

FOREIGN INVESTMENT REVIEW

A quarterly journal on
investment conditions in **CANADA**

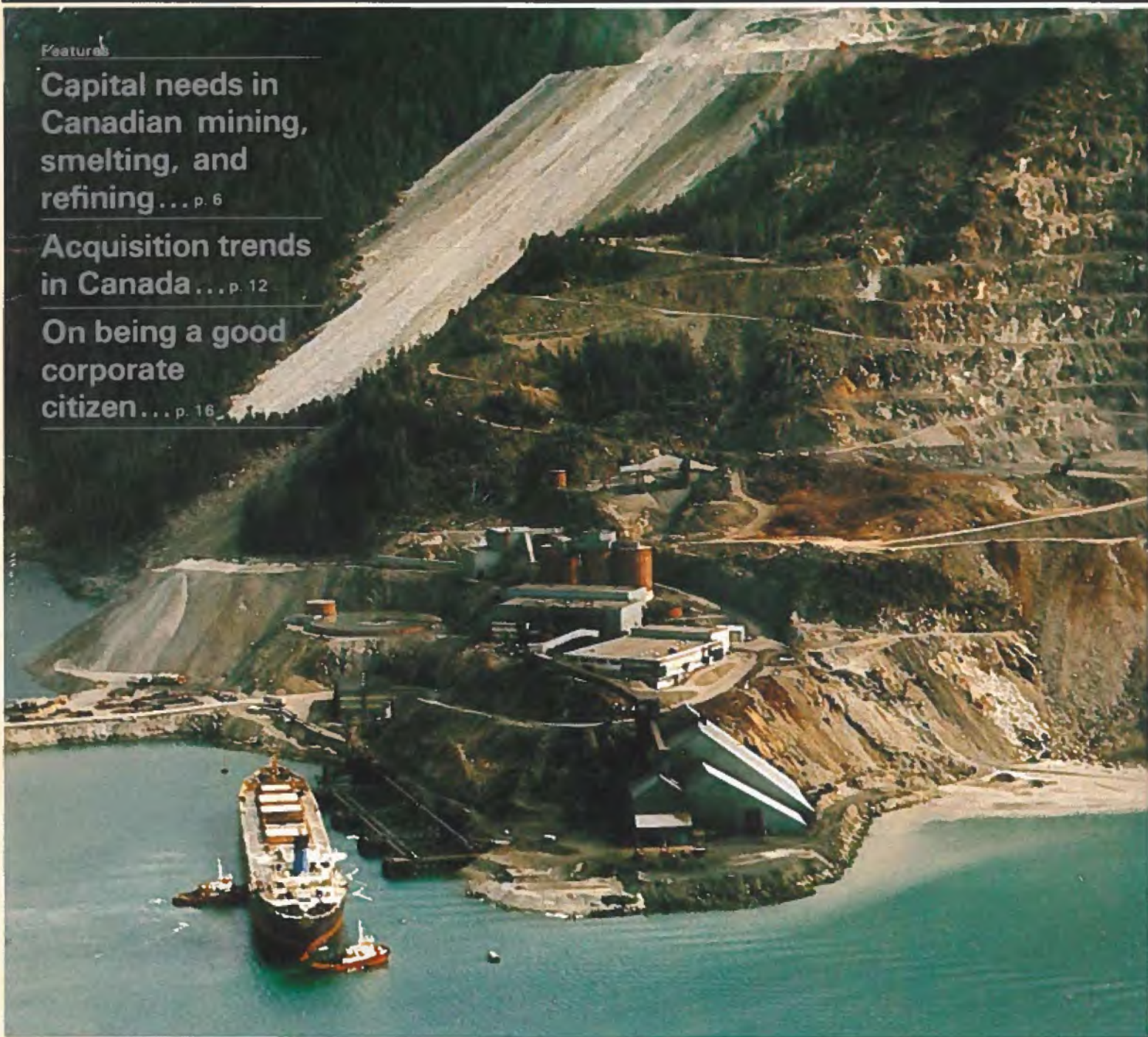
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FOREIGN INVESTMENT REVIEW

Foreign Investment REVIEW

a quarterly journal on investment conditions
in Canada

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Cover

Aerial view of the Falconbridge works in the Queen Charlotte Islands, British Columbia.
Photo: Falconbridge



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FOREWORD



Jean Chrétien, Minister responsible for the Foreign Investment Review Act

Despite all that has been said and written it is evident that there is still a good deal of uncertainty and confusion about the Foreign Investment Review Act.

Let me stress, at the outset, a point that has been made repeatedly by Ministers since the Act was first introduced. As a matter of policy, Canada welcomes foreign investment generally speaking. We know that we need a great deal of new investment to develop our national economic potential. We also know that we will not in the foreseeable future be able to meet all our needs for new capital, technology, etc., from our own resources.

It is very reasonable to ask why, if that is so, Canada has put in place a foreign investment review process. If foreign investment is desirable and welcome, why screen it?

Perhaps I can best explain by citing a parallel. It is well known that Canada has traditionally followed a very liberal immigration policy. We continue to do so,

relatively to others. Nevertheless, like all other countries we reserve the right to screen would-be immigrants individually so as to assure ourselves that, if admitted, they will likely fit into Canadian society and contribute in some way to our further development. There is no inconsistency that I can see between a generally liberal immigration policy and the existence of a process designed to ensure that entry in individual cases will be of benefit to the country — that for example, entry will not take place in circumstances where the immigrant would not be able to find work for which he is qualified, or if he did, would simply displace someone already employed.

By law every investment that is reviewable under the Foreign Investment Review Act must be assessed by the Government for "significant benefit to Canada." Those that are judged to meet that test are allowed. By far the greatest proportion have met the test and have been allowed and I expect that to continue. Because the Government chose, very deliberately, and for good reasons, to adopt a flexible, case-by-case, approach it is for the most part not possible to prescribe in advance, pre-conditions of allowance, either generally or in relation to particular circumstances.

The main purpose of this periodical is to provide, in the current and subsequent issues, especially to potential investors in Canadian business, some further insight into the principles and the policy framework surrounding the administration of the Act. I firmly believe that better insight will remove any impression that the review process is designed, or is being applied, to "block" foreign investment in Canada.

Jean Chrétien
Minister responsible for the
Foreign Investment Review Act

News briefs

THE ECONOMY

Budgets encourage capital investment

Measures contained in Canada's most recent federal and provincial budgets continue in the direction of encouraging investment and business confidence. The finance ministers of the provinces of Ontario and Quebec in particular have presented budgets conducive to promoting a favorable investment climate. Another major feature of the federal and provincial budgets is an expressed intention to retain tight control over government spending and to restrict government demands on the capital market.

At the federal level, Finance Minister Donald Macdonald introduced several fiscal measures designed to stimulate foreign investment in Canada — particularly, large long-term investments.

Some of the measures include:

- An extension of the 5% investment tax credit for another three years. In addition, the tax credits will be extended to cover expenditures on scientific research and development;
- An increase in the tax credits on investment in slower growth regions of Canada — a 7½% credit for investments in Saskatchewan, Manitoba, Northern Ontario and designated regions of Quebec other than the Gaspé region and a 10% tax credit for investments in the Gaspé region and the four Atlantic provinces — New Brunswick, Nova Scotia, Newfoundland, and Prince Edward Island;
- An increase in the dividend tax credit to 50% from 33⅓% on January 1, 1978;
- A deduction of 3% of the opening value of qualifying inventories in calculating business income each year for incorporated and unincorporated businesses. This measure is designed to minimize the distortion of business income from inventory inflation;
- A simplification of fiscal regulations pertaining to corporate expansion and reorganizations.

These budgetary measures represent a tax relief to the business community of approximately \$660 million for fiscal year 1977-78.

The provincial finance ministers seemed to follow the federal government's lead in presenting austerity budgets designed to restrict government expenditures and encourage investment. In this way, the finance ministers of Quebec and Ontario in particular, attempted to reduce their budgetary deficits and their reliance on borrowings.

Ontario's finance minister Darcy McKeough greatly modified the province's controversial 20% tax on land sold to non-Canadians by limiting the tax to the purchase of agricultural and recreational land and removing it from commercial land. In addition, he presented several measures designed to stimulate small and medium-sized businesses.

Quebec's finance minister Jacques Parizeau also favored small and medium-sized businesses by introducing an industrial incentive program known as "the fund for industrial recovery." Under the new plan, a company can set aside up to 50% of its provincial corporate tax to be drawn out within five years to finance up to 25% of the cost of approved industrial investments.

Optimistic forecast by Conference Board

The president of the Conference Board in Canada, Robert René de Cotret, says he is "guardedly optimistic" that real growth of the Canadian economy will amount to between 5% and 6% in 1978. The Conference Board predicts growth of only 3% for the present year.

Mr. René de Cotret predicted that growth would accelerate next year owing to an underlying improvement in government and business relations and the clarification of the economic environment after the government has made some major decisions.

Among the decisions he predicts will affect the economy is includes a decision to build a northern pipeline, a post wage-and-price-controls policy, a report by the Royal Commission on Corporate Concentration and the tabling of a new competition bill.

The Conference Board, an independent non-profit business research organization, also forecasts that the Canadian consumer price index will increase by between 6% and 7% next year, that corporate profits will expand by 15% or 20% during the same period and that unemployment will gradually decline.

Mr. René de Cotret remarked that recently the Canadian government has seemed much more receptive to ideas and consultation with business and that government seems to be actively searching for solutions to Canada's economic problems.

The Conference Board president also pointed out that corporate profits in Canada are improving and the position of business is strengthening which he says will lead to an upturn in real capital spending by the middle of 1978.

Canada's merchandise trade surplus will increase to between \$2.5 billion and \$3 billion this year and next, he said, and Canada will borrow \$5.5 billion abroad this year. He predicted a continuation of Canada's large balance of payments deficit on a current account basis but he said there would be no problems financing it because Canada is still investment-worthy and a capital account surplus will cover the deficit.

ENERGY

Government report estimates capital needs

Investment totalling between \$170 billion and \$180 billion will be needed in the next 15 years to assure the production and delivery of adequate energy supplies for Canada, according to a document entitled *An Energy Policy for Canada*, prepared by Canada's federal department of energy, mines, and resources.

The document is a discussion paper designed to present the likely evolution of financial requirements to provide adequate energy supplies for Canada. According to one of the predictions, capital investments of between \$90 billion and \$130 billion will be needed for the generation, transportation, and distribution of electricity in the next 15 years. The magnitude of such demands for capital are bound to cause some strains on capital markets, the report notes.

Nevertheless, the authors of the report are confident that the setting of an appropriate price for energy, the rational use of domestic capital markets — and in the case of hydroelectricity, a reliance on foreign loan markets — will permit the amassing of sufficient capital to assure Canada's domestic requirements. The authors of the report also believe that capital for the construction of northern pipelines will require massive inputs of foreign capital.

News briefs

In accord with its policy of attaining energy self-sufficiency for Canada, the minister of energy, mines and resources, Alistair Gillespie, has announced an increase on the tariff on Canadian petroleum and natural gas. As part of the federal budget, Finance Minister Donald Macdonald announced tax incentives to encourage exploration for oil and natural gas in Canada's frontier areas.

In its proposed energy strategy for the next 10 years, the Canadian government has committed itself to increased Canadian participation in resource development. Its vision of future capital requirements in the energy sector suggests Canada is likely to remain reliant on foreign capital.

Bank executive estimates capital needs

An executive of one of Canada's largest banks says that despite the need for large amounts of capital to develop Canada's energy resources, he believes the Canadian economy is capable of generating most of the financial capital required to fulfil foreseeable investment requirements.

Doug Peters, vice-president (finance) of the Toronto-Dominion Bank, in an appearance before the House of Commons standing committee on national resources and public works said Canada's investment expenditures are expected to total \$182 billion or 26.5% of the gross national expenditure by 1990. He also predicted that it will be possible to generate \$174 billion of domestic savings and that \$7.5 billion of net capital inflows will be necessary every year until 1990 to finance Canada's energy needs.

This net import of capital, according to Mr. Peters, is not an alarming amount and would represent only a little more than 1% of the gross national product by 1990 whereas the average net foreign capital inflow has averaged approximately 1.5% of the gross national product in the postwar period.

The Toronto-Dominion Bank estimates for the current year indicate \$41.5 billion of domestic savings and \$4.3 billion of foreign savings for new capital projects are currently flowing through Canadian capital markets or Canadian financial intermediaries. Foreign investment in Canada as estimated by the bank will increase to \$5 billion a year by 1983.

According to Mr. Peters, energy will become the keystone of Canada's economic survival in addition to stimulating industrial

development across Canada. He estimated capital spending by the non-energy industrial sector will rise at an annual average compound rate of 12.3% over the next 12 years, to reach approximately \$78 billion by 1990.

