only 1.8 percent and mineral production by 1.5 percent. The asbestos sector is particularly weak due to decreases in demand following questions as to the effects of the mineral on health.

Over the year, wages and salaries increased by 5.7 percent and average weekly earnings by 2.6 percent. Average weekly earnings in the province were 2.3 percent below the Canadian average. Farm cash receipts were up by 4.5 percent. The Consumer Price Index in both Montreal and Quebec City was up by 4.9 percent.

The labour force grew by 1.3 percent and, coupled with employment growth of 2.2 percent, caused the number of unemployed to fall by 5.3 percent, to 11.1 percent.

SELECTED ECONOMIC INDICATORS

		1985	1986
Population on June 1	(000)	6,582.7	6,627.2
Labour Force	(000)	3,181	3,221
Employed	(000)	2,804	2,866
Unemployed	(000)	376	356
Wages and salaries	($ billions)	54.0	57.1
Average weekly earnings, industry	($)	409.67	420.29
Farm cash receipts	($ billions)	3.09	3.23
Mineral production	($ millions)	2,243	2,276
Manufacturing shipments	($ billions)	59.6	60.7
Retail sales	($ billions)	31.8	34.7
New capital investment	($ millions)	19,235	20,513
Value of building permits	($ millions)	4,474.7	5,886.7
Housing starts	(000)	48.0	60.3
Consumer Price Index	(1981 = 100)	128.1	134.4

Ontario

Premier: David Peterson (Liberal)
Capital: Toronto
Total area: 1,068,580 square kilometres

The Ontario economy, accounting for almost 40 percent of Canada's GDP in 1986, grew by 4.2 percent in real terms. The manufacturing sector is the economy's driving force, with emphasis on semi-durable and durable goods, including transportation equipment. The level of the Canadian dollar has encouraged expansion in the transportation industry, in particular by American Motors Corporation, Honda Motors and General Motors. At an exchange rate of US 76 cents it is estimated that Canada has about a US$7-hour cost advantage in the production of motor vehicles.

As in Quebec, residential construction surged in 1986. Housing starts were up by 20.5 percent and the overall value of building permits was up by 26.5 percent. New capital investment grew by 18.3%.

Wages and salaries grew by 7.6 percent in 1986; average weekly earnings were up by 3.9 percent. Ontario's level of average weekly earnings was 1.9 percent above the Canadian average. Consumer prices rose by 4.0 percent in Ottawa, 4.7 percent in Toronto and 3.4 percent in Thunder Bay.

Mineral production was up in value by 3.6 percent and manufacturing shipments by 2.2 percent, while farm cash receipts rose by 7.2%. Retail sales grew 9.0 percent in 1986.

The Ontario labour force rose by an average of 110,000 in 1986, while employment grew by 153,000. As a result, the number of unemployed fell by 43,000, and the annual average rate of unemployment declined to 7.0 percent, some 27 percent below the national average.

SELECTED ECONOMIC INDICATORS

		1985	1986
Population on June 1	(000)	9,064.2	9,181.9
Labour force	(000)	4,787	4,897
Employed	(000)	4,402	4,555
Unemployed	(000)	385	342
Wages and Salaries	($ billions)	94.8	102.0
Average Weekly Earnings, Industry	($)	423.20	439.62
Farm Cash Receipts	($ billions)	5.16	5.53
Mineral Production	($ millions)	4,630	4,797
Manufacturing Shipments	($ billions)	130.0	132.9
Retail Sales	($ billions)	49.0	53.4
New Capital Investment	($ millions)	31,869	37,716
Value of Building Permits	($ millions)	8,392.6	11,359.5
Housing Starts	(000)	64.9	81.5
Consumer Price Index	(1981 = 100)	128.5	134.6

Manitoba

Premier: Gary Filmon (Progressive Conservative)
Capital: Winnipeg
Total area: 649,950 square kilometres

The Manitoba economy is heavily dependent upon agriculture, although there is a significant manufacturing sector dealing primarily with agricultural machinery, aircraft, transportation equipment, food processing and clothing. The importance of Manitoba's transportation and utilities reflect its hydro electric resources and its position as a rail centre.

The provincial economy grew at a real rate of 4.2% in 1986, spurred by an increase in the value of building permits of 16.3%, which was mirrored by a similar increase in the number of housing starts. New capital investment rose by 11.3%, mostly in the form of construction, reflecting expenditures on the Limestone hydro electric project and the Winnipeg Core Area Initiative.

Mineral production declined by 12.1%; manufacturing shipments rose marginally, as did retail sales. Farm cash receipts grew by 5.5%.

Wages and salaries rose by 6.9% and average weekly earnings grew by 3.7%. Annual average weekly earnings in Manitoba were 6.7% below the Canadian average. Consumer prices rose by 4.5% in Winnipeg.

The provincial labour force grew by 10,000 while employment rose by 13,000. The net decline in the number of unemployed lowered the unemployment rate to 7.7%, about 20% under the national average.

SELECTED ECONOMIC INDICATORS

		1985	1986
Population on June 1	(000)	1,070.6	1,078.6
Labour force	(000)	523	533
Employed	(000)	480	493
Unemployed	(000)	43	41
Wages and salaries	($ billions)	8.7	9.3
Average weekly earnings, industry	($)	387.90	402.10
Farm cash receipts	($ billions)	2.00	2.11
Mineral production	($ millions)	862	758
Manufacturing shipments	($ billions)	5.6	5.7
Retail sales	($ billions)	5.2	5.4
New capital investment	($ millions)	3,195	3,556
Value of building permits	($ millions)	696.4	809.8
Housing starts	(000)	6.6	7.7
Consumer Price Index	(1981 = 100)	125.3	130.9

Saskatchewan

Premier: Grant Devine (Progressive Conservative)
Capital: Regina
Total area: 652,330 square kilometres

The Saskatchewan economy depends on agriculture, principally grain, and other resources including petroleum, potash and uranium.

The provincial economy grew by 5.3% in real terms in 1986, the highest rate of growth in the country, and 71% above the overall Canadian growth rate. This was primarily due to a record crop in 1986; however, world grain prices are currently depressed and 1986 farm cash receipts rose only marginally. In addition to falling grain prices, those for petroleum, potash and uranium declined. To compound matters, the US may limit imports of uranium and the US Commerce Department is threatening to impose a countervailing duty on potash imports. The value of mineral production in 1986 fell by 32.2% and manufacturing shipment values were stable at $2.9 billion.

New capital investment declined by 10.0% in 1986, primarily due to a 13.8% fall in the value of construction but only a 2.4% drop in spending on machinery and equipment. Nevertheless the value of building permits rose by 35.2%, mainly as a result of an increase in housing starts.

Wages rose by 4.3% in 1986 and average weekly earnings went up by 2.0 %. This latter figure was 6.7% below the national average. Consumer prices increased by 2.1% in Regina and 4.1 % in Saskatoon.

The provincial labour force grew by 4,000 in 1986 and the number of employed rose by 5,000, resulting in a decline in the rate of unemployment to 7.7%, some 20% below the national average.

SELECTED ECONOMIC INDICATORS

		1985	1986
Population on June 1	(000)	1,017.8	1,021.0
Labour force	(000)	491	495
Employed	(000)	452	457
Unemployed	(000)	40	38
Wages and salaries	($ billions)	6.9	7.2
Average weekly earnings, industry	($)	394.19	402.14
Farm cash receipts	($ billions)	4.10	4.11
Mineral production	($ millions)	3,797	2,573
Manufacturing shipments	($ billions)	2.9	2.9
Retail sales	($ billions)	4.7	5.0
New capital investment	($ millions)	4,093	3,682
Value of building permits	($ millions)	548.3	741.5
Housing starts	(000)	5.4	5.5
Consumer Price Index (1981 = 100)		125.6	128.2

Alberta

Premier:	Donald Getty (Progressive Conservative)
Capital:	Edmonton
Total area:	661,190 square kilometres

Oil, gas and agriculture form the basis of the Alberta economy. Its manufacturing sector is an extension of its resources, concentrated in food processing, refining and chemicals (particularly those emanating from petroleum and natural gas).

