

FOREIGN INVESTMENT REVIEW

A quarterly journal on investment conditions in **CANADA** Winter 1977/78 Vol. 1, No. 2



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— the Alaska Highway project... p. 5

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Foreign Investment REVIEW

a quarterly journal on investment conditions
in Canada

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Cover:

Pipeline construction showing a 42-inch gas pipe being weighted with concrete in readiness to cross a river.
PHOTO: Alberta Gas Trunk Line Co.



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News briefs

THE ECONOMY

Wage and price controls to be phased out in 1978

The Canadian government has announced it will start phasing out its program of wage and price controls on April 1, 1978. This program, which was designed to combat inflation, was begun in October 1975. The measures included guidelines on wage and salary increases. They also limited profit margins and price increases for all companies with 500 or more employees. As part of its anti-inflation program the government also introduced a gradual slowing down of the growth in money supply and implemented restraints on government expenditures.

In announcing the end of the program, Finance Minister Jean Chrétien said, "the controls on prices, wages and other incomes have contributed greatly to checking the inflationary spiral in our economy. But they should not be a permanent program because the government does not believe in excessive intervention in the marketplace. While controls cannot be removed immediately, phased decontrol will begin... two and one-half years after the program began.

"The further period of control will enable us to make more progress in bringing down the rate of inflation and in reducing inflationary expectations. In the next few months we will amend the Anti-Inflation Act to ensure effective administration of controls during the period of transition and to minimize the risk of a bulge when controls come off. We will also proceed with establishment of an agency to monitor and report upon price and cost developments.

"In the phased process of decontrol beginning next April 14, employees will be free of controls for their guideline years which start after that date. Business will be free of price and profit controls for their fiscal years which begin after that date."

Other policies and targets

Mr. Chrétien also said the government plans to introduce a program of employment credits for private firms, and to continue to spend a total of \$450 million for job creation. As part of the same announcement he said the government would extend by regulation for another year the fast write-off for anti-pollution equipment until 1980.

He added, "for business generally, we are making progress in diminishing unnecessary regulation and filing of statistical forms. The need for efficiency and higher productivity is increasing as we move closer to the hard bargaining of the multilateral trade negotiations."

According to the Finance Minister, the government expects the economy to grow in real terms by 5% in 1978. "I do not want a temporary surge which cannot last and which will start the process of inflation all over again. But I do want sustained growth of between 5 and 6 per cent in order to bring unemployment steadily down."

"The expansion should be led by exports and business investment... Government spending should grow less rapidly, but consumer spending can and should grow in line with the economy as a whole. It is this growth, together with higher exports, which will create the demand for more capital investment."

The drop in the value of the Canadian dollar, Mr. Chrétien noted, "has helped in restoring our competitive position. But this is not a fundamental solution to our problems. A falling exchange rate pushes up many costs and prices in Canada. The answer must be found in getting the rate of inflation down..."

BUSINESS

Federal government program to improve business-government relations

A federal government task force on Canada's business climate — Enterprise '77 — is developing a program to improve relations between the government and Canada's business community. The Enterprise '77 program — started this spring by the federal Industry, Trade and Commerce Department — involved officers of the department visiting more than 5,000 businesses across the country to learn about the problems and concerns of businessmen in Canada.

The information gathered during these interviews is being analysed by the federal government to enable it to become more responsive to the needs and concerns of the business community.

Having initiated Enterprise Canada '77 while he was Minister of Industry, Trade and Commerce, Jean Chrétien set in motion the wheels which would give a new momentum to the Industry, Trade and Commerce Department and saw to it that all other government departments and agencies were made aware of the criticisms levelled by the private sector.

A major complaint of Canadian businessmen was the Industry, Trade and Commerce Department's apparent inability to effectively communicate news of its programs and activities.

Mr. Chrétien's determination to establish close links with the business community enjoys the full support of Jack H. Horner, who succeeded him as Minister of Industry, Trade and Commerce in September and by Anthony Abbott, the new Minister of State for Small Business who has endorsed the 10-point plan for small business formulated by his predecessor, Len Marchand.