LABOUR

Government programs for industrial relations

A 14-point program designed to improve Canada's labour relations system has been announced by Canada's federal labour minister, John Munro. The main purpose of the program is to foster more harmonious relations between labour and management so that the number of strikes, lockouts and other industrial disputes will be reduced.

The three major aims of the program are:

- To improve the work environment by removing from the bargaining arena as many contentious issues as possible in the field of health, safety, and job enrichment;
- To improve the process of collective bargaining by strengthening its legal framework, improving its services and speeding up procedures through promoting broader-based bargaining, amending the Canada Labour Code, and improving conciliation, mediation, and arbitration services;
- To improve the structure and operation of the labour relations system through such measures as the creation of a national consultative multipartite forum where representatives from labour, business, government, consumers, farmers and other groups could try to help solve common problems. In addition, there are plans for the creation of a collective bargaining information centre to supply data for collective bargaining purposes to both labour and management.

BANKING

Reforms to Canada's Bank Act proposed

Affiliates of foreign banks who have some influence on banking activities in Canada may be recognized in Canadian federal law and be accorded a role in Canada's banking system, according to proposals made by Canada's finance minister, Donald Macdonald.

Under the proposed changes to the Canadian Bank Act, every subsidiary of a foreign bank which grants loans and receives deposits would be obliged to organize itself as a bank under Canadian regulations. Subsidiaries of foreign banks operating in Canada would be accorded a role in the Canadian banking system which would recognize them as important competitors while ensuring the Canadian banking system remains predominantly Canadian-owned and managed.

Foreign-owned banks have been increasing their activities in Canada since the last revision of the Bank Act in 1967, primarily as financial affiliates incorporated under provincial company laws. There are about 120 Canadian corporations in which foreign banks have an equity interest and which are engaged in financial activities. Approximately half these non-Canadian banks are controlled by interests in the United States and the vast majority of the remainder are owned by interests in countries belonging to the European Economic Community.

More than 40 foreign-owned banks currently have representative offices in Canada — more than half of which do not appear to have any investments in Canadian financial corporations. These representative offices do not tend to carry on any business in Canada but are to help establish business contacts and keep informed on economic and financial developments.

TAX REGULATIONS

New Canada-U.S. agreement

A working tax arrangement between Canada's national revenue department and the United States internal revenue service has been formalized and has the purpose of permitting simultaneous examinations of the income tax returns of multinational corporations obliged to pay taxes in both Canada and the United States.

Under the program, tax officials in each country examine the company. Before the audit begins, officials from both countries plan and co-ordinate the examination. Information is then exchanged in accord with the tax treaty provisions.

The exchange of information between the treaty partners ensures co-ordination in the tax treatment of business firms and individuals with activities in more than one

country. Confidentiality of the taxpayer information thus exchanged is protected under specific treaty terms.

In addition, some of the information obtained under the exchange program will be assimilated with other kinds of data from sources in Canada and is to be used in connection with industry studies on topics such as pricing patterns.

FIRA

Procedures simplified for small investments

Important changes in the administration of Canada's Foreign Investment Review Act intended to minimize the administrative burden on applicants to the Foreign Investment Review Agency (FIRA) have been announced.

The major change, according to the minister responsible for the administration of the act, Jean Chrétien, affects the take-over or establishment of a new business involving less than \$2 million in gross assets and fewer than 100 employees. The new regulations permit investors in such relatively small enterprises to give FIRA initial notice of such intention in summary form.

Under the new procedure, the minister responsible for the administration of the act examines the summary proposal and decides whether the information is sufficient to recommend to cabinet that the investment be allowed. The majority of such applications will be processed within 10 days if no further information is required. This change also allows FIRA to direct more of its resources to the assessment of larger and more complex investments.

At the same time, Mr. Chrétien announced the first amendment to the previously-issued "Guidelines Concerning Related Business." The amendment recognizes that there may often be relatedness between an established business in Canada which is engaged in the importation and distribution of proprietary products manufactured abroad by an affiliate and the establishment by the same person or persons of a new business to assemble or manufacture those products in Canada.

Where a new business is — or would be — related to an established business carried on by that same person in Canada the establishment of the new business is not reviewable under the Foreign Investment Review Act.

BUSINESS

Small business programs encouraged

Canadian federal and provincial governments have increasingly supported the establishment and growth of medium and small businesses. A feature of this policy has been government fostering of "industrial parks" particularly in areas of slower economic growth.

One recent example is the industrial development strategy of Canada's smallest province, Prince Edward Island. Recognizing that its small size and population of only 119,000 will not attract or support large-scale industry, P.E.I. is looking to small manufacturing industries to balance its traditional reliance on agriculture and fishing.

With the assistance of the federal Department of Regional Economic Expansion, the province is developing two fully serviced industrial parks — one in Charlottetown and one in Summerside. A feature of one of the industrial parks is an industrial mall building containing 12 self-contained units, each with an office, display room, production space and shipping area. In its first year of operation the building is fully occupied and the companies within it have generated 62 new jobs, \$400,000 in wages and almost \$4 million in sales. Larger industries are starting to locate in the surrounding industrial park.

REGIONAL DISPARITY

Economic Council study

The Economic Council of Canada has recently published the results of a major review of regional disparities in Canada. The study, entitled *Living Together — A Study of Regional Disparities*, presents evidence that the goal of balanced regional growth still eludes Canada.

Nevertheless, the council says that there is some indication that national policies such as equalization payments, worker migration assistance, and programs of the Department of Regional Economic Expansion have been helpful in reducing disparities. Such policies, according to the council, have contributed to a slight, though uneven, reduction in disparities in income and employment rates.

While the council found it impossible to measure the result of all types of programs, it

showed that location incentives to industry have been a useful tool because the value of jobs created have exceeded the cost of locating production uneconomically.

The study also suggests some new avenues for government policy including urging measures to raise productivity levels in low income areas through raising education standards, encouraging the adoption of improved technology and fostering more economically efficient urban centres.

The other major thrust of the council's recommendations concerned measures to combat unemployment. The council urged the adoption of appropriate fiscal remedies on the part of provincial governments, supported by more regionally sensitive federal fiscal policy.

PIPELINE

Canada favors Alaska Highway route

Following studies of two proposed overland routes for transmitting Alaskan natural gas to United States markets, the Canadian government decided to back the Alaska Highway route. Negotiations now are in progress with the United States. This pipeline would cross Alaska, follow the Alaska-Canada highway through the Yukon and Alberta, then cross Saskatchewan to the United States.

Subsequently, a subsidiary line might be attached to bring Canadian gas from the Mackenzie River delta through the same system.

The alternative overland route through the Mackenzie Valley, which had been backed by some of the major gas shippers, was rejected by Canada's National Energy Board as presenting greater hazards to the natural environment and to the native peoples of the northern regions.

Final approval of the Alaska Highway pipeline will depend on the outcome of negotiations with the United States government and with participating companies about specific routing, environmental and social costs, and financing. The United States also has the option of a more costly alternative — shipping liquified gas from Alaska to U.S. ports.

If the pipeline negotiations between Canada and the United States succeed, construction may nevertheless not begin until 1981, giving time for careful analysis of environmental problems and settlement of the native peoples' land claims.

Features

Capital needs in Canadian mining, smelting, and refining

by G. S. Barry and G. E. Wood

The magnitude of the total capital need in Canada's major non-fuel mining, smelting, and refining industries — here estimated at over \$88 billion (in 1976 dollars) for the 25 years to the year 2000 — poses an enormous challenge to the mineral industries, to governments, and to the capital markets. When viewed along with the capital needs of other sectors of the Canadian economy — such as energy — large questions loom regarding the availability of capital and the mechanisms by which capital will be allocated. This article is not intended to answer the larger questions, but does try to supply one of the key elements towards estimating the total capital needs of the Canadian economy.

Estimates of capital needs in Canadian mining, smelting, and refining must start, of course, with projections of world demand and Canada's share in meeting that demand. Projections of that kind were published in 1974 by the Department of Energy, Mines and Resources in the paper *Towards a Mineral Policy for Canada — Opportunities for Choice*. This article updates those projections in the light of recent developments.

...sufficient exploration and development will thrive only if governments and investors take a positive approach

It also makes estimates of costs and capital expenditures. Our methods of doing so are necessarily complex. They involve, for example, assumptions about capacity growth, costs of new and replacement capacity, rates of depletion and depreciation of mines and plants, and costs of exploration and infrastructure.

Our projections of world demand to the year 2000 are, on the whole, somewhat lower than those published in 1974. This accords with the widespread feeling nowadays that world economic growth is apt to be less vigorous in the future than was expected a few years ago. Our estimates of Canada's share of world production to the year 2000 are roughly the same as those published in 1974, except for nickel, where we have made a distinct downward revision.

We are, by contemporary standards, optimistic. We believe our optimism is well grounded in the latest evidence. The most recent studies have shown, for example, that Canada's mineral resources are sufficiently

extensive to permit the production levels estimated in the present article to be achieved. (See, for example, Department of Energy, Mines and Resources, *Metal Mining in Canada, 1976-2000*, Mineral Bulletin MR 167, 1976.) This will entail considerable expansion. We are aware that sufficient exploration and development will thrive only if governments and investors take a positive approach. If world demand escalates to the extent we project, yet Canada's production share fails — despite physical attainability — to reach the levels we have projected, the country will not have achieved the full range of opportunities and benefits available.

We emphasize that we are not making "forecasts." We are offering "projections." These are simply the outcomes of what we believe to be reasonable assumptions.

...the replacement and repair costs are... greater than the costs of additional capacity

For copper, world mine production is here projected to increase by roughly 3% a year between 1975 and 2000. We expect that Canada will continue to account for over 9% of newly mined world supply.

For zinc, world production is projected to increase at about 3.5% annually, with Canada's share continuing at roughly 25%.

For lead, the growth rate projected for world mine production is somewhat under 2.5% annually. Canada is likely to continue to account for roughly 14% of world mine production.

For nickel, world production is projected to increase at about 5% annually. Most of the major increases in production are expected to come from tropical or semi-tropical countries with lateritic ores rather than from countries — such as Canada, Australia, and the African countries — where production is based mainly on sulphide ores. Nickel from the ocean floor is also expected to become a significant new source of supply. Although Canada's share of world nickel production is expected to decline, we are likely to continue to be the world's leading supplier.

The predominant ore source of aluminum — bauxite — is not found in Canada in economic deposits. However, with the availability of abundant hydro-electric power, Canada has been an important world supplier of aluminum, accounting for roughly 7% of

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the total world production of primary aluminum. We project that, between 1975 and 2000, Canada's production capacity will increase more than 40%.

For iron ore, world production is projected to increase by roughly 4.5% annually to the year 2000. Canadian production, which accounted for 5% of the world total in 1975, is expected to grow at about 2% annually.

Costs of exploration for minerals have, in the past, had a consistent relationship with values of mineral production. Our projections — shown in Table 1 — assume that these historical relationships will continue to prevail.

An important characteristic of Canadian nonferrous metal mines is the co-production of metals. For example, out of a total of more than 90 copper mines operating in Canada in 1974, 66 produced significant amounts of other nonferrous metals in addition to copper. It could be misleading, therefore, to state the unit cost of new nonferrous metal mining capacity in Canada for any single metal separately. In projecting the capital cost of future additions to mining capacity, the fact of extensive co-production of nonferrous metals must be taken into account. The method used here includes the assumption that, for nonferrous metals where co-production has been common, the various metals will continue to be produced in Canada in the same proportions as they were in 1974.

The most recent studies have shown... that Canada's mineral resources are sufficiently extensive to permit the production levels estimated in the present article to be achieved

In the capital costs estimated here for mines and concentrators and shown in Table 2, the per-unit-of-capacity costs are based on data contained in a series of studies — on copper (MR 149) and zinc (MR 159) — published in 1977 by the Mineral Development Sector of the Department of Energy, Mines and Resources.

As shown in Table 2, mine development costs for copper, zinc and lead are estimated to total \$7,955 million for the 25-year period, while development costs for nickel mines are estimated at \$525 million. On a per tonne basis (a "tonne" is a metric ton), the costs associated with the development of iron ore mines are well below those for the nonferrous metals. However, the large increase in production expected for iron ore mines brings total development costs for these mines to \$4,140 million.