In 1986, real provincial GDP fell by 1.5 %, the only province in which there was a decline. This was caused by the decrease in world oil prices, weak grain prices and poor crops brought on by drought and grasshopper infestation. The livestock industry, on the other hand, did well, primarily as a result of low feed prices and lower interest costs.

The value of mineral production, which includes oil and gas, declined by 35.4% in 1986 and farm cash receipts fell marginally. Manufacturing shipments declined in value by 4.4%.

Capital investment, which is heavily dependent on the mineral fuel sector, fell by 8.2% in 1986. The value of building permits rose by 2.4% and the number of housing starts was up by the same percentage.

Wages and salaries rose by 0.4% in 1986, and average weekly earnings increased by 0.8%. Average weekly earnings in Alberta were 4.2 % above the Canadian average. Consumer prices rose by 3.3% in Edmonton and 2.5% in Calgary.

The provincial labour force rose by 22,000 and employment increased by 23,000. The number of unemployed declined by 1,000 reducing unemployment rate to 9.8 %, slightly above the national average.

SELECTED ECONOMIC INDICATORS

		1985	1986
Population on June 1	(000)	2,358.0	2,389.5
Labour force	(000)	1,249	1,271
Employed	(000)	1,123	1,146
Unemployed	(000)	126	125
Wages and salaries	($ billions)	23.4	23.5
Average weekly earnings, industry	($)	445.34	448.82
Farm cash receipts	($ billions)	3.85	3.84
Mineral production	($ millions)	27,030	17,463
Manufacturing shipments	($ billions)	16.1	15.4
Retail sales	($ billions)	13.5	14.2
New capital investment	($ millions)	13,589	12,477
Value of building permits	($ millions)	1,798.1	1,840.7
Housing starts	(000)	8.3	8.5
Consumer Price Index	(1981 = 100)	124.2	128.3

British Columbia

Premier:	William Vander Zalm (Social Credit)
Capital:	Victoria
Total area:	947,800 square kilometres

The British Columbia economy is predominantly resource-based, with mining, forestry and fishing of major importance. The transportation sector is also significant, and the Port of Vancouver is the major marine cargo port in Canada. The manufacturing sector is focused on further processing of resources, but shipbuilding has recently gained in prominence.

Output, measured by real GDP, grew by 3.7% in 1986, stimulated by the completion of construction and tourism associated with Expo 86. The value of manufacturing shipments was up by 7.9% and farm cash receipts increased marginally; however, mineral production was down in value by 4.9%. Retail sales were up by 7.0%.

New capital investment declined by 8.2% in 1986, with construction down by 10.5% and machinery and equipment off 2.8 %. The value of building permits issued rose by 10.5% as the number of housing starts rose by 15.0%.

Wages rose by 1.9% and average weekly earnings were up by only 0.5%. Nevertheless average provincial weekly earnings were 3.0% above the Canadian average. Consumer prices were up by 3.3% in Vancouver.

The British Columbia labour force increased 26,000 over the year and employment rose by 46,000. As a result the number of unemployed fell by 20,000 to an average annual rate of unemployment for the province of 12.6%, almost one-third higher than the national average.

SELECTED ECONOMIC INDICATORS

		1985	1986
Population on June 1	(000)	2,884.7	2,905.9
Labour force	(000)	1,431	1,457
Employed	(000)	1,228	1,274
Unemployed	(000)	203	183
Wages and salaries	($ billions)	25.9	26.4
Average weekly earnings, industry	($)	441.33	443.86
Farm cash receipts	($ billions)	1.01	1.02
Mineral production	($ millions)	3,541	3,366
Manufacturing shipments	($ billions)	19.1	20.6
Retail sales	($ billions)	14.3	15.3
New capital investment	($ millions)	10,192	9,356
Value of building permits	($ millions)	2,190.4	2,420.3
Housing starts	(000)	18.0	20.7
Consumer Price Index	(1981 = 100)	125.2	129.3

Yukon

Government Leader:	Tony Penikett
Commissioner:	K. McKinnon
Capital:	Whitehorse
Total area:	483,450 square kilometres

The Yukon economy is oriented towards mineral resources (mining, oil and gas); some forestry and small-scale agriculture; hydro electric power, and some manufacturing, consisting mainly of mineral refining.

The economy showed strength in 1986. Mineral production tripled in value from 1985 levels with the opening of the Curragh Resource mine (formerly Cyprus Anvil), as gold prices rose above $US 400, the Mount Skukum mine went into production. The tourist industry benefited from Expo 86 and revenues rose by five percent. The construction industry was also strong, as the value of building permits rose by 85.5% over 1985.

Average weekly earnings increased by 3.1%, putting them 17.5% above the Canadian average. Employment (industrial aggregate) rose by 10.1%.

SELECTED ECONOMIC INDICATORS

		1985	1986
Population on June 1	(000)	23.2	22.9
Employed (industrial aggregate)	(000)	7.9	8.7
Average weekly earnings, industry	($)	491.37	506.36
Mineral production	($ millions)	60	184
Retail sales2	($ millions)	0.4	0.4
New capital investment2	($ millions)	1,374	1,133
Value of building permits	($ millions)	31.0	57.5

1 Data are for the full year, or are released estimates for the year (farm income; mineral production; capital expenditures). Dollar figures refer to current dollars of the year stated.

2 Combined with Northwest Territories.

Northwest Territories

Government Leader:	Nick Sibbeston
Commissioner:	John H. Parker
Capital:	Yellowknife
Total area:	3,426,320 square kilometres

The Northwest Territories is rich in raw materials (including gold, gravel, oil and gas). The service industry accounts for a significant proportion of total output. Fishing and fur-trapping account for only a small proportion of GDP, but are important in many small communities. Art (prints, sculpture, tapestries) and other cottage industries are also important on a regional basis.

There was a decline in territorial output in 1986, principally due to falling oil and other mineral prices (except gold). Overall, mineral production fell in value by 8.7%.

The value of building permits declined by 46.9% in 1986, however 1985 might have been an extraordinary year for construction in the Northwest Territories.

Aggregate industrial employment fell marginally, while average weekly earnings rose by 1.6 %. Average weekly earnings in the NWT were 34.8% above the 1986 national average.

SELECTED ECONOMIC INDICATORS

		1985	1986
Population on June 1	(000)	51.0	50.9
Employed (industrial aggregate)	(000)	18.3	18.2
Average weekly earnings, industry	($)	571.68	580.77
Mineral production	($ millions)	865	790
Retail sales2	($ millions)	0.4	0.4
New capital investment2	($ millions)	1,374	1,133
Value of building permits	($ millions)	80.8	42.9

1 Data are for the full year, or are released estimates for the year (farm income; mineral production; capital expenditures). Dollar figures refer to current dollars of the year stated.