Improved government services to business and more information on programs offered by all levels of government to help business are planned. This was prompted by evidence gathered by the task force which showed that businessmen in Canada tend to lack knowledge on the range of assistance available to them through government.

Part of the Enterprise '77 program also included seminars and conferences to bring together businessmen and government officials to discuss the full range of government programs and services with the view that these discussions will be mutually beneficial.

New federal program to help small business

A new federal program to help small business enterprises in Canada has been announced by the country's new federal Minister of State for Small Business, Anthony Abbott. Mr. Abbott, 47, former Minister of Consumer and Corporate Affairs, said the federal government plans to reduce the paperwork imposed on small businesses by Statistics Canada and other federal government departments. He also plans to make information about government programs to assist businessmen more easily obtainable.

Another thrust of the program is to bring small firms together with larger ones through subcontracting, franchising, licensing, technology sharing and personnel exchanges. Mr. Abbott has also proposed the establishment of venture development centres to help small businesses obtain financing and other services by bringing together investors, entrepreneurs, technological and government experts and government agencies.

He also said he intends to work with Jack H. Horner, federal Minister of Industry, Trade and Commerce, to ensure all programs of that department are made available to small business enterprises. Among Mr. Abbott's other aims are co-ordination of existing programs among federal departments and agencies and the cutting out of duplication of services between federal and provincial departments.

Canada has an estimated 600,000 small businesses. The federal government defines a small business for the purposes of this program as one with 100 or fewer employees involved in manufacturing or an enterprise in any other sector employing 50 or fewer.

ENERGY

More land opened to oil and gas exploration

The Canadian government has ended its moratorium on the issuance of oil and gas leases under its jurisdiction, thereby opening up more than 1,300 million acres of land in far northern and offshore areas to oil and natural gas exploration and development.

These and other amendments to Canada's oil and gas land regulations inaugurate a new system for the exploration and development of oil and gas and are designed to provide incentives for industry to intensify the search for oil and gas in Canada's frontier areas. Included in the areas newly opened for exploration are more than 600 million acres — including offshore areas — never before covered by permit or lease, as well as about 700 million acres once held under permits or leases which had not been re-issued.

The amended regulations also provide special options for Petro-Canada, the federal Crown corporation involved in oil and gas

exploration and development, to obtain up to 25% ownership in rights of exploration under certain specified circumstances.

One of these Petro-Canada options is directly tied to the net Canadian equity represented by holders of lands in a particular category, and thus oil and gas companies are provided with an opportunity to meet the requirement of a minimum 35% Canadian ownership by increasing either the Petro-Canada or the private Canadian ownership. This is likely to afford Canadian companies a greater opportunity to become involved in the oil and gas exploration and development in frontier regions and is likely to increase Canadian ownership of oil and gas discovered and produced there.

In a Memorandum of Understanding with premiers of the Maritime provinces, the federal government has agreed that the provincial governments of Canada's Maritime provinces will be consulted when applications are made for new exploration rights in any offshore areas of the Maritime provinces — Nova Scotia, New Brunswick and Prince Edward Island.

GOVERNMENT APPOINTMENTS

Chrétien is Canada's new Finance Minister

Jean Chrétien, 43, is Canada's new Minister of Finance. He was formerly Minister of Industry, Trade and Commerce and Minister responsible for administering the Foreign Investment Review Act. In his capacity as Canada's Finance Minister, he is also Governor for Canada of the International Monetary Fund and the World Bank. Mr. Chrétien has previously served, too, as President of the Treasury Board, Minister of National Revenue and Minister of Indian and Northern Affairs. He has been a Member of Parliament since 1963.

Horner new Industry Minister

Jack H. Horner, 50, is Canada's new federal Minister of Industry, Trade and Commerce. He is also Minister responsible for the Foreign Investment Review Act. Before his recent appointment, Mr. Horner was Minister of State Without Portfolio.