TABLE 1

EXPLORATION COSTS 1976-2000

	Exploration as percent of value of production (%)	Total exploration costs (const. 1976 \$ mil.)
Nonferrous metals		
Copper	4	2,200
Zinc	5	1,200
Lead	5	60
Nickel	5	500
Other	-	400
		4,360
Iron ore	"on-property" exploration	400
		4,760

TABLE 2

NEW DEVELOPMENT COSTS — MINES

	Annual tonnes (000)		Cost per unit of increase in capacity	Total cost 1976-2000 (const. 1976 \$ mil.)
	Production 1975	Capacity 2000		
Nonferrous metals				
Copper	820	1,811	\$17,850 per daily tonne of mine/mill capacity	7,955
Zinc	1,300	2,500		
Lead	380	590		
Nickel	330	410	\$6,600 per annual tonne of metal producing capacity	525
Iron ore	67,300	113,290	\$90 per annual tonne of metal producing capacity	4,140
				12,620

TABLE 3

NEW DEVELOPMENT COSTS — SMELTERS, REFINERIES, AND STEEL PLANTS

	Capacity (annual) (000 tonnes)		Cost per tonne of increase in capacity (\$)	Total cost 1976-2000 (const. 1976 \$ mil.)
	1975	2000		
Nonferrous metals				
Copper	560	1,344	1,800	1,410
Zinc	700	1,500	1,350	1,080
Lead	225	385	1,000	160
Nickel	313	390	7,000	540
Aluminum	1,100	1,545	3,000	1,330
Other non-ferrous metals	-	-	-	450
Steel plants	17,055	35,290	500	9,120
				14,090

The problems raised by co-production in the estimating of capital costs for nonferrous metals do not extend beyond the mining-concentrating stage. In nonferrous metal smelting and refining, the capital cost estimates for new capacity are based on established costs for these facilities for each individual metal.

Capital costs for new smelters, refineries, and steel plants are estimated — as shown in Table 3 — to total \$14,090 million between 1975 and 2000. The largest portion of these costs is for steel plants. Within the nonferrous sector, the heaviest expenditures are for copper (\$1,410 million) and aluminum (\$1,330 million).

The third main type of capital cost (after exploration and new mine development) is replacement and repair. Our assumption is that mines producing copper, zinc, lead, precious metals and other nonferrous metals will be completely replaced, on the average, every 18 years. Nickel mines are assumed to be replaced every 20 years. Replacement and repair costs from 1976 to 2000 are estimated at \$14,830 million for nonferrous metal mines other than nickel and at \$2,975 million for nickel mines.

In the ferrous metal sector, replacement and repair expenditures in 1973-74 amounted to \$3.02 (1975 dollars) per tonne of ore shipped. Using this figure, plus



A worker wearing special safety clothing hand pokes the crust of an aluminium reduction cell (Soderberg pot) at the Alcan Aluminium Ltd. works in Arvida, Quebec. Photo: Alcan

TABLE 4

REPLACEMENT COSTS — NONFERROUS METAL SMELTERS AND REFINERIES

	Average annual capacity 1976-2000 (000 tonnes)	Cost per tonne of annual capacity (\$)	Total cost 1976-2000 (const. 1976 \$ mil.)
Copper	955	1,800	1,710
Zinc	1,100	1,350	1,495
Lead	305	1,000	305
Nickel	351	7,000	2,460
Aluminum	1,320	3,000	3,970
Other nonferrous metals			980
			10,920

TABLE 5

TOTAL CAPITAL NEEDS IN CANADIAN MINING, SMELTING, AND REFINING

(millions of constant 1976 dollars)	Nonferrous metals	Iron and steel	Total
Exploration	4,360	400	4,760
New development			
Mines	8,480	4,140	12,620
Smelters and steel plants	4,970	9,120	14,090
	13,450	13,260	26,710
Replacement and repair			
Mines	17,805	5,800	23,605
Smelters, refineries, and steel plants	10,920	12,540	23,460
	28,725	18,340	47,065
Infrastructure	5,000	5,000	10,000
	51,535	37,000	88,535

estimates that annual capacity of iron ore mines will average 90.3 million tonnes and that the mines will operate at 85% of capacity on the average, we estimate that total replacement and repair expenditures for iron ore mines will amount to \$5,800 million over the 25-year period.

Replacement and repair costs for nonferrous metal smelters and refineries are expected to total \$10,920 million from 1976 to 2000, as shown in Table 4.

One of our assumptions is that smelter capacity will be replaced, on the average, every 25 years. Another is that costs of replacement capacity, on an annual tonne basis, will be similar to costs of new capacity. With a 25-year replacement cycle, it would be necessary to replace, over the full period, capacity equal to the average installed capacity for the 25-year period. Total replacement and repair costs for nonferrous metal smelters are estimated at \$10,920 million for the full period, with the largest single expenditure (\$3,970 million) in the aluminum industry.

For steel plants, replacement and repair expenditures in 1960-73 averaged \$19.16 (1975 dollars) per annual tonne of steel plant capacity. Using this figure, plus the estimate that annual capacity of steel plants between 1975 and 2000 will average 26.2 million tonnes, we estimate that total replacement and repair expenditures for steel

plants over the full period will amount to \$12,540 million.

Our estimates of expenditures for infrastructure — including roads, railroads, bridges, airports, sea ports, town sites, recreational facilities and communication networks — are merely our informed guesses. For ferrous metals, the estimate includes possible expenditures for export-oriented steel complexes on the East and West Coasts, plus rail facilities and town-site costs for iron ore production in Northern Ontario. In total, infrastructure costs are estimated at \$10,000 million for the 25-year period.

Total capital needs in Canada's major non-fuel mining industries for the period 1976-2000 — for exploration, new mines, and refineries, replacement and repair of installed capacity, and infrastructure — are shown in Table 5. They amount to over \$88 billion.

Total capital needs for exploration are estimated at \$4,760 million with the bulk (\$4,360 million) in the nonferrous metals sector. Capital needs for development of new mines, smelters, refineries, and steel plants are estimated at \$26,710 million, with about equal portions in the ferrous and nonferrous sectors.

A possibly surprising feature of the estimates is that, under the assumptions used, the replacement and repair costs

(\$47,065 million) are so much greater than the costs of additional capacity (\$26,710 million).

As indicated earlier, the total capital likely to be needed in Canada's non-fuel mining, smelting, and refining industries poses an enormous challenge to the mineral industries, to governments, and to the capital markets. In physical terms, Canada's mineral resources are sufficiently extensive, according to the most recent studies, to permit attainment of the production levels estimated in the present article. But a considerable amount of exploration and capacity expansion is implied, and we realize that these activities will flourish only if governments and investors take a positive approach. We are confident that they will — because a wide range of physically attainable benefits will otherwise not be fully achieved.

The study, Towards a Mineral Policy for Canada — Opportunities for Choice, cited in this article is available free of charge by writing to: Publications Distribution, Minerals Development Sector, Department of Energy, Mines and Resources, 580 Booth St., Ottawa, Canada K1A 0E4

The study on copper (MR 149), the study on zinc (MR 159), and the study entitled Metal Mining in Canada, 1976-2000 (MR 167), cited in this article are available for \$2 each. Please send cheque or money order together with the title and number of the publication to: Publishing Centre, Department of Supply and Services, 270 Albert St., Ottawa, Canada K1A 0S9.



Top left: The Inco Ltd. Birchtree Mine and headframe with the Thompson smelter in background.
Photo: George Hunter

Middle left: An aerial view of Alcan Aluminium Ltd. smelter at Kitimat, British Columbia.
Photo: Alcan

Bottom left: Aerial view of the Alcan Aluminium Ltd. works at Arvida, Quebec.
Photo: Alcan

Top right: City of Thompson, Manitoba, home of a major Inco Ltd. installation.
Photo: George Hunter

Bottom right: An aerial view of the Texasgulf copper, zinc, lead and silver open pit works at the Kidd Creek mine in Timmins, Ontario.
Photo: Herb Nott



Personal notes on the review process

by Gorse Howarth

Looking back over three and a half years of administering the Foreign Investment Review Act, I am struck, first, by the extent of the educational process we have undergone. The old maxim that "administration clarifies legislation" was never more true.

Not that everything has now been clarified; far from it! For one thing, the statute includes a number of concepts — such as "control" of a corporation, "establishment" of a business — which at first sight seem straightforward enough but are occasionally not easy to apply, properly and equitably, in individual cases. Section 3, in particular, contains a number of long and complex passages which define certain terms and concepts bearing on the question as to which investments are reviewable and which are not. Suffice it to say that many lawyers find this section difficult to read, comprehend and interpret.

Yet, although matters of this kind account for page after page of the text of the Act, the underlying intent and processes are simple enough. With certain minor exceptions for very small businesses, any acquisition of control of a Canadian business by non-Canadians has to be reviewed by the Government. And any establishment by a non-Canadian of a new business which is not related to any existing business being carried on by that person is reviewable, without exception. In the great majority of cases it is clear enough whether the investment is reviewable or not. The investor usually knows, without studying the definitions, whether he is a Canadian or non-Canadian and, if non-Canadian, whether or not he is acquiring control of a Canadian business or establishing a new and unrelated business. Only a minority of situations need to be examined more closely, against the definitions and the precise wording of the statute.

Thus the really important question, in most cases, is not so much whether the transaction is reviewable or not but rather, given that it is reviewable whether it is likely to be of "significant benefit to Canada". If the Government concludes that significant benefit is likely the transaction must be allowed; if not it must be disallowed.

Fortunately the statutory rules for establishing whether there is likely to be significant benefit are far more straightforward and concise than those for establishing reviewability or non-reviewability in doubtful cases. The significant benefit rules are set out in Section 2 and more particularly in subsection 2(2). It covers less than the equivalent of half a page in either English or French. Indeed, considering that this is, in a real sense, the heart and soul of the statute, it is perhaps a little anomalous that so little of the Act is devoted to it, while so much more of

the text deals with matters which are usually (though not always) of much lesser importance, to the investor and the Government alike — e.g. the question of reviewability, which I have already mentioned or the processes of "Investigations", where there is reason to believe there has been non-compliance, and the "Remedies", where non-compliance has been established. Up to the time of writing, at least, none of the Investigations or Remedies procedures has had to be invoked.

To get back to "significant benefit to Canada": it is perhaps worth noting two characteristics of the assessment criteria which Parliament prescribed and which are set out in subsection 2(2). In the first place the Government, in deciding whether or not there is significant benefit in a particular reviewable transaction, must take into account *all* those criteria (in so far as they are relevant and applicable to the particular transaction) and *only* those criteria. Secondly, there is no requirement, explicit or implicit, that in order for a transaction to be allowed, it must be shown to be beneficial by reference to each, or indeed to any particular one, of the criteria. To expect that an investment in, for example, a retailing business would or should result in increased Canadian exports, which is one of the stated criteria, would be absurd and clearly not what Parliament intended. Yet some investors have obviously been troubled, at the outset, on that score. We have had no hesitation in setting their minds at rest when we have detected their concern.

... the underlying intent and processes are simple enough

That leads me to one interesting aspect of the Foreign Investment Review Agency's role, as we see it and as it has developed. The Act requires, in the usual formal terms, that a person whose investment is reviewable file notice, in the prescribed form, of his intentions with a description of plans, etc. Sometimes this is exactly what happens and the first intimation we get is receipt of a completed notice. But increasingly there has developed a tendency, which we very much welcome, for investors to contact the Agency at an earlier stage, in a preliminary and less formal way, either to check out reviewability or to discuss their plans and the manner in which their plans can be most advantageously explained and described in a formal notice. Of course the Agency has no power itself to decide anything. Questions pertaining to reviewability would in the final analysis have to be settled by the courts. And significant benefit is a matter for Government Ministers to decide. Nevertheless with some experience now behind us, we can often be

Gorse Howarth is Commissioner of the Foreign Investment Review Agency.



Gorse Howarth, Commissioner, Foreign Investment Review Agency

helpful in saving time and trouble and expense, both to investors and to the Government. We believe that it is not at all inconsistent with the Agency's proper role to assist investors who are involved in reviewable transactions to make the best possible case for allowance. Clearly it is not to Canada's advantage that an investment with the potential for real benefit to Canada should be disallowed because the advantages were not made apparent, the plans were insufficiently precise, or the proposal embodied some undesirable feature which on reconsideration could have been eliminated or modified

... a tendency, which we very much welcome, for investors to contact the Agency at an earlier stage...

One sometimes detects signs of concern among investors lest their proposals become the subject of bickering between governments, with consequent confusion and delay. They have noted that provincial governments are consulted, and are entitled to express their views, on reviewable investments which affect them. In the last analysis, of course, it is the Canadian Government that makes the decision. But it is no secret that provincial governments' views carry a lot of weight and there is, without question, the potential for inter-governmental disagreement, argument and delay. Three and a half years ago that might have looked like a serious problem. But now we have a record and it is an encouraging one; good and effective working relations have been developed between the Agency and provincial departments and significant differences of view are indeed few and far between. And it should perhaps be mentioned, lest anyone conclude otherwise

... it is not at all inconsistent with the Agency's proper role to assist investors... to make the best possible case for allowance

from omission, that the processes of consultation on individual cases between the

Agency and other Federal Government departments or agencies which have a particular interest in or responsibility for the business sector to which an investment relates are no less satisfactory.