2 Combined with Yukon

CANADA

Prime Minister:	Brian Mulroney (Progressive Conservative)
Capital:	Ottawa
Total area:	9,970,610 square kilometres

SELECTED ECONOMIC INDICATORS

		1985	1986
Population on June 1	(000)	25,359.8	25,591.1
Labour force	(000)	12,639	12,870
Employed	(000)	11,311	11,634
Unemployed	(000)	1,328	1,236
Wages and salaries	($ billions)	228.6	241.3
Average weekly earnings, industry	($)	419.20	430.88
Farm cash receipts	($ billions)	19.91	20.58
Mineral production	($ millions)	44,734	33,854
Manufacturing shipments	($ billions)	244.1	249.5
Retail sales	($ billions)	129.4	139.7
New capital investment	($ millions)	90,505	95,364
Value of building permits	($ millions)	19,523.9	24,690.0
Housing starts	(000)	165.8	199.8
Consumer Price Index	(1981 = 100)	127.2	132.4

1 Data are for the full year, or are released estimates for the year (farm income; mineral production; capital expenditures). Certain standard series (as housing) do not include the Yukon or Northwest Territories. Separate estimates as available are included in tables for the territories. Dollar figures refer to current dollars of the year stated.

THE TORONTO ECONOMIC SUMMIT, JUNE 1988

From June 19-21, Canada will play host to the 14th Economic Summit. At that time Prime Minister Brian Mulroney will welcome to Toronto the leaders of the six other major industrialized democracies -- Japan, France, the Federal Republic of Germany, Italy, the United Kingdom, the United States, and the President of the Commission of the European Community.

These leaders will review the progress made since the Venice Summit in the various institutional fora which deal with international economic policy (particularly the IMF/World Bank, the GATT, the OECD and the periodic meetings of G-7 ministers). At Toronto, leaders will seek to give renewed impetus to a variety of themes. Some will be persistent topics of summit discussion, such as economic policy co-ordination, microeconomic policy and structural adjustment; trade (especially agriculture); international debt; and significant social developments confronting Western nations. Others will be new items particular to the economic and political circumstances that will emerge by June.

The Economic Summit meetings have been held annually since 1975 (Canada and the European Community began their participation in 1976 and 1977, respectively). The first Summit meeting was held at Rambouillet, near Paris, at the invitation of the President of France. The Economic Summit has no permanent home or Secretariat. Rather, Summit sites and organizational responsibilities are rotated among member nations: Rambouillet (1975), Puerto Rico (1976), London (1977), Bonn (1978), Tokyo (1979), Venice (1980), Ottawa/Montebello (1981), Versailles (1982), Williamsburg (1983), London (1984) Bonn (1985), Tokyo (1986) and Venice (1987).

The original concept was to have leaders discuss economic subjects outside the usual institutional framework, much along the lines of the "Library Group" of Finance Ministers that first met in 1973 in the White House library to discuss the international economic problems incurred due to the unravelling of the Bretton Woods fixed exchange rate system. Fostering personal contact among leaders to bring about progress on the issues facing the world has remained an important objective of Economic Summits. These meetings have brought key leaders together in a group that is powerful enough to have an important bearing on significant developments in the world (both economic and political), yet small enough to make open and direct discussions possible.

These yearly meetings are the most visible elements of a broader, complex process of international consultation and cooperation in the management of the world community. The Summits are closely linked to work done in other international fora including the International Monetary Fund (IMF)/World Bank, the General Agreement on Tariffs and Trade (GATT), the Organisation for Economic Cooperation and Development (OECD), and the group of Seven (G-7) Finance Ministers. The continuing objective of Summits has been to work towards compatible macroeconomic policies to foster balanced growth. These Summits are not decision-making fora, but over the years have enabled the leaders of the industrialized democracies to gain a deeper appreciation of the extent to which their economies are linked, to strengthen their consensus on key issues, to pursue a more co-ordinated (and effective) response to economic problems and, when necessary, to generate new policy initiatives.

All Economic Summits have emphasized the inter-relationship of world problems. Economic growth, employment, inflation, energy, debt and the maintenance of a liberal trading environment are all facets of an interdependent world economy. Summits recognize the close connection between the prosperity of the industrialized countries and that of the developing world. Naturally, the focus has shifted from year to year reflecting the most pressing preoccupations at the time. Despite the fact that Summits are essentially economic in character, a tradition of discussion of political subjects has developed, and political declarations have been issued from time to time. While the significant political developments to emerge in 1988 will be on the minds of leaders at Toronto, there can be little doubt that recent economic developments affecting stock markets and exchange rates will ensure that the original objectives of economic summitry remain central at the Canadian Summit.

The participation of Canada's Prime Minister in the annual meeting is immensely valuable. It assures our full involvement in the shaping of major economic trends of enormous importance to a trading nation such as Canada, and allows us to voice our concerns, be they on the need to lower international barriers of trade, to deal equitably and humanely with the desperately indebted nations of sub-Saharan Africa, or to seek political solutions to deep-rooted problems such as apartheid or disarmament.

BANKING AND FINANCE

The Canadian financial system is highly sophisticated and internationally competitive. Canada's 10 domestic banks rank among the largest and most stable in the world, with more than 7,000 branches throughout the country and more than 300 branches in 30 foreign countries. Other sectors of the industry, including trust, insurance and securities companies, provide excellent comprehensive financial services.

This section outlines Canada's banking and finance system, with particular attention to the needs of entrepreneurs interested in Canadian investments.

The Canadian financial industry is organized into four major subsectors traditionally known as the "four pillars" - chartered banks, trust and mortgage loan companies, insurance companies and securities firms. Canada's financial industry is regulated under both federal (Bank Act, Trust Companies Act, Loan Companies Act, etc.) and provincial laws. The various laws were enacted to avoid conflicts of interest which might arise among commercial lending, securities underwriting, estate management and other such activities. Of the four "pillars", the chartered banks have a dominant position; the total assets of their Canadian operations were $332 billion in mid-1986, representing 48 percent of the total sector. Trust and mortgage loan companies account for 18 percent of the total with assets of $124 billion, and insurance companies (life, property and casualty) also account for 18 percent of the total with assets of $127 billion. Investment dealers have a two percent share, with asets of $14 billion. The remaining 14 percent is accounted for by credit unions (8.5 percent) and various types of financial corporations (5.5 percent).

The Canadian banking system in particular is well-developed. In terms of financial services offered, Canadian banks are internationally competitive. Canada's major banks (Royal Bank of Canada, Canadian Imperial Bank of Commerce, Bank of Montreal, Bank of Nova Scotia and Toronto-Dominion Bank) rank in the top 60 worldwide.

The cornerstone of Canada's financial system is the central bank - the Bank of Canada. The Bank of Canada is a federal government institution which has as its primary responsibility the task of establishing the country's monetary policy.

Cheque clearing and settlement of accounts between the various deposit-taking institutions is carried out by the Canadian Payments Association (CPA). The CPA is managed by a board of directors composed of representatives from each of the three major types of deposit-taking institutions (chartered banks, trust companies, and credit unions/caisses populaires) and the Bank of Canada.

1 CENTRAL BANK

In addition to establishing Canada's monetary policy, the Bank of Canada acts as fiscal agent for the Government of Canada. It honours all cheques issued by the federal government, sells Government of Canada treasury bills and bonds, operates in foreign exchange markets to ensure orderly market conditions for the Canadian dollar, and issues Canada's paper currency.

1.1 Monetary Policy

The Bank of Canada's primary function is to set Canada's monetary policy, which involves regulating the growth of the money supply. The bank does this chiefly by controlling the cash reserves which the chartered banks are required to maintain under the Bank Act. The Bank of Canada also influences short-term interest rates by setting the bank rate, which is the interest rate at which chartered banks can borrow from the Bank of Canada, as they do occassionally for short periods of time. At present, the bank rate is set each week, at a quarter of one percentage point above the average yield on the 91-day Government of Canada treasury bills, which are auctioned every Thursday. Movements in the bank rate tend to reflect the general trend of short-term interest rates in the economy.