He has held a seat in the House of Commons since 1958 and has served as

chairman of the House of Commons Standing Committee on Transport and Communications and has also served on the standing committees on Agriculture and Banking and Finance.

PROVINCIAL REGULATIONS

Ontario's development corporations lower interest rates to small businesses

Loans to small businesses from three Ontario development corporations now carry lower interest rates and increased maximums — changes that are part of an effort to stimulate the province's economic growth. The new rate obtainable from the Ontario Development Corporation and the Eastern Ontario Development Corporation is 2% below their current lending rate — which is 11% on loans up to \$200,000 to businesses with fewer than 100 employees. The interest rates are subject to quarterly review.



Jack H. Horner, Canada's new Minister of Industry, Trade and Commerce.
PHOTO: Matthews Studio

Maximum assistance available through all term loans is increased to \$500,000 to equal the Ontario Business Incentive Loan maximum. The Ontario Venture Capital Loan Program, which assists in the introduction of new technology in industry, has been placed in the same category as incentive loans. This permits up to five years' deferral of principal and/or interest payments.

The corporations' loans are available to secondary manufacturing industries, service industries in support of manufacturing and the tourist industry. Loans are not available to wholesale and retail businesses, resource industries or service industries which are not operating in support of manufacturing. The development corporations' prime goal is to stimulate the economy, particularly in slow growth areas. Maximum loans to businesses in Metropolitan Toronto are therefore limited to \$200,000.

PROVINCIAL REGULATIONS

Ontario abolishes some non-resident land taxes

The government of Ontario now permits non-residents of the province to acquire — exempt from a 20% tax — land defined or used as farm land, recreational land or woodland.

PIPELINE

Alaska Highway route agreed upon by U.S. and Canada

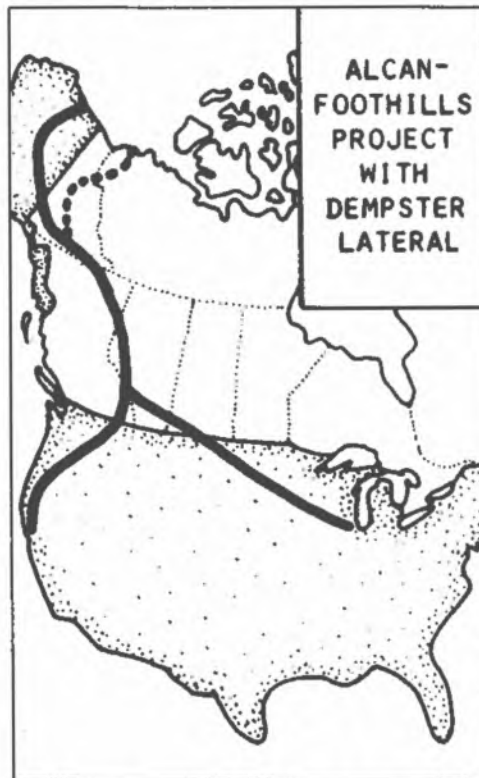
Canada and the United States have agreed on the Alaska Highway route through southern Yukon Territory for a pipeline to transmit Alaskan natural gas to U.S. markets. The project is the largest single private energy project in history. The pipeline from Alaska's Artic gas fields would cross Alaska, follow the Alaska-Canada highway through Yukon and Alberta, then cross Saskatchewan to the United States.

Rejected was the Mackenzie Valley route, backed by some of the major oil and gas producers because Canada's National Energy Board said it presented greater hazards to the environment and to the native peoples of the northern regions. Also rejected was the "all-U.S." El Paso route which would have involved the shipment of liquified gas from Alaska to U.S. ports.