No one should think, however, that we are at all complacent. There remain some problems that are unresolved. One that is particularly vexing is the issue of confidentiality versus disclosure of information. When an investor files notice of his intentions, and in any discussions that may occur later, he usually, if not invariably, imparts to the Government a good deal of highly confidential information regarding his plans and intentions which he has a right to expect will not become known, prematurely at least, to others, notably potential competitors. Recognizing this, Parliament prescribed that all information obtained in connection with a proposal is to be regarded as "privileged". There are penalties for unauthorized disclosure.

But one consequence — and an unfortunate one — is the impression, which inevitably follows, that the administration of the Act is being carried out behind a veil of secrecy. It is complained that no one, other than the Government and the investor, knows the factual basis on which the Government made its decision (unless, of course, the investor himself chooses to make the details known). More specifically, there is the objection that subsequent applicants or potential applicants are thus deprived of a useful framework of reference by which to judge the likely acceptability or otherwise of their proposals. This dilemma — openness for the general good versus discretion in the use of confidential, private, information — has been with us for three and a half years and we certainly have not yet found any easy, painless solution.

... with some experience now behind us, we can often be helpful in saving time and trouble and expense...

Finally, we are well aware, from our discussions with individual businessmen — applicants and others — that much still needs to be done to make the legislation and its administration better understood. This periodical — the Foreign Investment REVIEW — is a further step in that direction.

ANNUAL REPORT 1976/77
ON THE ADMINISTRATION
OF THE CANADIAN
FOREIGN INVESTMENT
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Historical perspective on acquisition trends

by G. A. Edwards

A study prepared on behalf of the Foreign Investment Review Agency examines recent cycles in foreign acquisition activity in Canada and tries to throw light on the extraordinary boom that took place in such activity from 1968 to 1970. This boom had generally been regarded as simply another cycle, albeit a strong one. However, a review of the pattern of foreign acquisitions in Canada since the Second World War, and the relationships between this pattern and a number of likely determinants, does not yield a satisfactory explanation of the boom.

The study then examines longer-run factors in an effort to come up with a better answer and offers a few judgments on the implications for future trends in acquisition activity in Canada.

The 1968-70 boom, as well as other trends in foreign acquisition activity in Canada since the Second World War are shown in Chart 1. The chart also shows patterns of acquisition activity in the United States since the war. Clearly there is great similarity between the acquisition patterns in the two countries. It does not automatically follow that acquisition activity in the United States is a determinant — or the major determinant — of foreign acquisition activity in Canada, since it is possible that the two series are influenced separately by similar factors in each country.

Two Canadian economists, Grant Reuber and Frank Roseman, in their 1969 study for the Economic Council of Canada — *The Take-Over of Canadian Firms 1945-61* — demonstrated quite persuasively that foreign acquisition activity in Canada between 1945 and 1961 represented to a considerable extent a spillover of acquisition activity from the United States. In any event, regardless of the extent to which acquisition activity in the United States is a determinant of foreign acquisition activity in Canada, the question still remains as to what caused the extraordinary 1968-70 boom in both countries.

The patterns of acquisition activity since 1945 in the United States and foreign acquisition activity in Canada were first

examined in relation to three commonly used series of U.S. and Canadian economic indicators — stock prices, corporate profits after tax, and industrial production. Each of the three might be regarded as an indicator of the level of overall economic activity. Because of the interrelationship between them — such as the influence of corporate profits on stock prices — they cannot properly be regarded as truly independent indicators. It is probable that some form of multiple correlation exists, with the level of acquisition activity being affected by the combined influence of these and other indicators.

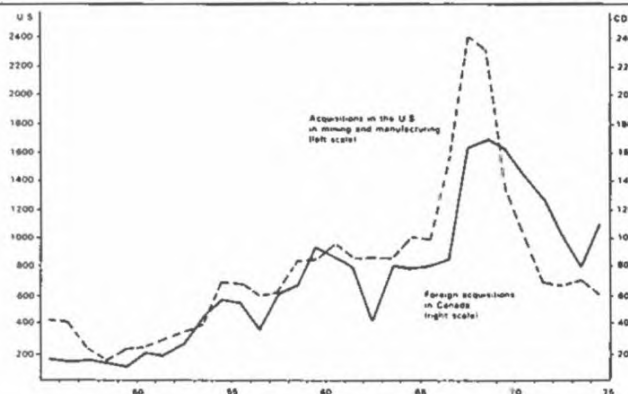
An analysis of these indicators suggests there is indeed a noticeable degree of correlation between the three series and acquisition activity in both Canada and the United States. The correlation is strongest with stock prices, somewhat weaker with after-tax profits, and weakest with industrial production. However, neither stock prices nor any of the additionally noted economic indicators can account for the boom in acquisition activity that took place in both Canada and the United States from 1968 to 1970. This would suggest that some other factor or combination of factors must have contributed. An understanding of what this other factor or factors might be would be helpful in determining whether another major boom in acquisition activity can be expected, and in any event, what the outlook is for future trends in acquisition activity.

Chart 2 shows the long-term pattern of acquisition activity in the United States since 1895. Since then there have been three periods in which acquisition activity rose sharply above the long-term trend, with peaks in 1899, 1929, and 1968. Each of the three booms displayed the following common features:

- a period of hyper-activity lasting up to two years;
- a peak in acquisition activity at or near a major peak in stock prices;
- a steep decline following the peak in acquisition activity;
- after the steep decline, a period during which acquisition activity exhibited a

CHART 1

ACQUISITION ACTIVITY IN THE UNITED STATES AND CANADA



G. A. Edwards is an economist with the industrial analysis division of the Foreign Investment Review Agency.

moderate cyclical pattern but remained well below the peak of the boom; and, the lack of an exceptional peak in production, commodity prices or overall business activity at the top of the acquisition cycle.

All three acquisition booms were accompanied by a rapidly rising stock market. However, there were other occasions when a rising stock market was not accompanied by an increase in acquisition activity. In 1916, 1951, and 1971 the stock market reached a new record level, but acquisition activity remained well below its previous peak. In other words, while a rapidly rising stock market seems to be a necessary component in any acquisition boom, some additional special factor or combination of factors also seems to be required to bring about this infrequent boom.

That factor or combination of factors seems, from analysis of the historical evidence, to have been the infrequent occurrence of an economic, technological, and financial environment in which there was exceptional justification and opportunity for the consolidation of business organizations. The phenomenon has included, in each of the three acquisition booms, the development of a new form of corporate structure, as well as major developments in the economic, technological and financial environment.

The first major wave of acquisition activity, in the late 1890s, came about upon completion of nationwide railway, telegraph, and telephone systems — which made it possible for companies to market their products nationally, rather than only regionally. During the same era, a national capital market had developed. The response of businessmen, in a number of industries, was the consolidation of numerous companies into single large corporations termed "trusts." The existence of a national capital market facilitated a marked increase in public trading of industrial securities, which supported the creation of the "trusts." An enormous number of mergers took place, with rapid expansion of such companies as Standard Oil, U.S. Steel, National Biscuit, and American Tobacco. Monthly trading volume on the New York Stock Exchange rose from 2.4 million shares in January 1897 to more than 24 million shares in January two years later. The number of acquisitions rose from 69 in 1897 to 1,208 in 1899.

In many respects this first boom in acquisition activity was the most impressive of the three. The absolute level of activity — 1,208 acquisitions in 1899 — was remarkable in view of the relatively modest size of the U.S. economy. In fact, the level of acquisition activity in 1899 has been exceeded only four times in the subsequent 77 years.

The second great acquisition boom, in the late 1920s, followed from increasingly widespread ownership of automobiles (which

broke down local monopolies) and radios (which permitted low cost, effective national advertising). During this period the boom in mergers was characterized by the creation of "holding companies" — firms whose sole purpose was to hold shares in other companies. By 1928 almost one-sixth of the companies listed on the New York Stock Exchange were "holding companies" such as General Mills and National Dairy Products. Statistics are not readily available for Canada, but examination of the history of a number of large Canadian corporations reveals that many made one or more acquisitions during the period.

The most recent acquisition boom, in the late 1960s, was characterized by the development of yet another new form of corporation, the "conglomerate." Postwar advances in the application of scientific management principles to large organizations, aided by increasing use of computers, fostered a belief that extremely diverse mixes of productive assets could be managed efficiently. The ability of conglomerates like International Telephone and Telegraph, Gulf and Western, and Litton Industries to acquire a large number of diverse companies was assisted by two other factors — flexible accounting rules and the aggressive money-management goals adopted by investment institutions.

The flexible accounting standards permitted conglomerates, amongst other things, to report exaggerated increases in earnings through the purchase of other companies by means of the issuance of equity-like financial instruments. These instruments, though equity-like, did not have to be taken into account in the calculation of earnings per share — that is, the earnings per share did not have to be reported on a "fully diluted" basis. During this period, professional money managers focused on companies whose earnings were rising the most rapidly — the conglomerates. The money managers, through their bidding, helped drive up conglomerate stock prices. This, in turn, helped the conglomerates to make further

acquisitions through advantageous exchanges of shares. The merger boom peaked in 1968, with the acquisition of 2,400 mining and manufacturing companies in the United States.

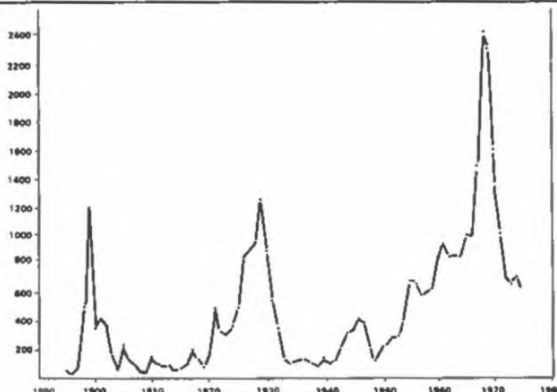
The acquisition activity of the U.S. conglomerates was reflected in the statistics on foreign acquisition activity in Canada in two ways. First, many U.S. conglomerates acquired Canadian-controlled firms as part of a fashionable strategy to expand internationally. Secondly, on the numerous occasions when conglomerates acquired U.S. or overseas companies that had subsidiaries in Canada, the transfer of control over the latter was included in the Canadian foreign acquisition data.

Conglomerate stock prices, and the level of acquisition activity, collapsed abruptly. The stock market declined in 1969, and conglomerate shares plummeted much more sharply than the market as a whole. Lower earnings and stock prices made it more difficult, and eventually impossible, for many conglomerates to continue making acquisitions. Accounting standards were strengthened, mainly through regulation, in the United States, and this helped to eliminate some of the worst abuses of conglomerate accounting and to make mergers less attractive. Other developments that contributed to making mergers less attractive were changes in disclosure requirements and tax regulations.

The historical pattern suggests that the recent lower levels of merger activity in the United States and foreign acquisition activity in Canada are apt to continue for many years. This is to say that acquisition activity has probably returned to what might be termed "normal" levels, well below the recent boom peak. The trend in foreign acquisition activity in Canada is apt to be mildly upward, with an irregular cyclical pattern — until some major economic development and some new form of corporate organization precipitate another acquisition boom. History suggests that it is not likely to occur (if ever) for another 20 or 30 years.

CHART 2

LONG TERM PATTERN OF ACQUISITION ACTIVITY IN THE UNITED STATES



Major Canadian tax incentives to investment

For the past several years the federal and provincial governments have been steadily building up a system of incentives designed to encourage business capital spending and investor confidence. This year's federal and provincial budgets, move in that direction. (See News briefs, p. 3.)

Many of the federal and provincial incentives take the form of special programs which provide grants, loans, forgivable loans, and loan guarantees. (See Incentives to industry, p. 22-24.)

Some of the major incentives to investment are provided for in provisions of the federal and provincial income tax laws rather than in the form of special programs. Below is an outline of the principal incentives offered in the federal income tax law.

For manufacturing and processing activities:

- A special rate of tax on profits from manufacturing and processing activities reduces the general rate on corporate profits 36% to 30%. Provincial corporate tax rates ranging from 10% to 15% are levied in addition to the applicable federal rate. Overall, the corporate tax rate on profits from manufacturing and processing activities ranges from 40% to 45%.
- Accelerated depreciation rates for new machinery and equipment for use in Canadian manufacturing or processing activities. Taxpayers may charge a 50% per year straight line rate of depreciation on the cost of such machinery and equipment — that is, write it off in two years.