The Bank of Canada also administers the Exchange Fund Account of the Minister of Finance. In this capacity, operations of the Bank are directed towards the maintenance of orderly conditions in the foreign exchange market in Canada through the purchase or sale of US dollars for Canadian dollars.

1.2 Who Owns the Bank of Canada?

All of the shares of the bank are owned by the Minister of Finance on behalf of the Government of Canada, and all the profits of the bank are paid to the government.

1.3 Who Manages the Bank of Canada?

The responsibility for the management of the bank lies with a 15-member board of directors. The Governor of the bank is the chairman of the board and the chief executive officer. The Senior Deputy Governor is also a director. Both are appointed for seven-year terms and both are involved full-time in managing the bank's affairs. Twelve outside directors (by tradition at least one from each province) are appointed by the government for three-year terms. The Deputy Minister of Finance also sits on the board, but does not have the right to vote.

1.4 Does the Government Tell the Bank of Canada What To Do?

The Bank of Canada Act gives the bank the power to decide and implement monetary policy. In so doing, the Governor consults regularly with the Minister of Finance. If the Government finds itself in fundamental disagreement with the bank's policy, it is entitled by the act to issue a written directive requiring the bank to change its policy; however, such a directive has never been issued.

2 CHARTERED BANKS

In 1980, the Bank Act, which governs the activities of the chartered banks, was amended to allow the entry of foreign banks by the establishment of two types of banks - "Schedule A" and "Schedule B". Schedule A banks are subject to ownership restrictions; no individual shareholder can own more than 10percent of the voting shares, and total foreign ownership cannot exceed 25percent. Schedule A banks are essentially chartered banks as definied prior to the 1980 Bank Act revision. Schedule B banks are a new class of banks which are subject to different ownership rules.

Canadian Schedule B banks may be closely held initially, but are required to become widely held within 10 years (i.e. after 10 years they are subject to the same rules as Schedule A banks). Foreign Schedule B banks must be closely held by the foreign parent bank. As a result, all foreign banks operating in Canada do so through Schedule B bank subsidiaries. In essence, the revisions allowed foreign-owned "near-banks", which had been previously operating in Canada under provincial legislation, to gain full bank status. Foreign Schedule B banks are limited to a 16 percent share of the Canadian banking market; that is, under the Bank Act, total domestic assets of foreign banks in Canada cannot exceed 16 percent of the total domestic assets of all banks in Canada.

2.1 Domestic Banks (Schedule A)

Canada's domestic banks are among the largest in the world (at least the five major ones), and as a whole, rank among the most stable in the world. A list of the domestic banks is set out in Appendix I.

The six largest domestic banks are listed in Table 1, which shows their asset values as of September 1985.

TABLE 1
LARGEST CANADIAN BANKS, BY SIZE OF ASSETS

Bank	Assets ($ billion)[1]
Royal Bank	103
Imperial Bank of Commerce	87
Bank of Montreal	86
Bank of Nova Scotia	67
Toronto-Dominion Bank	55
National Bank	29
Largest six banks	427
TOTAL all Canadian banks	428

1 As at December 31, 1986. Total assets include assets of the banks' international operations.

Source: Supplement: Canada Gazette, Part I, Chartered Banks.

2.1.1 Branch Banking System

Unlike the banking system in the US, which is characterized by thousands of banks (approximately 14,000) whose operations are more likely than not restricted to one state or even one community, Canada has only 10 domestic banks with thousands of branches across the country. Of the some 7,000 branches across Canada, the five major banks account for well over 6,000.

The advantage of a branch banking system to the Canadian consumer is obvious, as people in small remote areas of Canada have ready access to the same range of banking services as those who live in large urban centres. The banks utilize the branch system by transferring deposits which exceed local borrowing to other branches in Canada where loan requirements exceed local deposits. Also, the banks can achieve loan diversification which insulates them from economic downturns in certain areas of the country.

2.1.2 Who Owns the Banks?

The shares of Schedule A banks are publicly traded. The Bank Act ensures that no individual shareholder owns more than 10 percent of the stock of a bank, and that total foreign ownership does not exceed 25 percent. Approximately 95 percent of the shareholders of all bank stocks are Canadian residents.

2.1.3 Who Manages the Banks?

Like any large corporation, each bank has a board of directors elected by the shareholders. The directors establish the general policy of the banks, and in turn select the management team (professional bankers) who run the day-to-day business of the bank.

2.1.4 Do Canadian Banks Have International Operations?

The international operations of the Canadian banks (particularly the five major ones) have increased substantially since 1970. In 1986 foreign currency assets of the 10 domestic banks represented 45 percent of their total assets in contrast to 29 percent in 1970. Canadian banks have some 300 branches in 30 countries, and have correspondent relationships with more than 5,000 banks worldwide.

2.1.5 What Types of Services Are Offered by Banks?

The Canadian banking system provides services to both the individual and the large corporation. Some of the services offered are:

- savings accounts
- chequing-savings accounts
- deposit receipts
- commercial loans, including term loans
- mortgage loans
- agricultural loans
- automated teller machines
- foreign trade and market information
- commercial collections and remittances
- transfer of funds
- traveller's cheques
- credit information
- custody of securities and other valuables
- current accounts
- personal chequing accounts
- personal loans
- bankers' acceptances
- home improvement loans
- student loans
- credit cards
- currency trading
- letters of credit
- guarantees
- money orders and bank drafts
- night depositories
- banking by mail
- acceptance of account payments
- bill payment services

2.2 Foreign-Owned Banks (Schedule B)

Since their inception in 1980, Schedule B banks have stimulated competition in the Canadian banking system for the middle-market customer (intermediate-sized companies). It appears that they have been successful, as the legislated ceiling on their aggregate share of the Canadian banking industry was increased in June 1984 from eight percent to 16 percent. Another factor pointing to their success is the actual number of Schedule B banks, which currently stands at 55. A list of these banks is set out in Appendix I.

With the major foreign banks now established in Canada, the foreign investor may be able to deal with his home bank's subsidiary here in Canada. Thus there may be no necessity to seek out a Canadian bank for the conduct of the foreign investor's financial affairs in Canada.

2.2.1 Available Services From Foreign Banks

The Schedule B banks provide the same range of services as the domestic chartered banks regarding loans, deposits and commercial services. However, they can lend only 20 times their deemed authorized capital, set by the Department of Finance. This is to limit these institutions to 16 percent of the domestic market.

3 EMERGING TRENDS OR DEVELOPMENTS IN CANADIAN BANKING

3.1 Pruning of the Branch Networks

There have been closures and consolidations of many poorly-located branches. The total number of branches will probably not decline any further, and should remain constant over the next few years.

3.2 Expansion of Financial Services

- Personal banking will probably move towards home banking, which has been introduced in a very limited fashion by five of the six largest US banks.

- Electronic funds transfer (or as it is known within the financial industry, EFT) will probably play a much more important role in consumer and commercial banking, because the technology is available and the public response to automated teller machines has been positive.

3.3 Increased Competition

- The domestic banks will come under continued pressure from foreign-owned banks as they compete for the business of intermediate-sized Canadian companies, and from other financial institutions (trust and mortgage loan companies, credit unions, etc.) as they endeavour to capture a greater share of the consumer and small business markets.

- In addition, implementation of federal and provincial proposals for deregulation of the financial sector will create opportunities for more competition between the various institutions. The proposed deregulation is discussed in more detail in Section 9 - Future Developments.

4 TRUST AND MORTGAGE LOAN COMPANIES

Trust and mortgage loan companies may be incorporated under either federal or provincial legislation. Trust companies are the only type of institution permitted to offer fiduciary services. They are deposit-taking institutions, and in many respects are similar to chartered banks, although they do not generally provide the full range of commercial banking services.