The joint statement on the pipeline route issued by Canada's Prime Minister Pierre Trudeau and U.S. President Jimmy Carter said in part: "While providing Canada the

opportunity to accelerate development of its gas reserves and providing for billions of dollars of additional investment in the Canadian economy this pipeline will stimulate the gas industry in Canada, and together with the early prospect of connecting new sources of supply, will generally enhance the availability of gas to meet market needs.

"The potential to secure increased Canadian, as well as Alaskan supplies, and the magnitude of consumer savings that can be achieved by an all-pipeline route guarantee the superiority of this proposal. We have decided to embark together on this historic project which holds the promise of great benefits to both countries, and which confirms anew the strength of the ties that link us. "[See also The giant Canada-U.S. pipeline — the Alaska Highway project p. 5.]



Map showing the proposed route for a pipeline to transmit natural gas from Alaska through Canada to the United States.

MAP: Supply and Services Canada

TRADE MISSIONS

Two provincial premiers promote trade abroad

The premiers of two provinces, British Columbia and Ontario, recently led trade and

investment missions abroad, one to Europe and the other to Japan. In both cases a primary objective of the mission was to promote a wider appreciation of investment opportunities and, meanwhile, to gain a better understanding of the needs and expectations of investors. This theme of industrial co-operation was extended when the federal Minister of Industry, Trade and Commerce, Jack H. Horner, visited Europe in November.

Premier W.R. Bennett of British Columbia, accompanied by Evan Wolf, his Finance Minister, Don Phillips, his Minister for Economic Development, and senior officials, visited the United Kingdom, Belgium, France and Germany as well as the European Economic Commission and the Multinational Trade Negotiation delegation in Geneva. In a series of discussions with commercial, financial and industrial leaders the mission outlined British Columbia's strategy for development, including its position on foreign investment, resource taxation, exchange of technology and upgrading of resources.

Pointing out the wealth of natural resources available for development in British Columbia, Premier Bennett stressed the special advantages arising from its abundance of energy sources at a time when "the key to the establishment of processing or manufacturing facilities is a long-term supply of energy at predictable prices."

On the other side of the world, Premier William Davis of Ontario met top Japanese and Hong Kong industrialists in one phase of a 10-country investment mission being undertaken by Ontario Minister of Industry and Tourism Claude Bennett. In many of the countries visited, that mission joined forces with trade missions from various Ontario industry sectors to promote investment, industry and tourism.

In Japan, where investment seminars and other meetings provided an opportunity for the mission to assess the interests and concerns of investors as well as to clarify investment policy, Premier Davis noted encouraging prospects for Ontario. In particular, interviews between manufacturers and Ontario officials indicated a strong interest in joint ventures and licensing arrangements. Summing up his tour Mr. Davis said, "Although in many cases it will take some time to see actual contracts signed, plants built or orders processed, we have opened new doors to understanding, co-operation and interest that can only have beneficial results in the long run."

The giant Canada-U.S. pipeline — the Alaska Highway project

by Jeff Carruthers

As early as next year, a loose consortium of Canadian and American natural gas pipeline companies are to begin work on what is already being billed as the largest completely private capital project anywhere, anytime, in the world. The project is a natural gas pipeline system stretching more than 5,000 miles [8,000 kilometers] from the frozen oil and gas field north of Alaska across western Canada and into western and central United States. The Alaska Highway pipeline project, as it is now called, will cost a minimum of \$10 billion by the time it is to start operating in 1983. It could cost much more if costs get out of control, as some economists and environmentalists fear.

To most Americans and Canadians, it is merely a big energy project — the latest in a string of increasingly expensive methods for tapping smaller and smaller incremental quantities of expensive energy during the dying days of what may be called by historians "the age of fossil fuels."

But to the governments of Canada and the United States, who during 1977 jointly studied and negotiated the project now being undertaken, the Alaska Highway pipeline project is many more things. It is first and foremost a great economic stimulus.

In this pipeline project, the Canadian portion alone — the focus of this article — is to cost over \$4 billion. It is expected to generate 100,000 man-years or more in direct and indirect employment — an important side benefit in an economy facing unemployment in excess of 8%.