For manufacturers, processors and certain other taxpayers:

- A 5% investment tax credit (which had been due to expire June 30, 1977) has been extended for another three years. New buildings, machinery, and equipment purchased up to July 1, 1980, will be covered. This credit is available as a direct reduction from federal tax payable — the cost of the asset to the taxpayer may be reduced by as much as 5%. The tax credit is limited in any one year to \$15,000 plus half the taxpayer's federal tax payable in excess of \$15,000. The balance of any unused credit may be carried forward for 5 years, subject to the same annual limits.
- The tax credit has been broadened, in the latest budget, to cover expenditures on scientific research and development.
- The credit has, in addition, been increased for investments in slower-growth regions of Canada — to 7.5% for Northern Alberta, Saskatchewan, Manitoba, Northern Ontario, and designated regions

of Quebec other than the Gaspé region, and 10% in the Gaspé region and the Atlantic provinces.

Oil and gas exploration:

- A considerable variety of incentives are available to encourage oil and gas and other mineral exploration and development in Canada. A feature of the latest budget designed to give further encouragement to oil and gas exploration in frontier regions, including offshore regions of Canada, is an additional earned depletion entitlement of 66⅔% of drilling costs in excess of \$5 million on expenses incurred between March 31, 1977 and April 1, 1980. An investor will be able to offset this additional depletion against income from any source. This measure is intended mainly to stimulate offshore drilling. For every \$1 investment in excess of \$5 million (per well) the investor will be able to write off \$2. In effect, the tax system will finance costs in excess of \$5 million. The measure reflects the government's desire to encourage identification of Canadian offshore petroleum resources.

Transportation:

- The capital cost allowed on railway track and grading expenditures made between March 31, 1977, and April 1, 1980 has been doubled to 8% from 4%. A major objective of this measure is to improve grain and coal transportation facilities in Western Canada.

Inventories:

- In recognition of the distortion of business income from inventory inflation, 3% of the opening value of inventories (except fixed property and goods not for resale) will be deductible in calculating business income in fiscal periods commencing after December 31, 1976. This measure provides a degree of immediate relief to business, while the study of the complex issue of inflation accounting continues.

Relief from non-resident withholding tax:

- The withholding tax exemption on government and corporate bonds has been extended to the end of 1982. This exemption for interest on private sector loans applies to a non-arm's length lender on various debt obligations having a fixed term to maturity of not less than five years.

Dividends, capital gains and losses:

- The dividend tax credit will be increased to 50% from 33⅓%, starting January 1, 1978. This measure enhances the

attractiveness of equity investments and will encourage greater Canadian participation in equity markets.

- Stock dividends from public corporations — that is, dividends paid in the form of shares — will no longer be treated as income, taxable when received, but will be treated as capital gains, taxable only when the shares are sold. This measure will allow corporations to continue paying dividends in the form of stock, and thus to retain the cash for corporate needs. From the investor's point of view, he is thus given the option of postponing any immediate tax and receiving capital gains treatment on ultimate disposition. The alternative is to receive taxable dividends which will benefit from the enriched dividend tax credit after 1977. The choice depends on the investor's marginal tax rate.
- Capital losses that can be set off against other income have been doubled to \$2,000. This measure will help reduce the impact and the fear of capital losses of equity investors, help maintain other income, and stimulate equity investment.
- Capital gains will be included in the present \$1,000 exemption for interest and dividends. This measure enhances the relative attractiveness of equity investment compared to interest-paying investments.

Encouragement of minority interests:

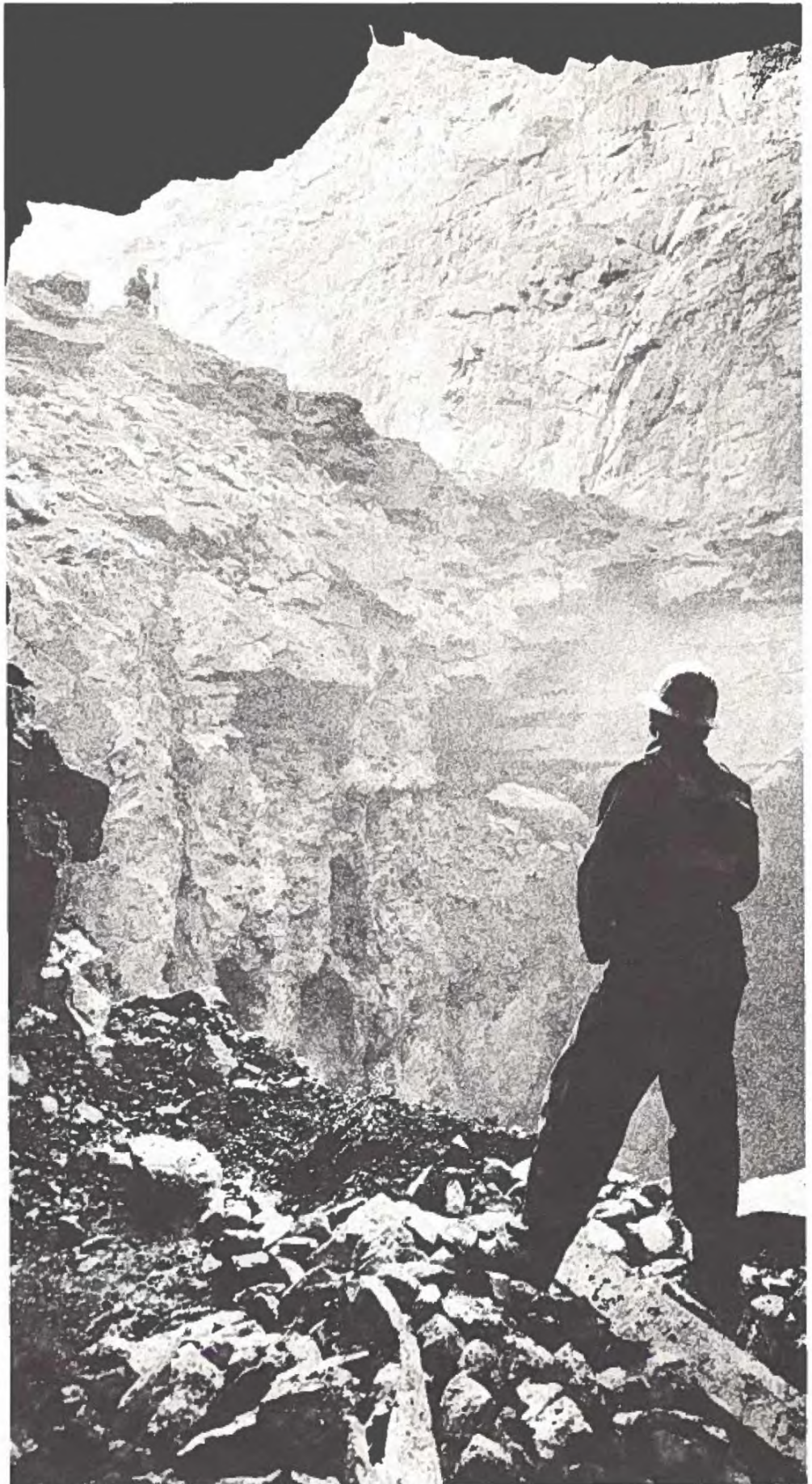
- Until the last federal budget, a private Canadian corporation formed for the purpose of taking interests of 50% or less in other corporations in Canada had to pay a 33 $\frac{1}{3}$ % tax on dividends received from such investments.

The last federal budget provides that such a private corporation will be totally exempt from tax on dividends from other private corporations as long as it holds more than a 10% equity interest in such corporations. That budget also provides that the general rate of this tax will be reduced to 25% effective at the start of 1978.

These measures will encourage:

- private corporations to take significant positions in other corporations;
 - venture capital companies to take positions in other businesses, and
 - joint ventures.
- Investors are encouraged to assume minority positions in Canadian-controlled private corporations which are eligible for special lower tax rates.

Inside the stope above the 800-foot level at Kidd Creek Mine, Timmins, Ontario.
Photo: Herb Nott



Good corporate citizenship — a view from experience

by J. Herbert Smith

An understanding of the nature of foreign-owned companies in Canada, and a focus on behaviour rather than ownership, provide the best basis for corporate and government policies to strengthen Canadian economic "independence" and surmount Canada's unique set of economic problems.

Among the great variety of foreign-owned companies in Canada, the kinds with which this article concerns itself are in the manufacturing sector. Particular emphasis is placed on science-based manufacturing industries because they are crucial to both economic development and "independence."

Three distinct types of foreign-owned manufacturing firms operate in Canada and control much of the manufacturing industry:

The first might be classified as a "colonial assembly plant." It is essentially a plant established in Canada to assemble parent-company products behind the tariff. It is often small in both employment and sales volume. But it is the most frequently encountered type of manufacturing subsidiary, so that these companies provide in total a large number of jobs.

The second type might be designated an "integrated subsidiary." The parent usually has a narrow but highly sophisticated product scope. The parent designs a worldwide strategy, and subsidiaries are assigned products on the basis of local government policy, unique domestic skills or markets, sources of critical raw materials, or government incentives. The auto industry is an important example.

The third type might be called a "federated affiliate." The term "federated" is meant to imply a high degree of autonomy, together with innovative capability in design, production, and marketing. The subsidiary's management establishes the basic business strategy and all decisions as to products offered, designs, and prices. Management does this on the basis of their evaluation of the needs of the domestic market, the possibilities for export, and the chances of earning a profit by using some appropriate mix of the subsidiary's own resources and those available from the parent company.

More will be said about the three types of foreign-owned subsidiary, especially the "federated affiliate."

But first let us examine the unique set of economic circumstances within which the policy questions arise.

Canada does not have a domestic market large enough to finance development of the wide diversity of equipment and products required to maintain the high living standards — including the latest features in consumer goods and conveniences — so intensely

demanding by the Canadian population. Canadian manufacturing, under the present policy of moderate tariffs, must have ready access — on an up-to-date basis and at competitive costs — to the most advanced technology in the world if it is to survive and grow. With the explosive rate of technological change in the world, there is no evident way in which Canadian science-based companies could, by and large, maintain adequate knowledge and international competitiveness — except, for the most part, through open-door relationships with parent companies in larger economies with larger scales of technology than are possible for Canadian industry.

Some have questioned this by comparing Canada with Sweden or Japan. How has it been possible for Sweden and Japan to achieve a world leadership position in certain technical lines without depending on a subsidiary-parent relationship for the huge research investment needed?

Success in the domestic market is the essential factor in the growth of Canada's secondary manufacturing

The answer is probably found in three factors: strong central government control over economic policy, strong business-government relationships, and strong combinations of business firms. Sweden and Japan utilize and integrate their total resources for the attainment of specific national objectives through centralized government support of chosen industries. In Canada, by contrast, control over industrial policy is divided among the federal and 10 provincial governments. Business-government relationships, although currently improving, are still quite far from those of Sweden and Japan in effectiveness. Canadian combines laws and U.S. anti-trust laws make it extremely difficult for Canadian companies to combine in a united innovative effort backed by government support — something which is much more feasible in Sweden or Japan.

These facts are not presented as arguments for or against the present Canadian laws or division of political power. They are brought out to demonstrate why the Swedish and Japanese approaches to the development of strong internationally competitive products do not seem readily applicable to Canada. A case in point is that Canada has attained a world leadership position through Atomic Energy of Canada Limited in the generation of power from natural uranium. It would not have been politically viable to provide the financial support necessary to any single private company — and no private company could possibly have financed the required investment.

J. Herbert Smith served for 40 years with Canadian General Electric Co. Ltd. and retired in 1972 after 15 years as president, then chairman. He is now chairman of DeHavilland Aircraft of Canada Ltd., holds many directorships in business corporations and community institutions and is a consulting engineer. He was born and educated in Canada.

Let us return to the "federated affiliate" — the highly autonomous subsidiary in secondary manufacturing — and to the implications for the corporate policies of multinational companies towards their subsidiaries in Canada.

It is worth emphasizing to investors and potential investors that, quite apart from its beneficial impact on the host country, the "federated" relationship is being adopted increasingly by large multinational corporations with widely diversified product lines because the autonomous form of relationship has been demonstrated to be the most effective management strategy for the optimizing of returns to the parent company on its investment in a foreign subsidiary.

At the same time, it is critical to Canada's welfare and "independence" that a considerable number of our large science-based industries have the combination of both full access to the latest research and development discoveries in a breadth made possible only with extensive foreign equity ownership in Canada and the decision-making authority and autonomous technical and financial capability of the "federated" relationship.

The "federated" relationship is the only form of relationship between foreign parent and Canadian subsidiary that offers any, as well as all, of the following attainments for a manufacturing subsidiary in Canada and for the country:

- The innovative and other entrepreneurial capabilities to achieve a sufficient success in the domestic market as to make of it a satisfactory base for a free endeavour to export.
- The domestic financial strength, as well as innovative capability, to achieve world product leadership.