Mortgage loan companies are mainly involved in taking deposits and issuing loans secured by mortgages. Most of the major companies are affiliated with banks or trust companies.

Trust and mortgage loan companies face certain restrictions on their powers to invest and lend funds. These institutions generally invest their funds in residential and commercial mortgages, government securities, corporate debt, and real estate. Unsecured loans are restricted to seven percent of total assets. In many ways, trust and mortgage loan companies are similar to US savings and loans instututions.

5 INSURANCE COMPANIES

The main functions of life insurance companies are underwriting insurance and selling annuities. They are not permitted to take deposits, although they issue deferred annuities that are close substitutes for term deposits. They are also permitted to manage segregated funds, including pension funds, on behalf of customers. With respect to investments, their powers are similar to those of trust and mortgage loan companies. Life insurance companies are permitted to invest in mortgages, government securities, real estate, and corporate debt, with a limit on unsecured lending of seven percent of total assets.

Businesses requiring financing over the intermediate (five to 10 years) or long term (over 10 years) can utilize the financial resources of insurance companies. Financing of real estate transactions, for example, might require terms of up to 40 years. Under such circumstances, insurance companies would be competitive with other financial institutions such as the chartered banks, trust companies and mortgage loan companies.

Property and casualty insurance companies are confined to underwriting property, liability and various other kinds of non-life insurance. As the liabilities of these companies are relatively short-term, their investments are for the most part restricted to readily marketable government and corporate securities.

6 SECURITIES FIRMS

Securities firms or investment dealers in Canada bring together those with capital to invest and those in search of capital. In other words, an investment dealer directs the savings of Canadians and foreign investors to finance the various levels of government and all types of businesses. This matching-up process can be accomplished in two ways. The investment dealer underwrites new public issues of corporate or government securities, or offers new issues to the Canadian public on a best-efforts or agency basis. The second way is through the placement of corporate securities with private individuals or corporations. Securities legislation with respect to private placements is much less stringent than that respecting public issues.

The Investment Dealers Association of Canada (IDA) is the national self-regulatory body of the Canadian securities industry. Its members account for more than 95 percent of all securities transactions for both the private and public sectors in Canada. It should be noted that Canadians, on a per capita basis, raise twice as much capital as do Americans.

For 1986, IDA reported total dealer new issues of $31.2 billion, compared to $29.8 billion for 1985. Of this total, $8.4 billion represented new common equity issues, an increase of $3.7 billion or 44 percent over 1985. The IDA also reported that bond trading in 1986 totalled $285 billion ($222 billion in 1985) and money market trading totalled $850 billion ($719 billion in 1985). Trading on the Canadian stock exchanges in 1986 was $84.6 billion, compared to $57.8 billion in 1985, representing a 46 percent increase.

Presently, there are restrictions with respect to foreign ownership in securities firms. In December, 1986, the Ontario government announced proposals to permit foreign ownership of Ontario investment dealers. British Columbia has also announced similar deregulation measures (see Section 9 - Future Developments). These proposals reflect the growing internationalization of securities markets, and should allow Canadian firms to become more active in world markets.

7 STOCK EXCHANGES

Canada has four stock exchanges, located in Toronto, Montreal, Vancouver and Alberta - and one commodity exchange in Winnipeg. Toronto, Montreal and Vancouver are the most significant exchanges in Canada, with Toronto being the largest. All stock exchanges are regulated by the province in which the exchange is located, and there are some differences in regulations among provinces.

From 1982 to mid-1985, the Toronto Stock Exchange (TSE) Composite index outperformed the London and Dow Jones Industrial indices and did marginally better than the Standard and Poor 500 composite stocks in the US. Since mid-1985, the TSE Composite index has not performed as well as the US and London indices, partly as a result of the weakness in the oil, gas and minerals sectors. Comparative performance of the TSE Composite, Standard and Poor 500, Dow Jones Industrial and London indices over the period 1982 through 1986 is shown in Table 2. Table 3 presents a comparison of the performance of various sectors on the TSE for the last five years.

TABLE 2
INDEX OF COMPARATIVE STOCK MARKET PERFORMANCE[1]

		TSE Composite	S&P 500	Dow Jones Industrial	London
1982	1	100.0	100.0	100.0	100.0
	2	86.1	99.0	98.7	98.2
	3	100.0	110.5	108.9	104.5
	4	123.3	125.8	127.2	106.5
1983	1	135.8	136.5	137.3	116.6
	2	154.1	150.1	148.5	128.0
	3	157.5	150.9	149.9	123.4
	4	160.8	148.4	153.0	137.3
1984	1	150.0	142.1	141.6	155.6
	2	139.9	138.2	137.6	143.0
	3	150.7	149.9	146.7	154.7
	4	151.2	148.5	147.3	169.4
1985	1	164.6	161.9	154.0	174.6
	2	170.8	170.5	162.3	169.7
	3	165.8	164.4	161.5	178.7
	4	182.7	190.7	188.0	201.5
1986	1	191.9	215.6	221.0	248.0
	2	194.3	226.4	230.0	238.2
	3	187.6	208.8	214.8	218.2
	4	193.1	218.6	230.4	232.5

1 All data are for year-end.

Source: Toronto Stock Exchange; Standard & Poor; The Economist; Dow Jones.

TABLE 3
TORONTO STOCK EXCHANGE - SECTOR COMPARISON[1]

	Oil, Gas Prod.[2]	Oil, Gas Compos.	Metals, Minerals	Utilities	Paper & Forest Prod.	Merchandising	Financial Serv.	Golds
1982	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1983	133.9	129.3	134.2	127.6	147.0	139.8	119.1	98.7
1984	104.3	111.4	104.0	135.9	135.8	120.0	116.1	69.3
1985	107.7	162.1	112.0	160.5	157.1	183.7	146.7	103.1
1986	87.0	113.8	106.2	127.6	244.7	200.1	152.4	125.8

1 All data are for year-end.

2 Composed of 47 of the 53 stocks in the oil and gas composite sector.

Source: Bank of Canada Review.

As a general rule, the listing of a corporate stock on one of Canada's stock exchanges is not complicated and can occur with little difficulty. Each new listing must meet certain minimum listing requirements established by each stock exchange. Canadian requirements are much the same as those of the Securities and Exchange Commission in the US.

Canada's bond market is also well developed. Major corporations regularly raise capital by issuing bonds and debentures. Securities dealers usually handle the underwriting and distribution of these securities. An "over-the-counter" secondary market ensures liquidity for the purchasers.

8 OTHER FINANCIAL INSTITUTIONS

8.1 Sales Finance Companies

Sales finance companies provide a wide range of services to consumer and commercial clientele. Small loans are provided to the consumer for the consolidation of personal debts, automobile purchases, purchase of household appliances, vacations, etc. On the commercial side, sales finance companies are primarily involved in vehicle fleet leasing or equipment financing. The large companies in this field are owned by the manufacturer of the product being financed (e.g., the major automobile manufacturers have their own finance companies such as GMAC, Ford Credit and Chrysler Credit).

8.2 Credit Unions

Credit unions are similar to savings and loans banks in the US. They are co-operative associations which primarily accept deposits and offer mortgage and personal loans. Many of the credit unions provide loans to small business, as well as chequing facilities, term deposits, travellers' cheques, lines of credit, etc.

8.3 Provincial Financial Institutions

Each province has established its own financial agency which can provide financial assistance in the form of a direct loan or loan guarantee to companies carrying on business in the province. These agencies are usually a last resort for business, and therefore, serve to complement, rather than compete with other financial institutions.