As a matter of corporate and government objectives, the Canadian portion of the project is to be controlled almost exclusively by Canadians and is to attain 85% or higher Canadian content in goods and services. Debt capital is to be sought, initially, only in Canadian and American capital markets. Preliminary financing forecasts for the project as a whole — based on the assumption that the project would not encounter major, unexpected cost overruns — indicated that capital markets outside North America shouldn't have to be tapped. At all events, whatever happens on the debt side, the equity for the Canadian portion will be exclusively Canadian — at least that's the goal.

Financing could create problems

The concern in some financial circles is that this financing plan could create problems for other government and private projects also seeking funding from the Canadian and U.S. capital markets at the same time. Even if the debt capital is raised entirely in the American

market, there will be a dramatic increase in Canada's foreign debt. However, the carrying of Alaska gas through the cross-Canada pipeline will provide U.S. dollars to service that debt and to pay it off over the lifetime of the project.

The choice of the Alaska Highway project over the rival proposal for a Mackenzie Valley route is an important victory for the two western Canadian companies involved. Alberta Gas Trunk Line Co. Ltd. of Calgary and Westcoast Transmission Co. Ltd. of Vancouver are respectively the largest gas pipeline companies in Alberta and British Columbia and are two of the three largest gas pipeline companies operating in Canada. They operate in Canada's conventional gas and oil treasurehouse and therefore depend on being able to continue moving gas to markets in order to keep their businesses alive and expanding.

Even with recent successes in finding new gas reserves in Alberta and British Columbia in the past two years, the longer-term prospect is for conventional gas (and oil) production in western Canada to fall and for Canada to face domestic shortfalls sometime in the early to mid 1980s in markets traditionally served by domestic oil and gas — unless new sources are brought on-stream from frontier areas, mainly the north. For Alberta Gas Trunk, an important part of the victory associated with winning approval for the Alaska Highway pipeline project is the prospect that Alberta will be able to continue its key role in energy development, transmission and processing even as its resources dwindle, since frontier gas will now move through Alberta on the way to other markets in Canada and the United States.

In many ways, the drive towards maximization of Canadian participation and content in the Canadian portion of the Alaska Highway pipeline project stems more from the corporate players than from the Canadian government, although the government has said it will be watching carefully over corporate shoulders throughout the tendering and construction phases. Also, it will reflect and extend western Canadian industrial development, focused in Alberta and British Columbia, rather than the more traditional development in the financial and industrial centres of central Canada.

This huge pipeline project typifies the problems faced by advanced western nations as they scramble to develop the dwindling amounts of non-renewable petroleum resources and are forced to devote increasing amounts of capital and other valuable resources just to keep pace with society's energy hunger.

Jeff Carruthers is an energy correspondent for FP publications, which operates a chain of newspapers across Canada.

For the United States the pipeline will tap 22-24 trillion cubic feet (TCF) of gas associated with the crude oil fields at Prudhoe Bay, along the northern coast of Alaska. Later, Canada will be attaching — at additional costs — its own, smaller gas reserves totalling 5.2 TCF in the Mackenzie Delta-Beaufort Sea region to the east. The Alaskan reserves would fill one year of the current U.S. gas demand; the Canadian reserves, roughly two years of current Canadian domestic gas demand.

The United States will be paying for new pipeline facilities associated with the Alaska Highway pipeline project a sum greater than the value of all the gas pipeline facilities now in use in the United States. Canada will oversee the spending within its borders of more than \$4 billion during a three to four year period — not including necessary expansions of existing pipelines within Canada — or about 10 times the current total of annual capital spending in the country's entire pipeline industry.

Two projects envisioned for Canada

For Canada, there are really two projects envisioned: first, the cross-Canada mainline to carry Alaskan gas to markets in the lower 48 states; second (probably three to five years later) construction of additional but smaller-diameter spur lines connecting the Mackenzie Delta gas reserves to the mainline in southern Yukon Territory. Under an agreement negotiated recently with the U.S. government, U.S. purchasers of Alaskan gas will pay for part of the spur lines (whenever needed by Canada) and will pay the cost of building a larger-capacity line through Canada to accommodate the later Canadian gas.