The above are, of course, in the interests of Canada as well as the subsidiary. But there are other important "national" interests that are uniquely served by the "federated" relationship:

- The subsidiary's ability to respond independently and entrepreneurially to domestic and other needs and opportunities that are frequently quite different from those of the parent company and may, indeed, be competitive with activities of the parent company.
- The prospect of helping to retain, as well as expand, Canadian industrial independence in the face of the centralizing tendencies of advanced computer technology.
- A sufficient number and diversity of career opportunities for the needs and potentials of Canadians.

The first challenge to the management of Canadian secondary manufacturing is to meet, profitably, the demands of a relatively small but highly sophisticated consumer and industrial market — and to do this with a minimum of tariff protection. Success in the domestic market is the essential factor in the growth of Canada's secondary manufacturing.

What is not widely appreciated is the extent to which innovation has, in fact, taken place in secondary manufacturing in Canada and been essential to its success in even the domestic market. Specially adapted innovative techniques have constituted a high content in the successful development of the multi-product and multi-model assembly lines that have been the basic Canadian response to the uni-product mass production lines of the United States.

Business-government relationships, although currently improving, are quite far from those of Sweden and Japan in effectiveness

The varied end products of multi-model and multi-product assembly lines may be quite different from one another in function and appearance, but they are so chosen that the important components and assemblies can be standardized to a significant extent to permit common usage.

Of even greater importance, components must be such that they can be designed for processing on pooled high speed machines with a minimum of changeover time. This approach creates a volume of like work at the component and component-assembly stage which justifies the investment in mechanization.

Also, in designing multi-product assembly lines, innovative approaches are used through the application of specialized assembly concepts. A significant part of the economy of the uni-product factory can be attained in multi-product factories by these "batch mechanization" and "batch assembly line" techniques — many of which are unique to Canadian industry.

Innovative marketing systems too are needed in Canadian business, because of the low population densities, the distances, and the dual nature of the Canadian culture.

Innovative though all these manufacturing and marketing approaches may be, they do not make secondary manufacturing costs in Canada quite as low as those in the United States. But they can and do generally provide costs near enough to those in the United States for Canadian secondary manufacturing to build a domestic base

profitably within a modest tariff — and from that base, be in a position to consider and attempt exports.

In fact, Canadian secondary manufacturing has attained international leadership in quite a number of products. For example, the unique skills developed in Canada for generating electricity from water power has provided the domestic base needed to attain a strong world competitive position in the design and manufacture of hydraulic generators and hydraulic turbines. Canadian General Electric (CGE) has built such equipments for installation in South America, Africa, and in the United States, all of whom chose a Canadian supplier in a context of world competition. Similarly, CGE developed a powerful international competitive position in the design and manufacture of paper machines, owing to the relatively large domestic market.

With consumer goods, exports to the United States have been developed for those specialty products for which there is a strong Canadian market potential but where the U.S. demand is considered modest by possible mass production U.S. competitors. Examples of such consumer products in which CGE has enjoyed considerable export business to the United States are electric kettles, automobile engine jacket heaters, and portable home humidifiers.

The "federated" affiliate must have the expertise and the freedom to respond independently and entrepreneurially to domestic and other needs and opportunities that are frequently quite different from those of the parent. Furthermore, these responses may involve risk ventures that are competitive with undertakings in which the parent is engaged. A good illustration is the high-risk long-term program of Canadian General Electric in support of the Canadian nuclear power program, pursued concurrently with the parent company's deep involvement in the competitive enriched-uranium program of the United States.

Concern has been expressed that advanced computer technology may lead to increased central decision-making in all multinational corporations. While this is unquestionably true in the case of the large "integrated" international corporations, it is not so in the case of the "federated" type relationship. In that relationship, the designing, manufacturing, and marketing characteristics are unique to domestic market needs for each of the major product classifications — and these functions are decentralized even within the parent company.

But the "business" decisions of the parent company must be integrated in relation to all products over which the parent company exercises decision-making authority.

Now, it becomes too complex an information system to integrate business decisions concerning each of the subsidiary product groups with the corresponding parent company group, and then in turn to integrate such groups in relation to the overall corporate strategies of the affiliates, since each affiliate's strategy may be quite different from that of the parent company.

In other words, the "federated" relationship is crucial for the retention, as well as the development, of Canada's industrial "independence." To the extent that the "integrated" form of subsidiary is prevalent, industrial independence may slip increasingly out of the country as, in part, a result of the centralizing tendencies of advanced computer technology. But to the extent that the "autonomous" relationship is prevalent — and encouraged — there is an immunity to the computer's tendencies to centralize decision-making and thus drain entrepreneurial independence out of Canadian industry.

In addition to the benefits described above, the "federated affiliate" provides career opportunities for Canadians in all the functions of modern business including executive decision-making under the broad direction of the subsidiary's own board of

Canadian secondary manufacturing has attained international leadership in quite a number of products

directors. Neither the "colonial assembly plant" nor the "integrated subsidiary" provides the opportunity for Canadian management to assume full responsibility for evaluating the needs of their market, both domestic and export, for determining the company's overall business strategy, and for the design, manufacture and marketing of products or services to profitably meet customer needs.

A nation cannot long exist if it loses brilliant young men and women to other countries as soon as their schooling is completed. Our young people are demanding a dimensional quality of life in their work, as well as in leisure. It is not now sufficient to simply provide jobs. With the growth in scope of today's educational programs, financed at ever-increasing public cost, graduates seek career opportunities in an expanding number of disciplines. Job opportunities in Canada must not only conform with the anticipation of our young people, but the jobs must be productive in an economic sense in order to contribute to the cost of the expanding social needs of the nation.

All in all, one can hardly place too much emphasis on how important it would be to Canadians if the international investment community were more fully to appreciate and support Canada's need for increased autonomy in its foreign-controlled companies.

Principles of international business conduct

Foreign-controlled businesses in Canada are expected to operate in ways that will bring significant benefit to Canada. To this end they should pursue policies that will foster their independence in decision-making, their innovative and other entrepreneurial capabilities, their efficiency, and their identification with Canada and the aspirations of the Canadian people.

Within these general objectives, the following principles of good corporate behavior are recommended by the Canadian government. Foreign-controlled firms in Canada should:

1. Pursue a high degree of autonomy in the exercise of decision-making and risk-taking functions, including innovative activity and the marketing of any resulting new products.
2. Develop as an integral part of the Canadian operation an autonomous capability for technological innovation, including research, development, engineering, industrial design and preproduction activities; and for production, marketing, purchasing and accounting.
3. Retain in Canada a sufficient share of earnings to give strong financial support to the growth and entrepreneurial potential of the Canadian operation, having in mind a fair return to shareholders on capital invested.
4. Strive for a full international mandate for innovation and market development, when it will enable the Canadian company to improve its efficiency by specialization of productive operations.
5. Aggressively pursue and develop market opportunities throughout international markets as well as in Canada.
6. Extend the processing in Canada of natural resource products to the maximum extent feasible on an economic basis.
7. Search out and develop economic sources of supply in Canada for domestically produced goods and for professional and other services.
8. Foster a Canadian outlook within management, as well as enlarged career opportunities within Canada, by promoting Canadians to senior and middle management positions, by assisting this process with an effective management training program, and by including a majority of Canadians on boards of directors of all Canadian companies, in accordance with the spirit of federal legislative initiatives.
9. Create a financial structure that provides opportunity for substantial equity participation in the Canadian enterprise by the Canadian public.
10. Pursue a pricing policy designed to assure a fair and reasonable return to the company and to Canada for all goods and services sold abroad, including sales to parent companies and other affiliates. In respect of purchases from parent companies and affiliates abroad, pursue a pricing policy designed to assure that the terms are at least as favourable as those offered by other suppliers.
11. Regularly publish information on the operations and financial position of the firm.
12. Give appropriate support to recognized national objectives and established government programs, while resisting any direct or indirect pressure from foreign governments or associated companies to act in a contrary manner.
13. Participate in Canadian social and cultural life and support those institutions that are concerned with the intellectual, social, and cultural advancement of the Canadian community.
14. Endeavour to ensure that access to foreign resources, including technology and know-how, is not associated with terms and conditions that restrain the firm from observing these principles.

The Principles of International Business Conduct were devised by the minister responsible for the administration of the Foreign Investment Review Act in 1975 to help answer the question, "What does the Canadian government look for in assessing significant benefit to Canada?" While the above principles are not directly related to the administration of the act, they will assist investors by elaborating on what Canada expects of foreign investors.

CAPITAL INVESTMENT PROJECTS IN CANADA

I. MINERALS AND FOREST PRODUCTS

This list shows capital spending projects in progress or in the final planning stages. The projects are limited to those in the minerals and forest products sector costing more than \$5 million. Other industries will be covered in future issues of Foreign Investment REVIEW.

Company and project description	Completion date	Cost (\$million)	Location
British Columbia			
Afton Mines Ltd. New copper mine, mill and smelter	1977	80.0	Kamloops area
Cominco Ltd. Modification and expansion lead-zinc mine and smelter	1980-85	425.0	Kimberley and Trail
Kaiser Resources Ltd. Expansion of hydraulic coal mine operations	1979	40.0	Sparwood
British Columbia Forest Products Ltd. Plant modernization: new power boiler	1977	11.0	Crofton
Canadian Cellulose Co. Ltd. Conversion of sulphite pulp mill to bleached kraft process	1978	100.0	Prince Rupert
New small-wood sawmill	1978	7.7	Castlegar
Crestbrook Forest Industries Ltd. Improvements and expansion at bleached sulphite mill	1977	18.0	Skookumchuk
Crown Zellerbach Canada Ltd. (Part of 5-year \$250 million program)			Campbell River
Thermo-mechanical pulping system	1978	26.6	
New sawmill and planer mill	1978	17.8	
New plywood veneer plant	1978	16.3	
Eurocan Pulp and Paper Co. and Weldwood of Canada Ltd. New sawmill	1978	15.0	Houston
Kootenay Forest Products Modernization: new pole plant	1977	7.0	Nelson
MacMillan Bloedel Ltd. Modernization, improvement, pollution control:			
Pulp mill	1978	22.0	Port Alberni
Pulp/sawmill	1977	11.0	Harmac
Pulp mill	1980	62.0	Harmac
Pulp mill	1979	63.0	Powell River
Logging plant expansion	1982	300.0	South Coast
Shipping improvements, new barge	1978	16.0	South Coast
Pacific Inland Resources Ltd. Sawmill modernization	1977	6.0	Smithers
Plateau Timber Ltd. Sawmill expansion	1977	6.5	Engen
Rayonier Canada Ltd. Modernization, pollution control	1977	48.0	Port Alice
New product development	1977	7.0	Woodfibre
Alberta			
Calgary Power Ltd. Extended Highvale coal mine — Phase 1	1980	50.0	Lake Wabamun
Gregg River Resources Ltd. New open-pit coal mine	n.a.	75.0	Hinton area
Luscar Sterco Ltd. New open-pit coal mine	1978	90.0	Coal Valley
Northwestern Pulp and Power Ltd. Environmental project	1979	35.0	Hinton
Simpson Timber Co. (Alta.) Ltd. New sawmill and planer mill	1977	20.0	Blueridge
Saskatchewan			
Amok Ltd. New uranium mine and mill	1979-80	75.0	Cluff Lake
Eldorado Nuclear Ltd. Housing program and mill renovation	1978	17.0	Beaverlodge



Worker uses a pneumatic crustbreaker to break the rock-hard crust which forms on the surface of the electrolyte bath at a modern aluminium smelting potline in Arvida, Quebec.