9 DEPOSIT INSURANCE

The Canadian Deposit Insurance Corporation (CDIC) was established by the federal government in 1967 to provide protection to depositors against the failure of eligible deposit-taking institutions. Membership in the CDID is obligatory for chartered banks and all federally-regulated institutions that accept deposits from the public. Provincially-incorporated institutions that accept deposits are also eligible to apply for membership. Currently, the CDIC provides insurance of up to $60,000 per person, per institution. The plan is funded by a levy on insured deposit-taking institutions that is proportional to the amount of their insurable deposits.

10 FUTURE DEVELOPMENTS

10.1 Federal Proposals for Deregulation

Deregulation of the financial sector has been the subject of intense public debate in Canada since November 1984, when the federal government announced its intention to explore changes to regulation of the financial sector, in consultation with consumers, business, and the provinces. The government's initial proposals were released in April 1985 in a discussion paper. In December 1986 the federal Minister of State for Finance tabled the federal government's final proposals for reform of the financial sector. These proposals, when enacted, will apply to federally-regulated institutions: namely all banks and federally-incorporated trust and loan, and insurance companies.

Investment dealers and co-operatives, while affected by the proposals, are regulated by the provinces as are provincially-incorporated trust and insurance companies (provincial proposals for deregulation are also outlined below).

The federal proposals for reform will result in major changes to the financial sector in Canada. The proposals provide for changes in four main areas:

10.1.1. Powers of Financial Institutions

The powers of financial instutions will be significantly expanded. Federally-regulated banks, trust and loan companies, and insurance firms will be permitted to own any type of financial institution, including investment dealers. This means, for example, that a bank or trust company could offer insurance or investment services through a subsidiary. This proposal, often referred to as common ownership, will result in a merging of the "four pillars". The in-house powers of financial institutions will also be broadened. Trust and loan companies and insurance firms will be granted full commercial and consumer lending powers. All three types of institutions will be allowed to offer investment advice and portfolio management, and banks and insurance firms will be granted fiduciary powers. Finally, banks, trust and loan companies, and insurance firms will be permitted full networking, with the exception of retailing of insurance. (Networking refers to the provision of another institution's services, such as investment services, to a bank's customers.)

Foreign financial institutions will receive the same extension of powers as domestic institutions; however, the common-ownership proposal will be phased in for foreign institutions. Schedule B banks and other foreign-controlled financial institutions will be allowed to buy 50 percent of an investment dealer as of June 30, 1987, and to establish or buy 100 percent of an investment dealer as of June 30, 1988. No changes are proposed to the existing rules on foreign entry and ownership, subject to the outcome of the Canada-US trade negotiations.

10.1.2. Ownership Policy for Financial Institutions

Banks:
Smaller banks (less than $750 million in capital) will be permitted to be closely held by domestic investors, as long as they have no commercial links. Larger banks (more than $750 million in capital) must have at least 35 percent of their voting shares publicly traded and widely held by December 31, 1991, or within five years of reaching the threshold, and no shareholder will be permitted to acquire more than 10 percent of the shares of the bank.

Trust, Loan and Insurance Companies:
New trust, loan and insurance companies will not be allowed to have significant commercial links. Commercial interests will not be allowed to acquire or increase their ownership of non-bank institutions with more than $50 million in capital. Larger institutions with commercial links will be required to have at least 35 percent of their voting shares widely held and publicly traded by December 31, 1991, or within five years of reaching $50 million in capital. Trust, loan and insurance companies with no commercial links and over $750 million in capital will be required to have at least 35 percent of their voting shares widely held and publicly traded by December 31, 1991, or within five years of reaching $750 million in capital, and once this size is reached no shareholder will be permitted to acquire more than 10 percent of the shares.

10.1.3. Regulation of Financial Institutions

In addition to the ownership approach to self-dealing and conflict of interest, there are proposals to deal with these and other regulatory issues directly. These proposals include strict controls on self-dealing (with an exemption for transactions between a parent and a subsidiary), and a strengthened role for directors and auditors.

10.1.4. Supervision and Deposit Insurance

These proposals address the criticisms which arose out of the recent bank and trust company failures, as well as funding and other problems connected with the deposit insurance system. Federal supervision of financial institutions will be consolidated under the Office of the Superintendent of Financial Institutions, which will receive advice from a committee of technical experts. There will be better procedures for assuming control of troubled institutions and for restructuring such institutions. The Canadian Deposit Insurance Corporation will remain a separate body, but its powers to levy premiums and surcharges, to obtain information and to refuse coverage will be expanded.

These proposals for reform will have a significant impact on the financial sector in Canada. In particular, the expanded powers of financial institutions - common-ownership, greater in-house powers, and networking - will greatly increase competition among institutions, for both existing and new forms of business. While the ownership proposals will require new equity issues or divestiture by some non-financial companies with trust company subsidiaries, the final proposals are less stringent than the initial proposals. These proposals have generally been well received by the financial community, as well as by other business sectors and the general public.

10.2. Provincial Proposals for Deregulation

Both Ontario and British Columbia have announced measures to reform provincial regulation of financial institutions. In December 1986, Ontario announced new entry and ownership rules for Ontario investment dealers. Effective June 30, 1987, Canadian financial institutions or any other Canadian investor will be permitted to own up to 100percent of an Ontario securities dealer. Non-residents will be permited to acquire up to 50percent of a securities dealer on June 30, 1988. Foreign dealers who wish to enter the Ontario market directly will be allowed to register on June 30, 1987, but they will be restricted to the exempt market until June 30, 1988.

These changes are consistent with the federal proposals. Similarly, British Columbia has announced its intention to permit both Canadian and non-resident firms, including banks, credit unions and other financial institutions, to participate in its securities business, beginning on July 1, 1987.

11 SOURCES OF FEDERAL GOVERNMENT FINANCING

11.1 Federal Business Development Bank

The Federal Business Development Bank (FBDB) is a crown corporation that exists to promote and assist most types of businesses in Canada, either at the start-up stage or at some other stage in their development. It pays particular attention to the needs of small and medium-sized businesses. FBDB offers two principal services to Canada's business community: financial services such as loans, loan guarantees, and venture capital, and management services such as counselling, planning, training, and information.

The FBDB complements the services offered by financial institutions in the private sector by providing worthwhile projects with funds that are not available elsewhere on reasonable terms and conditions.

11.1.1 The Financial Services of the FBDB include term loans, loan guarantees, and a venture capital program.

Term Loans are offered to acquire fixed assets such as land, building, machinery and equipment. They are also made to acquire other businesses, to increase working capital, and to finance increased sales. These loans are offered on both a fixed and floating interest rate basis. Loan terms are up to 10years, with amortization depending on the nature of the loan, the security and the client's ability to repay.

Loan Guarantees are provided to financial institutions on behalf of a client. A small commission is involved and security is the same required under a term loan.

The Venture Capital Division of the FBDB is designed to assist companies which have high growth potential but limited access to the capital market. Its primary goal is to increase the amount of venture capital available to promising small and medium-sized businesses in Canada, by using its own capital or by attracting equity financing from private financial institutions. When FBDB invests its own funds in a company, its policy is generally to remain a minority shareholder and to divest itself of its holdings as soon as feasible for both the company and FBDB.

11.1.2 The Management Services of FBDB provide one of the most important sources of business counselling, training and information for small- and medium-sized businesses in Canada. The services are broken out into nine categories and are briefly outlined below:

Financial Planning Program: the Financial Planning Program provides a referral service called Financial Matchmaking which brings investors together with people seeking funds. It also includes a service that draws up financial proposals for clients and another that helps them do strategic business planning. In addition, this program offers a series of do-it-yourself business kits.