The providing of this "option" for Canada to tap into the pipeline later — an option which doesn't have to be exercised if Canada later decides there are cheaper or better ways to get extra energy from the north — was considered essential to win broad public support in Canada for the cross-Canada Alaskan pipeline.

The schedule, as now envisaged, would see final government approvals for the project being granted by the U.S. Congress and the Canadian Parliament late in 1977; necessary contracts to transport the Alaskan gas to U.S. consumers and to ensure implementation of the government-to-government agreement being signed by the pipeline consortium by early 1978; final design of the pipeline and preliminary financing being accomplished in 1979; and construction starting on southern sections as early as 1979, for completion and start-up of the whole system in 1983. At the same time, study and review of the Canadian spur lines would take place through 1979, with construction possibly beginning in 1983 with start-up in 1985.



Alcan Pipeline Project and Connecting Pipelines, (Via Alaska Highway)

- | | | | |
|-------|---|-----------|---|
| ————— | Alcan Pipeline Co./Northwest Pipeline Corp. | - - - - - | Alberta Gas Trunk Line Co. Ltd. |
| | Foothills Pipe Lines (Yukon) Ltd. | | Alberta Natural Gas Co. Ltd. |
| ————— | Westcoast Transmission Co. Ltd. | ————— | Connecting Pipelines in the United States |

MAP: Alberta Gas Trunk Line Co.

Once the government approvals are all granted, the next major stumbling block the pipeline consortium in Canada will face will be the arranging of financing.

The two governments, during their negotiations on the joint project, agreed that the pipeline should be and could be financed completely in the private sector. Many financial experts are skeptical but optimistic.

According to the plan, as filed with regulatory agencies, Foothills Pipe Lines (Yukon) Ltd. (see sidebar on "The Players") would establish operating subsidiary companies responsible for different segments of the pipeline in Canada.

A wholly owned subsidiary would be responsible for the crucial section through southern Yukon, where no other major

pipeline has ever been built and where major technical problems associated with frozen and partially frozen ground are expected. Four other subsidiaries, 51% controlled by Foothills Yukon and 49% controlled by a local pipeline member, would be established to raise the debt and build and operate pipeline segments in British Columbia, Alberta and Saskatchewan (see sidebar on "The Players"). The U.S. partners, led by Northwest Pipeline Corp. of Salt Lake City, would be exclusively responsible for financing, building and operating the trans-Alaska portion and the connecting pipelines in the lower 48 states of the United States.

As previously mentioned, the Foothills consortium (which is responsible for the Canadian portions of the pipeline) plans to have all the equity controlled by Canadians. As proposed, the project would be financed

by companies established solely for this one project. The companies would therefore be lacking in any sources of income until the pipeline starts operating. The debt-to-equity ratio would be 75-25, with the equity portion "pre-committed" to show prospective investors in the debt that the equity would be at risk and would not fall below the 25% level during construction. The initial corporate backers would also absorb up to 30% of the cost overruns, if this should prove necessary.

Incentives to restrain cost overruns

Several incentives are built into the Canada-U.S. pipeline agreement to keep cost overruns below 35%, including a U.S. promise to pay the full "cost of service" — construction, operation, and debt servicing — on a \$440 million spur pipeline from the mainline at Whitehorse, Yukon Territory, to Dawson, 350 miles [536 kilometers] away in Yukon Territory and half way to the Mackenzie Delta gas reserves. The return on equity of the corporate backers will also be tied to their success at minimizing cost overruns.

According to Foothills executives, the debt portion of the project financing will consist of long-term debt (all first mortgage bonds, most of which would be offered for sale in the U.S. capital markets) and short-term bank loans from Canadian and U.S. banks. No unsecured debts would be offered, in part because the consortium expects to be able to obtain lower interest rates from major institutions (insurance companies and pension funds, for example) on secured long-term debt.