Photo: Alcan

Company and project description	Completion date	Cost (\$million)	Location
Saskatchewan Potash Corp. Mine expansion	1979	10.0	Cory
Saskatchewan Power Corp. New strip coal mine	1978	130.0	Coronach
Prince Albert Pulp Co. Ltd. Environmental project bleached sulphate mill	1978	7.0	Prince Albert
Manitoba			
Hudson Bay Mining and Smelting Co. Ltd Centennial copper-zinc mine development	1977	n.a.	Flin Flon area
Inco Ltd. Birchtree mine extension	1982	30.8	Thompson area
Sherritt Gordon Mines Ltd. New copper-zinc mine — Ruttan mine	1978	30.0	Leaf Rapids
Ontario			
Agnew Lake Mines Ltd. New uranium mine	1978	37.0	Agnew Lake
Algoma Steel Corporation Ltd. Development of McLeod iron mine	1979	39.0	Algoma district
Denison Mines Ltd. Backfill plant and employee accommodation	1978	20.0	Elliot Lake
Uranium mine-mill expansion	1980	n.a.	
Falconbridge Nickel Mines Ltd. New mine development, Craig Mine	1983	n.a.	Sudbury area
Lateral development, Fraser Mine	1979	n.a.	
Smelter environmental improvement project including new sulphuric acid plant	1978-79	95.0	
Inco Ltd. Major mining development projects: Clarabelle, Copper Cliff North, Creighton, Crean Hill, Frood-Stobie, Copper Cliff South and Garson mines, Levack mine	1978-84	n.a.	Sudbury area
New rolling mill	1984	30.0	
	1977	29.0	
Mattagami Lake Mines Ltd. Development of new copper-nickel mine,	1977	20.0	Ignace area
Rio Algom Mines Ltd. Expansion of Quirke uranium mine	1978	76.0	Elliot Lake
Reactivation and expansion of Panel mine	1980	100.0	
Texasgulf Canada Ltd. Mine-mill expansion (1979) New copper smelter and refinery	1978-80	350.0	Timmins area
Abitibi Paper Co. Ltd. New sawmill	1977	10.0	White River
American Can of Canada Ltd. New recovery boiler, kraft pulp mill	1978	26.4	Marathon
Consolidated-Bathurst Ltd. Sawmill reconstruction	1977	n.a.	Braeside
Domtar Ltd. Conversion and additions to paper mill	1977-78	n.a.	Cornwall
Capacity expansion, gypsum wallboard plant	n.a.	20.0	Caledonia
Kimberley-Clark of Canada Ltd. Expansion of bleached kraft pulp mill	1977	240.0	Terrace Bay
The Ontario-Minnesota Pulp and Paper Co. Ltd. Increased capacity, pulp and paper mill	1978	20.0	Fort Frances
Reed Paper Ltd. Capacity expansion and environmental control at kraft pulp mill	1980	120.0	Dryden
Spruce Falls Power and Paper Co. Ltd. Paper machine modernization	1977	16.0	Kapuskasing
Trent Valley Paperboard Mills New paperboard mill	1978	15.0	Trenton
Quebec			
Alcan Aluminium Ltd. New aluminium smelter	1981	200.0	La Baie



A stand of trees in one of Canada's many huge tracts of timber.
Photo: Canadian Government Office of Tourism

Company and project description	Completion date	Cost (\$million)	Location
Asbestos Corp. Ltd. Asbestos dust control program	1977	17.0	Thetford Mines
Bell Asbestos Mines Ltd. Asbestos dust control program	1978	8.5	Thetford Mines
Dresser Industries Ltd., Canadian Refractories Div., mine-mill expansion	1977	n.a.	Kilmar
Falconbridge Copper Ltd. Corbet mine development	1979	22.0	Noranda
Cooke mine development	1978	9.4	Chapais
Noranda Mines Ltd. New process equipment for copper refinery	1977	6.0	Montreal
Orchan Mines Ltd. Development of zinc-copper deposit	1978	9.0	Matagami area
Sidbec-Normines Inc. Iron mine development; concentrator improvement; new pellet plant	1977	462.0	Fire Lake and Port Cartier
Canadian International Paper Co. Ltd. Machine modernization	n.a.	40.0	La Tuque
New plant to produce new type of pulp	1979	30.0	Gatineau
Consolidated-Bathurst Ltd. Paper machine speed-up (deferred from 1977)	1979	25.0	Port Alfred
Domtar Ltd. Newsprint mill machine replacement	1977	15.0	Dolbeau
New steam power boiler for pulp mill	1977	6.9	Lebel-sur-Quévillon
Donohue-St. Félicien Inc. New bleached kraft pulp mill	1978-79	302.7	St. Félicien
Eddy Paper Co. Ltd. Rebuilding paper machine	1977	10.0	Hull
Forex-Leroy Inc. New plywood plant	1978	17.0	Val d'Or
Quebec North Shore Paper Co. and Rexfor New sawmill and finishing complex	1978	24.0	Baie Comeau
Rayonier (Quebec) Inc. Production facilities, pollution control	1977	25.3	Port Cartier
Tembec Forest Products Inc. Sulphite Pulp mill expansion and environmental improvement	1979	40.0	Temiskamingue
Atlantic Provinces			
British-Newfoundland Exploration Ltd. New uranium mine	n.a.	n.a.	Hopedale, Lab.
Brunswick Mining and Smelting Corp. Ltd. Zinc-lead mine development	1979	53.0	Belledune Point, N.B.
Geo. Wimpey Canada Ltd. Open-pit coal mine	n.a.	7.0	Stellarton, N.S.
New Brunswick Mining Co. Ltd. New dragline and coal mine development	1979	26.0	Salmon Harbour, N.B.
Bowater Canadian Ltd. Conversion to thermo-mechanical groundwood process and newsprint machine renovation	n.a.	7.0	Cornerbrook, Nfld.
Consolidated-Bathurst Ltd. Increased pulp mill capacity	1978	6.0	Bathurst, N.B.
Fraser Companies Ltd. Enlarging pulp mill	1979	91.5	Edmundston, N.B.
Nova Scotia Forest Industries Ltd. Extension of wood-room facilities	1978	8.8	Point Tupper, N.S.
Price (Nfld.) Pulp and Paper Ltd. New groundwood refiner plant	1977	28.9	Grand Falls, Nfld.
Yukon and Northwest Territories			
Canada Tungsten Mining Corp. Ltd. Mill capacity expansion	1979	10.0	Flat River, N.W.T.
Cyprus Anvil Mining Corp. Additional equipment	1977	14.8	Faro, Y.T.

Incentives to industry

The following is a list of the major incentives to industry offered by the federal and provincial governments and available to both Canadian and non-Canadian investors. To qualify, companies must be incorporated in Canada.

FEDERAL GOVERNMENT INCENTIVES

Department of Industry,
Trade and Commerce

Enterprise Development Program (EDP)

The program assists eligible manufacturing and processing firms to become more viable and internationally competitive through grants and loans. The grants are to help firms to develop proposals for project assistance, study market feasibility or productivity improvement, procure industrial design services, and develop or introduce new technology. Loans or loan guarantees assist restructuring or rationalization. Further grants or loans are also available to help firms to meet special problems or to further specific government objectives. * **Contact:** *Enterprise Development Board, Department of Industry, Trade and Commerce, at the address below.*

Machinery Program

This program provides for remission of import duty on types of machinery not manufactured in Canada, when the importation of such machinery is vital to an enterprise. * **Contact:** *Machinery and Equipment Advisory Board, Department of Industry, Trade and Commerce, at the address below.*

Agricultural and Food Products Market Development Program (AGMAP)

Financial assistance to develop domestic and export markets for agriculture and food products. * **Contact:** *Programs Unit, Agriculture, Fisheries and Food Products Division, Department of Industry, Trade and Commerce, at the address below.*

Other Programs

Financial assistance programs are also available for shipbuilding, defence production, fashion design, grains and

oilseeds marketing and for export market development. * **Contact:** *Department of Industry, Trade and Commerce, at the address below.*

National Research Council Industrial Research Assistance Program (IRAP)

Shares cost of selected research projects. * **Contact:** *National Research Council, at the address below.*

Pilot Industry/Laboratory Program (PILP)

Provides shared-cost research between NRC laboratories and industrial firms. * **Contact:** *National Research Council, at the address below.*

Department of Regional Economic Expansion (DREE)

Provides cash grants and loan guarantees to encourage location or expansion of manufacturing and processing facilities in regions of Canada designated as slow-growth regions. * **Contact:** *Industrial Incentives Branch, Department of Regional Economic Expansion, at the address below.*

Federal Business Development Bank (FBDB)

Provides financial assistance to business, particularly small business, in the form of loans, loan guarantees, equity financing or leasing. Management services are also available to small businesses. * **Contact:** *Federal Business Development Bank, at the address below.*

Department of Finance

Guarantees loans up to \$50,000 from approved lenders to proposed or existing businesses whose actual (or estimated) gross revenue is less than \$1 million.

* **Contact:** *Guaranteed Loans Administration, Department of Finance, at the address below.*

* As a service to REVIEW readers, FIRA, will receive all inquiries directed to the federal programs and forward them, unopened, to the appropriate agency, the same day FIRA receives them. Please address enquiries about the federal incentive programs to: The name of the program

c/o The Foreign Investment Review Agency, P.O. Box 2800, Station "D", Ottawa, Canada K1P 6A5. Please address enquiries about provincial programs directly to the province concerned at the address given in each case.

PROVINCIAL GOVERNMENT INCENTIVES

ALBERTA

Alberta Opportunity Company

Provides financing for Alberta manufacturing and service businesses through direct loans or guarantees of loans for fixed assets or working capital when funding is not available from conventional lending institutions.

Contact: Alberta Opportunity Company, Box 1860, Ponoka, Alberta, Canada T0C 2H0.

Canada-Alberta Subsidiary Agreement on Nutritive Processing Assistance

The maximum grant under this program is 35 per cent of the total capital required to build or expand a facility. The grant is restricted to nutritive processing operations in which raw or semi-processed products are physically or chemically altered, processed, or refined or made more marketable as nutritional products for humans, animals, or plants. The grants are available for operations anywhere in Alberta except Edmonton and Calgary. **Contact:** Executive Director, DREE Program, Agriculture Building, 11th floor, 9718 — 107th St., Edmonton, Alberta, Canada T5K 2C8.

BRITISH COLUMBIA

British Columbia Development Corporation

Provides information and assistance for new or expanding business in British Columbia. Assists with market studies, marketing, and forecasts in addition to leasing and selling industrial land. It also provides direct and indirect financing for land acquisition, equipment, buildings, and start-up costs. **Contact:** British Columbia Development Corporation, 272 Granville Square, 200 Granville St., Vancouver, British Columbia, Canada V6C 1S4.

Department of Economic Development

The business development program provides assistance in marketing British Columbia-manufactured products outside the province by providing financial support to businesses to participate in trade shows and trade missions outside Canada. It also provides a market development assistance program, a technical assistance program, a small business assistance program and a business information service on the availability and source of various forms of financial and other assistance to business. The new business service provides counselling and information about government regulations. **Contact:** Business and Industrial Development Branch,

Department of Economic Development, Box 10111, 700 West Georgia St., Vancouver, British Columbia, Canada V7Y 1C6.

MANITOBA

Manitoba Development Corporation

Provides loans to companies in manufacturing and processing industries. **Contact:** Manitoba Development Corporation, 600 Power Building, 428 Portage Ave., Winnipeg, Manitoba, Canada R3C 0E4.

Design Assistance Program

Cost-sharing of consulting and advisory services for market research, design and redesign of products and packages. **Contact:** Manitoba Design Institute, 155 Carleton St., 5th floor, Winnipeg, Manitoba, Canada R3C 3H8.

Export Incentive Program

Cost-sharing of promotion for new export markets. **Contact:** Manitrade, 155 Carleton St., Winnipeg, Manitoba, Canada R3C 3H8.

Manitoba Research Council

The Research and Development Assistance Program provides shared-cost assistance for research and development of new or improved products or processes. The council's Canadian Food Product Development Centre provides advice and in-plant assistance including laboratory work for food and feed industries. **Contact:** Manitoba Research Council, 155 Carleton St., 6th floor, Winnipeg, Manitoba, Canada R3C 3H8.

Manitoba Department of Industry and Commerce

The Feasibility Studies Incentive Program assists manufacturing and processing industries with shared-cost feasibility studies on establishing or expanding manufacturing. The DREE Application Incentives Program provides shared-cost assistance to employ outside consultants in the preparation of applications to the federal government's Department of Regional Economic Expansion programs for the establishment or expansion of manufacturing facilities. The Productivity Improvement Program provides shared-cost assistance to identify problems and obstacles to growth. The Manpower Development Assistance Program provides cost-sharing of manpower development programs. **Contact:** Department of Industry and Commerce, 155 Carleton St., Winnipeg, Manitoba, Canada R3C 3H8.

NEW BRUNSWICK

New Brunswick Industrial Development Board

Administers a joint federal-provincial

interest-free forgivable loan program oriented to small businesses. **Contact:** Department of Commerce and Development, P.O. Box 6000, Centennial Building, Fredericton, New Brunswick, Canada E3B 5H1.

New Brunswick Provincial Holdings Limited

Will take equity position manufacturing companies locating in New Brunswick. **Contact:** N.B. Provincial Holdings Ltd., P.O. Box 6000, Centennial Building, Fredericton, New Brunswick, Canada E3B 5H1.

Research and Productivity Council

Provides technical support services for industry in New Brunswick, including engineering and problem solving, industrial research and development, and management consulting, on a cost-recovery basis. **Contact:** N.B. Research and Productivity Council, College Hill Road, Fredericton, New Brunswick, Canada E3B 5C8.

NEWFOUNDLAND

Newfoundland and Labrador Development Corporation

Provides equity and loan financing up to \$1 million for establishing or expanding small and medium sized businesses. **Contact:** Newfoundland and Labrador Development Corporation, P.O. Box 1738, 44 Torbay Road, St. John's, Newfoundland, Canada A1C 5P5.

Department of Industrial Development

Approved financing of new or expanding business ventures in amounts of more than \$1 million. **Contact:** Department of Industrial Development, Confederation Building, St. John's, Newfoundland, Canada A1C 5T7.