CASE (Counselling Assistance to Small Enterprises): through this program, more than 1,100 successful retired business people assist firms in improving their methods of doing business. They provide counselling in all areas of business management, including accounting, marketing, production and personnel. Any type of small business (no more than 75 employees) is eligible for CASE counselling services. Being a borrower from FDBD is not a requirement, and counselling costs are moderate. Travel expenses of counsellors are paid by the bank to ensure that this service is available to businesses across the country, at the same moderate cost.

Business Management Seminars: the FBDB seminar program consists of a variety of full-day and half-day seminars on topics such as bookkeeping, personnel, marketing, taxation and finance. Twenty-five different business topics are presently covered by FBDB seminars.

Joint Seminars: joint seminars are special adaptations of FBDB's regular half-day and full-day seminars on various topics, ranging from general management and marketing to finance and personnel. These are generally presented to associations or special groups requiring seminars to meet the specific needs of their members.

Management Video Clinics: a management clinic is a unique, self-teaching program for business owners and those considering the big step to self-employment. It consists of two integral parts: a videocassette, which can be viewed at the branch, and a workbook, which can be completed at the client's office or home. Management video clinics on nine topics are now available.

Business Management Courses: these courses are 30-hour training programs developed by the FBDB and distributed in cooperation with provincial and territorial educational authorities. Offered through adult education programs at community colleges across Canada (CEGEPs in Quebec), the courses are aimed at business people interested in improving their management techniques. There are now some 20 courses available on subjects in the areas of general management, finance, marketing and personnel.

Minding Your Own Business (MYOB): this is a four-volume pocketbook series that presents, in a straightforward, easy-to-read style, the important steps of running a successful business. This series covers general small business management, retailing, services businesses, and manufacturing.

Small Business Information Service (SBIS): all branches of the FBDB can provide a wide range of information to business people. Supported by its AIM (Automated Information for Management) computerized database, the bank offers a personalized information service outlining federal, provincial and municipal government assistance programs, as well as a listing of local business opportunities and sources of other information. The FBDB can also supply quick responses related to sources of information through its BIC (Business Information Centres) toll-free telephone enquiry service. In addition, the FBDB presents free information sessions and workshops, and publishes a handbook on government assistance programs. This book, entitled Assistance to Business in Canada (ABC), is available with a special supplement for each province and territory.

Publications: FBDB also publishes Profits, a quarterly tabloid. This publication regularly features various FBDB services, in addition to articles of current interest to the small and medium-sized business community. There is no mailing list for Profits, as it is automatically distributed to all businesses across Canada through Canada Post.

For additional information, please contact the nearest FBDB Office.

FEDERAL BUSINESS DEVELOPMENT BANK

HEAD OFFICE

Federal Business Development Bank
800 Victoria Square
PO Box 335
Montreal, Quebec
H4Z 1L4
(514) 283-5904
1-800-361-2126

Atlantic Region

Federal Business Development Bank
Cogswell Tower
Scotia Square, Suite 1400
PO Box 1656
Halifax, Nova Scotia
B3J 2Z7
(902) 426-7860

Quebec Region

Federal Business Development Bank
800 Victoria Square, Suite 4600
PO Box 190
Montreal, Quebec
H4Z 1C8
(514) 283-3657

Ontario Region

Federal Business Development Bank
777 Bay Street, 29th Floor
Toronto, Ontario
M5G 2C8
(416) 973-1144

Prairie and Northern Region

(Manitoba, Saskatchewan, Alberta
and Northwest Territories)
Federal Business Development Bank
161 Portage Avenue, Suite 300
Winnipeg, Manitoba
R3B 0Y4
(204) 949-7811

British Columbia and Yukon

Federal Business Development Bank
900 West Hastings Street
Vancouver, British Columbia
V6C 1E7
(604) 666-7800

11.2 Export Development Corporation

The Export Development Corporation (EDC) is a crown corporation whose purpose is to facilitate and develop Canada's export trade. It does so by offering services in three broad categories: insurance, guarantees and export financing. Any company or person operating a business in Canada can make use of EDC's services provided there is an export sale, the transaction is economically sound, the foreign buyer is credit-worthy, and the goods and services to be exported have a Canadian content of at least 60percent.

11.2.1 Export Insurance

Export insurance covers two types of risks - commercial and political. Commercial risks insured are insolvency of the foreign buyer, default of the foreign buyer, repudiation by the foreign buyer, and termination of a contract by the foreign buyer. Political risks insured are blockage of the funds or transfer problems, cancellation or non-renewal of export or import permits, war or revolution in the buyer's country, expropriation of a foreign investment, wrongful call of performance bonds by a foreign buyer, and rightful calls outside the control of the exporter. EDC normally assumes 90percent of the commercial and political risks, and insures almost any type of transaction involving goods, services or technology. It provides the exporter with various types of insurance policies such as those covering short- or medium-term credit transactions, surety risks, foreign investments and loan pre-disbursement. The premiums for EDC insurance are based on: the type of goods or service, the buyer, the country, terms of credit, spread of risk, and the type of insurance being provided.

11.2.2 Export Guarantees

EDC provides guarantees to banks and other financial institutions which make loans or issue performance or bid securities for Canadian export sales. Unconditional guarantees against losses incurred in financing an export transaction are made available to banks which provide financing to EDC-insured exporters, or which provide loans to buyers of Canadian capital goods and services. Guarantees can also be provided to a bank which has extended a short-term line of credit to a foreign bank to finance an export sale of Canadian goods or services. In international transactions requiring the posting of security guaranteeing that the exporter will perform in accordance with the terms and conditions of the contract (construction projects) or the actual bid itself, EDC can issue a 100 percent unconditional guarantee to banks or other financial institutions. This enables the exporter and his bank to supply the requisite securities demanded by the foreign buyer without tying up the exporter's working capital.

11.2.3 Export Financing

Export financing is provided to foreign buyers of Canadian capital goods, equipment and services. Funds are disbursed by EDC directly to the exporter on behalf of the foreign buyer, which effectively results in a cash sale for the exporter. Export financing is available for up to 85percent of the contract value, at both fixed and floating interest rates, for medium- and long-term transactions to help Canadian exporters compete on a equal basis with exporters from other countries. The financing can take the form of a loan, line of credit, multiple disbursement agreement loan (single buyer of goods or services from various Canadian exporters in the execution of a project) or note purchase program (EDC purchases a series of promissory notes which are drawn by a foreign buyer and made payable to the exporter). EDC also provides medium-term financing to small- and medium-sized exporters (i.e. export transactions of $1 million or less) through its regional offices as well as Ottawa headquarters.

For additional information, please contact the nearest EDC office.

HEAD OFFICE

Export Development Corporation
151 O'Connor Street
PO Box 655
Ottawa, Ontario
K1P 5T9
TELEPHONE: (613) 598-2500
TELEX: 053-4136
FACSIMILE: (613) 237-2690

British Columbia and Yukon Region

Export Development Corporation
One Bentall Centre
505 Burrard Street, Suite 1030
Vancouver, British Columbia
V7X 1M5
TELEPHONE: (604) 688-8658
FACSIMILE: (604) 688-3710

Atlantic Region

Export Development Corporation
Toronto-Dominion Bank Building
1791 Barrington Street
Suite 1003
Halifax, Nova Scotia
B3J 3L1
TELEPHONE: (902) 429-0426
TELEX: 019-21502

Prairie and Northern Region

(Alberta, Saskatchewan, Manitoba
and Northwest Territories)
Export Development Corporation
Bow Valley Square III
255-5th Avenue South West
Suite 2140
Calgary, Alberta
T2P 3G6
TELEPHONE: (403) 294-0928
FACSMILILE: (403) 294-1133

Ontario Region

Export Development Corportion
National Bank Building
150 York Street, Suite 810
PO Box 810
Toronto, Ontario, M5H 3S5
TELEPHONE: (416) 364-0135
TELEX: 06-22166
FACSIMILE: (416) 862-1267