Estimates filed with the National Energy Board — the regulatory agency in Canada responsible for such pipeline projects — indicate that Canadian banks would be tapped for approximately \$1.2 billion, most of it being drawn upon in 1981. Another \$800 million would be offered in long-term debt in the Canadian market, again mostly in 1980 and 1981. U.S. long-term debt offerings would involve about \$1.6 billion, with some of it offered as early as 1979, but with the highest concentration in 1981. Total debt, including provision for some cost escalations, would be about \$3.6 billion. The figures assume a one-year delay in actual financing, compared with that assumed in the National Energy Board's report, and are based on use of only a 48-inch-diameter pipeline. Capital costs for a 54-inch-diameter pipeline would be roughly 10% higher.

Plans for issuance of preferred shares, as part of the equity, to U.S. companies using the pipeline have been dropped — in part because the Canadian consortium doesn't feel it needs the U.S. equity and in part because the U.S. companies will have to find equity for the U.S. portions of the project (in Alaska and the lower 48 states). Similarly, a

planned issuance of up to \$285 million in preferred stock in the Canadian market, as part of the equity, has also been dropped as a result of the corporate restructuring which the National Energy Board required for the project. But consortium executives say they are contemplating a possible public share offering of perhaps \$60 million, either by the parent Foothills Yukon company (which will have a 51% equity interest in all the Canadian pipeline operating subsidiaries in the south and 100% in the two Yukon subsidiary companies) or by the subsidiary companies responsible for the Yukon portions of the pipeline.

Total equity would approach \$950 million

In either case, the share offering would be made only in Canada and might be made first to residents of Yukon Territory (who will be disturbed most by the pipeline), including native groups there. Total equity, pre-committed but invested throughout the construction period, would approach \$950 million, including provision for cost overruns, according to the preliminary financing plan filed with the National Energy Board. A more precise and final financing plan is scheduled to be developed early in 1979.

The benefits to accrue from the project will be of two kinds: additional energy supplies, first to the United States, then later to Canada when Mackenzie Delta gas is connected; and economic, both direct and indirect, resulting from such a large capital project.

For Canada, the initial energy benefits will be small: some Alaskan gas will be made available to remote communities along the pipeline route in Yukon, northern British Columbia and northern Alberta. This amount of gas will be replaced by Alberta gas before the pipeline crosses into the United States. Later, when the still-small Mackenzie Delta gas reserves are added (at throughputs of probably 700 million to 1 billion cubic feet a day), the tight gas supply situation in Eastern Canada will be relieved, if only temporarily.

In terms of economic benefits from the pipeline project, the one given the highest billing by the Canadian government is the increase in the number of jobs. Government experts estimate that the modified pipeline project negotiated with the United States should produce nearly 100,000 man-years of employment, both direct and indirect (including the impact of the eventual spur line connections to Canada's own northern gas). Of this total, approximately 28,600 man-years would be in construction, 40,500 in manufacturing, and more than 31,000 man-years created as a result of indirect activities induced by pipeline spending.

Obviously, pipeline construction companies in western Canada will be prime beneficiaries of the corporate and

government intention to use Canadians, as will the many Canadian-based engineering and consulting firms, which will be needed to undertake what the pipeline companies will not be able to handle even with their expanding staffs.

Steel industry to benefit from pipeline project

The Canadian steel industry will be another major beneficiary. Unlike the rival Mackenzie Valley pipeline, which would have used large quantities of steel pipe from the United States and Germany (partly because of Canada's limited capability to produce the special thick-walled 48-inch pipe proposed for that project), the Alaska Highway pipeline project plans to have all the pipe for the Canadian portion — some 1.33 million tons of steel, worth almost \$1 billion — manufactured in Canada. Two companies, the Steel Co. of Canada Ltd. of Toronto and Interprovincial Steel and Pipe Co. Ltd. of Regina, have sufficient combined capacity to make both the low-pressure 48-inch-diameter and the low-pressure 54-inch-diameter pipe, whichever is ultimately selected.