NOVA SCOTIA

Industrial Estates Ltd.

Long-term loans on 20-year first mortgages on 100 percent of the cost of new land and buildings of secondary manufacturers and up to 60 percent financing of new machinery with 10 years to repay. **Contact:** Industrial Estates Ltd., 5151 George St., Suite 700, Halifax, Nova Scotia, Canada B3J 1M5.

Industrial Loan Act, Industrial Development Act, Industrial Expansion Act

Loans at subsidized rates of up to 75 percent for new land and fixed assets for processing industries and tourist facilities. **Contact:** Nova Scotia Resources Development Board, Bank of Montreal Towers, P.O. Box 519, Halifax, Nova Scotia, Canada B3J 2R7.

ONTARIO

Ontario Development Corporation

Programs include: industrial mortgages and leasebacks, export support loans, venture capital loans, pollution control equipment loans, loans to small businesses, tourist industry loans, and incentive loans to encourage industries to locate or expand in slow-growth areas of Ontario. **Contact:** *Ontario Development Corporation, Mowat Block, 3rd floor, 900 Bay St., Toronto, Ontario, Canada M7A 2E7.*

Ontario Industrial Training Program

Assistance for training programs to companies locating in areas where such programs will help improve employment opportunities. **Contact:** *Ministry of Colleges and Universities, Industrial Training Branch, Mowat Block, 900 Bay St., Toronto, Ontario, Canada M7A 2E7.*

Retail Sales Tax Exemption for Pollution Control Equipment

A retail sales tax exemption is granted to a manufacturer or producer who purchases machinery or equipment for use in the detection, measurement, prevention, treatment, reduction or removal of pollutants in the air, water, or soil that are attributable to manufacturing or producing operations. **Contact:** *Ministry of Revenue, Government of Ontario, Retail Sales Tax Branch, Queen's, Toronto, Ontario, Canada M7A 1X9.*

PRINCE EDWARD ISLAND

Industrial Enterprises Incorporated

Provides assistance for capital expenditures in the form of first mortgage loans on real estate and/or equipment. **Contact:** *Industrial Enterprises Incorporated, West Royalty Industrial Park, Charlottetown, Prince Edward Island, Canada C1E 1B0.*

P.E.I. Department of Industry and Commerce

The Industrial Assistance Program is directed at the manufacturing and processing sectors based on a maximum capital cost of \$25,000 with a maximum grant of \$12,500 or 25 per cent of the total capital cost with allowances up to \$2,000 for each new job created. The Service Sector Assistance Program is directed at the support industries to the agricultural and fisheries sector based on a maximum capital cost of \$60,000 with a maximum grant of \$30,000 and 25 per cent

of the total or \$2,000 for each new job created. **Contact:** *Department of Industry and Commerce, P.O. Box 2000, 180 Kent St., Charlottetown, Prince Edward Island, Canada C1A 7N8.*

QUEBEC

Quebec Industrial Development Corporation (QIDC)

The corporation is a financial intermediary of the Quebec department of industry and commerce which provides assistance for manufacturing investment projects with provision for low-cost loans and interest reimbursement equity participation. **Contact:** *Quebec Industrial Development Corporation, 1126 Chemin Saint-Louis, Room 700, Sillery, Quebec, Canada G1S 1E5.*

Quebec Department of Industry and Commerce

Services to foreign investors include trade missions and export promotional campaigns in collaboration with Quebec-based businesses; manufacturing investment advice; industrial sector surveys; and consultation services on marketing, finance, production and administration. Other incentives include corporation tax exemptions and sales tax exemptions on products used in manufacturing. **Contact:** *Quebec Department of Industry and Commerce, Industrial Promotion Directorate, Place Ville-Marie, Suite 2300, Montreal, Quebec, Canada H3B 3M6.*

Quebec Mining Exploration Company (SOQUEM)

This Crown corporation, wholly-owned by the Quebec provincial government, encourages joint ventures with foreign investors in the mining sector. **Contact:** *SOQUEM, 2406 Chemin des Quatre Bourgeois, Ste-Foy, Quebec, Canada G1V 1W5.*

SASKATCHEWAN

Saskatchewan Economic Development Corporation (SEDCO)

Provides mortgages up to 20 years, loan guarantees, venture capital and industrial land for lease or sale. **Contact:** *Saskatchewan Economic Development Corporation, 1106 Winnipeg St., Regina, Saskatchewan, Canada S4R 6N9.*

A huge Bucyrus-Erie churn drill at work at Gaspé Cooper Mines, Ltd., Murdochville, Quebec.
Photo: George Hunter



Book list

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Ottawa: Government of Canada, 1972
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Toronto: The Carswell Company Limited 1975

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Robinson, Richard D.
New York: Praeger Publications 1976

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Boulder, Colorado: Westview Press Inc. 1976

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Stobaugh, Robert B. et al
Cambridge, Mass.: Harvard University Press 1976

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Nationalism, Technology and the Future of Canada

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Resources — Canada

Metal Mining in Canada, 1976-2000

Department of Energy, Mines and Resources
Martin, H. L., Cranstone, D. A. and Zwartendyk, J.
Ottawa 1976
* Catalogue No. M38-2/167. \$2.00
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Uranium Supply to 2000, Canada and The World

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Ottawa, 1976
* Catalogue No. M38-2/168. \$1.00
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Population, Technology and Resources

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Statistical tables

QUARTERLY FIGURES

TABLE I — SUMMARY

REVIEWABLE ACQUISITION CASES

	1976				1977	
	first quarter	second quarter	third quarter	fourth quarter	first quarter	second quarter
Total	26	42	45	58	41	60
Industry						
Primary	5	3	4	3	3	2
Manufacturing	11	25	28	29	16	27
Construction and services	10	14	13	26	22	31
Country of control						
United States	14	27	28	40	25	40
United Kingdom	4	4	7	8	10	10
Other Europe	7	10	8	9	6	4
All other	1	1	2	1	—	6

REVIEWABLE NEW BUSINESS CASES

	1976				1977	
	first quarter	second quarter	third quarter	fourth quarter	first quarter	second quarter
Total	20	51	64	61	62	93
Industry						
Primary	0	4	3	5	3	6
Manufacturing	14	19	17	17	16	25
Construction and services	6	28	44	39	43	62
Country of control						
United States	6	25	31	28	35	48
United Kingdom	2	7	7	6	5	8
Other Europe	7	16	17	23	15	24
All other	5	3	9	4	7	10

ANNUAL FIGURES

TABLE 2 — OUTCOME OR STATUS

REVIEWABLE ACQUISITION CASES

	1974 †	1975	1976
Reviewable new cases	102	166	171
Carryover from previous period	—	51	55
Total of above	102	217	226
Total resolved	51	162	159
Allowed	33	116	124
Disallowed	9	21	19
Withdrawn	9	25	16
Carried over to next period	51	55	67
Allowed cases as percent of resolved	65%	72%	78%

REVIEWABLE NEW BUSINESS CASES

	1975 *	1976
Reviewable new cases	6	196
Carryover from previous period	—	6
Total of above	6	202
Total resolved	—	142
Allowed	—	115
Disallowed	—	9
Withdrawn	—	18
Carried over to next period	6	60
Allowed cases as percent of resolved	—	81%

† Provisions for review of acquisitions came into force April 9, 1974.

* Provisions for review of new businesses came into force October 15, 1975.

TABLE 3 — COUNTRY OF CONTROL

REVIEWABLE ACQUISITION CASES

	1974 †	1975	1976
Total	102	166	171
United States	61	116	109
United Kingdom	21	15	23
Other Europe	15	27	34
Belgium	1	2	1
France	3	6	6
Germany, West	5	2	10
Italy	—	2	1
Liechtenstein	2	2	—
Luxembourg	—	—	3
Netherlands	—	5	—
Norway	—	1	—
Sweden	—	2	9
Switzerland	4	5	4
All other	5	8	5
Australia	2	1	—
Bermuda	—	2	1
Hong Kong	—	1	—
India	1	—	—
Japan	2	2	3
Lebanon	—	—	1
Mexico	—	1	—
Panama	—	1	—
Other	—	—	—
Allowed cases as percent of resolved	%	%	%
United States	64	74	74
United Kingdom	70	76	78
Other Europe	67	57	71
All other	50	33	50

† Provisions for review of acquisitions came into force April 9, 1974

REVIEWABLE NEW BUSINESS CASES

	1975 *	1976
Total	6	196
United States	4	90
United Kingdom	—	22
Other Europe	1	63
Belgium	—	1
France	—	9
Germany, West	—	22
Italy	1	9
Liechtenstein	—	2
Luxembourg	—	—
Netherlands	—	2
Norway	—	—
Sweden	—	3
Switzerland	—	8
Denmark	—	5
Finland	—	1
Spain	—	1
All other	1	21
Australia	—	2
Bermuda	—	1
Hong Kong	—	3
India	—	3
Japan	—	4
Lebanon	1	—
Mexico	—	—
Panama	—	—
Other	—	8
Allowed cases as percent of resolved	%	%
United States	—	73
United Kingdom	—	93
Other Europe	—	82
All other	—	95

* Provisions for review of new businesses came into force October 15, 1975

Removing a sheet ingot from a mould at the Alcan Aluminium Ltd. works in Arvida, Quebec.
Photo: Alcan

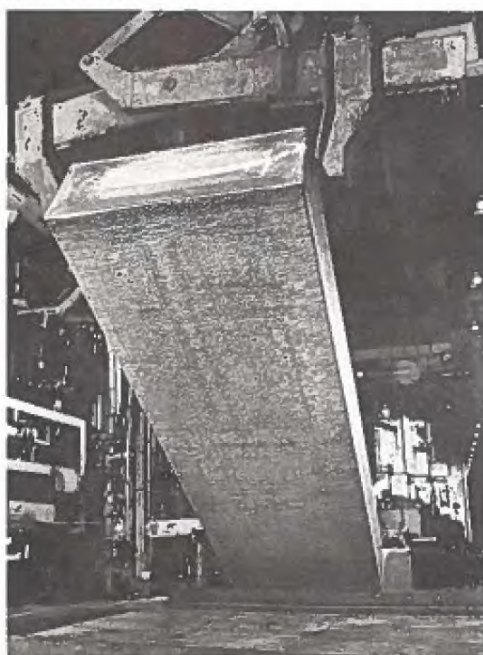


TABLE 4 — INDUSTRIAL SECTOR

REVIEWABLE ACQUISITION CASES

	1974†	1975	1976
Total	102	166	171
Primary	15	18	15
Agriculture	2	—	2
Forestry	3	1	—
Fishing and trapping	—	1	—
Mines, quarries, oil wells	10	16	13
Manufacturing	47	82	93
Food and beverage	5	10	9
Tobacco products	1	1	—
Rubber and plastic products	2	2	3
Leather	1	1	1
Textiles	2	—	2
Knitting mills	1	1	—
Clothing	—	2	1
Wood	5	6	2
Furniture and fixture	—	2	4
Paper and allied	1	2	1
Printing, publishing, and allied	—	3	1
Primary metal	—	3	7
Metal fabrication	2	6	12
Machinery	5	11	4
Transportation equipment	8	6	3
Electrical products	1	9	11
Non metallic mineral products	8	3	9
Petroleum and coal products	—	—	2
Chemical	3	11	15
Miscellaneous	2	3	6
Construction and services	40	66	63
Construction	2	2	2
Transportation, communication, utilities	6	6	9
Trade	18	37	38
Finance, insurance, real estate	10	14	8
Community, business, personal services	4	7	6

† Provisions for review of acquisitions came into force April 9, 1974

REVIEWABLE NEW BUSINESS CASES

	1975*	1976
Total	6	196
Primary	—	12
Agriculture	—	2
Forestry	—	—
Fishing and trapping	—	—
Mines, quarries, oil wells	—	10
Manufacturing	2	67
Food and beverage	—	3
Tobacco products	—	1
Rubber and plastic products	—	3
Leather	—	—
Textiles	—	2
Knitting mills	—	—
Clothing	—	2
Wood	—	2
Furniture and fixture	1	2
Paper and allied	—	1
Printing, publishing, and allied	—	—
Primary metal	—	5
Metal fabrication	1	10
Machinery	—	5
Transportation equipment	—	1
Electrical products	—	7
Non metallic mineral products	—	3
Petroleum and coal products	—	—
Chemical	—	6
Miscellaneous	—	14
Construction and services	4	117
Construction	—	4
Transportation, communication, utilities	1	10
Trade	1	68
Finance, insurance, real estate	1	10
Community, business, personal services	1	25

* Provisions for review of new businesses came into force October 15, 1975

Welders installing new teeth on the 15 cubic yard dipper of an electric shovel at Gaspé Copper Mines in Murdochville, Quebec.
Photo: George Hunter



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