Quebec Region

Export Development Corporation
800 Victoria Square, Suite 2724,
PO Box 124
Tour de la Bourse Postal Station
Montreal, Quebec
H4Z 1C3
TELEPHONE: (514) 878-1881
FACSIMILE: (514) 878-9891

APPENDIX I

THE CHARTERED BANKS OF CANADA

as of 31 December 1986

Domestic Banks (Schedule A)

Bank of Montreal
1 First Canadian Place
Toronto, Ontario M5X 1A1

Bank of Nova Scotia
44 King Street West
Toronto, Ontario M5H 1H1

Toronto Dominion Bank
PO Box 1, Toronto Dominion Centre
Toronto, Ontario M5K 1A2

National Bank of Canada
600 de la Gauchetière West
Montreal, Quebec H3B 4L2

Canadian Imperial Bank of Commerce
Commerce Court
Toronto, Ontario M5L 1A2

The Royal Bank of Canada
1 Place Ville Marie, PO Box 6001
Montreal, Quebec H3C 3A9

Bank of Alberta
10040-104 Street, Suite 1200
Edmonton, Alberta T5J 3X6

Bank of British Columbia
555 Burrard Street, Suite 1725
Vancouver, British Columbia V7X 1K1

Continental Bank of Canada
130 Adelaide Street West
Toronto, Ontario M5H 3R2

Western & Pacific Bank of Canada
555 Burrard Street, Suite 1585
Vancouver, British Columbia V7K 1M9

Foreign Bank Subsidiaries (Schedule "B")

ABN Bank Canada
Toronto-Dominion Centre, Suite 3402
Toronto, Ontario M5K 1G8

ANZ Bank of Canada
North Tower, Suite 1880
Royal Bank Plaza
Toronto, Ontario M5J 2J3

Bank of America Canada
4 King Street West, 18th Floor
Toronto, Ontario M5H 1B6

BT Bank of Canada
Royal Bank Plaza, N Tower, 16th Fl.
Toronto, Ontario M5J 2J2

Barclays Bank of Canada
Commerce Court West, Suite 3500
Toronto, Ontario M5L 1G2

Bank of Boston Canada
500 Dorchester Blvd West, Suite 1400
Montreal, Quebec H2Z 1W7

Banco Central of Canada
330 Bay Street, Main Floor
Toronto, Ontario M5H 2S8

The Chase Manhattan Bank of Canada
150 King Street West, Suite 1600
Toronto, Ontario M5H 1J9

Chemical Bank of Canada
150 York Street, Suite 1900
Toronto, Ontario M5H 3S5

Citibank Canada
123 Front Street West, Suite 1900
Toronto, Ontario M5J 3M3

Banca Commerciale Italiana of Canada
130 Adelaide Street West, Suite 1800
Toronto, Ontario M5H 3P5

Bank of Credit and Commerce Canada
1 First Canadian Place, Suite 3333
Toronto, Ontario M5X 1B1

Crédit Lyonnais Canada
2000 Mansfield Street, 18th Floor
Montreal, Quebec H3A 3A6

Dai-Ichi Kangyo Bank (Canada)
Commerce Court West, Suite 3740
Toronto, Ontario M5L 1H9

Dresdner Bank Canada
2 First Canadian Place, Suite 1700
Toronto, Ontario M5X 1E3

The First National Bank of Chicago (Canada)
2 First Canadian Place, Suite 2300
Toronto, Ontario M5X 1E4

Bank Hapoalim (Canada)
1 First Canadian Place, 63rd Floor
Toronto, Ontario M5X 1A9

The Industrial Bank of Japan (Canada)
Commerce Court North, Suite 1200
Toronto, Ontario M5L 1G3

Irving Bank Canada
Commerce Court East, Suite 700
Toronto, Ontario M5L 1E8

Korea Exchange Bank of Canada
2 First Canadian Place, Suite 1140
Toronto, Ontario M5X 1E3

Lloyds Bank Canada
Toronto-Dominion Centre, Suite 2802
Toronto, Ontario M5K 1J5

Comerica Bank Canada
2 First Canadian Place, Suite 2145
Toronto, Ontario M5X 1E3

Continental Illinois Bank (Canada)
1 First Canadian Place, Suite 6000
Toronto, Ontario M5X 1H2

Crédit Commercial de France (Canada)
1155 Dorchester Blvd West, Suite 2305
Montreal, Quebec H3B 2K2

Crédit Suisse Canada
Commerce Court West, Suite 2400
Toronto, Ontario M5L 1K2

Deutsche Bank (Canada)
2 First Canadian Place, Suite 3600
Toronto, Ontario M5X 1E3

First Interstate Bank of Canada
2 First Canadian Place, Suite 800
Toronto, Ontario M5X 1E3

Fuji Bank Canada
130 Adelaide Street West, Suite 3200
Toronto, Ontario M5H 3R6

Hanil Bank Canada
1055 Dunsmuir Street, Suite 2674
Vancouver, British Columbia V7X 1L3

Hongkong Bank of Canada
200 Granville Street, Suite 1818
Vancouver, British Columbia V6C 1L3

International Commercial Bank of Cathay (Canada)
150 York Street, Suite 910
Toronto, Ontario M5H 3S5

Israel Discount Bank of Canada
150 Bloor Street West, Suite M100
Toronto, Ontario M5S 2Y5

Bank Leumi le-Israel (Canada)
3055 Bathurst Street, 2nd Floor
Toronto, Ontario M6B 3B7

Mellon Bank Canada
1 First Canadian Place, Suite 6400
Toronto, Ontario M5X 1A4

Mitsubishi Bank of Canada
Commerce Court West, Suite 2300
Toronto, Ontario M5L 1A1

Morgan Bank of Canada
Royal Bank Plaza, S Tower, Suite 2250
Toronto, Ontario M5J 2J2

National Bank of Detroit, Canada
Royal Bank Plaza, N Tower, Suite 895
Toronto, Ontario M5J 2J3

Banque Nationale de Paris (Canada)
1981 McGill College Ave., Suite 100
Montreal, Quebec H3A 2W8

Paribas Bank of Canada
2 First Canadian Place, Suite 2520
Toronto, Ontario M5X 1E3

Sanwa Bank Canada
Commerce Court West, Suite 3950
Toronto, Ontario M5L 1G3

Société Générale (Canada)
1155 University Street, Suite 1100
Montreal, Quebec H3B 3A7

State Bank of India (Canada)
Royal Bank Plaza, N Tower, Suite 401
Toronto, Ontario M5J 2J2

Standard Chartered Bank of Canada
55 University Avenue, 14th Floor
Toronto, Ontario M5J 2H7

The Bank of Tokyo Canada
Royal Bank Plaza, S Tower, Suite 2160
Toronto, Ontario M5J 2J1

Manufacturers Hanover Bank of Canada
20 Queen Street West, Suite 3400
Toronto, Ontario M5H 3R3

Midland Bank Canada
2 First Canadian Place, Suite 1100
Toronto, Ontario M5X 1E3

The Mitsui Bank of Canada
2 First Canadian Place, Suite 2531
Toronto, Ontario M5X 1E3

National Bank of Greece (Canada)
852 Jean Talon Street West
Montreal, Quebec H3N 1S4

National Westminster Bank of Canada
Royal Bank Plaza, S Tower, Suite 2060
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Banca Nazionale del Lavoro of Canada
1 First Canadian Place, Suite 6965
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Republic National Bank of New York (Canada)
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Security Pacific Bank of Canada
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Swiss Bank Corporation (Canada)
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Union Bank of Switzerland (Canada)
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