While Canada doesn't have any Canadian-owned suppliers of gas compressor equipment, Foothills Yukon has indicated it is leaning towards using equipment from Westinghouse Canada Ltd., which has designed and would build in Canada a large compressor and which has been given exclusive export marketing rights for the compressor by its U.S. parent. The compression equipment would be the second most valuable capital purchase associated with the project.

Foothills Yukon expects to attain 90% Canadian content in purchases of valves and fittings, and hopes to entice some companies (including Grove Valve of California, a wholly-owned subsidiary of Alberta Gas Trunk) to establish new manufacturing facilities in Canada as a consequence of obtaining business for the pipeline. However, given the emphasis on Canadian content, businesses already established in Canada will probably have the inside track when the project looks for help.

In construction equipment, the target for Canadian content is less than 70%, since the volume of equipment for the project wouldn't be sufficient to warrant establishment of new lines of equipment production in Canada. But adaptation of existing foreign equipment for use in the Arctic would increase Canadian content.

Both the Canadian government and Foothills Yukon indicated they would try to obtain offset arrangements with foreign suppliers as a way of increasing indirect Canadian content in the project. Offsets might include agreements with foreign suppliers to use more Canadian parts in

future sales unrelated to the pipeline project.

It is expected that the direct and indirect demands generated by the project will pick up the current slack in the Canadian economy, rather than overload it. For instance, by the time pipeline construction starts in 1979 and 1980, work on several major petrochemical and oil sands plants in western Canada will be finished and the labour forces and other resources will have been made available for the project.

During the public debate on the Alaska Highway pipeline, the project was often likened to the Canadian Pacific Railway, which, during the last century, brought the Canadian confederation together with a transportation and communication link from east to west. The pipeline promises to bring Canada's north into closer proximity with the developed — and resource-hungry — south.

Technical details of the pipeline project

The proposed \$10-billion Alaska Highway natural gas pipeline will extend 2,754 miles [4,405 kilometers] from Prudhoe Bay, on the north slope of Alaska, through Alaska and along the Alaska-Canada highway through southern Yukon Territory and northern British Columbia, across Alberta, and then in two legs to the U.S. border and the connecting pipelines in the lower 48 states.

Initially planned as a 48-inch-diameter, buried pipeline operating at a pressure of 1,260 pounds per square inch all the way to the bifurcation point in central Alberta, the project now will be overbuilt from a capacity standpoint from Whitehorse in southern Yukon into Alberta. This is likely to be accomplished by using 54-inch-diameter

pipe, operating at pressure of about 1,120 pounds per square inch, so that maximum throughput on the northern half of the Canadian section is boosted to about 3.8 billion cubic feet (BCF) a day from about 3.2 BCF a day. The overcapacity was agreed to in government-to-government negotiations between Canada and the United States, so that Canadian northern gas could later be connected to the pipeline at Whitehorse and be transported without costly looping (that is, physical expansion) of the pipeline system.

Initially, the pipeline system will carry only Alaskan gas to markets in the lower 48 states at a throughput of about 2.2-2.4 BCF a day. The overbuilding of the pipeline will reserve more than 1 BCF a day for Canadian



Construction of 42" pipe west of Sundre, Alberta



Laying 42" pipe in southeast Alberta



Coating and wrapping pipe for protection against corrosion
PHOTOS: Alberta Gas Trunk Line Co.

gas, if and when that is connected. The Alaskan gas is scheduled to start flowing early in 1983, on the assumption that construction on the northern legs in the Yukon and Alaska gets started early in 1981. Southern portions of the pipeline are likely to be pre-built, starting in 1978 or 1979, to allow accelerated exports of Alberta gas (in the years before Alaskan gas deliveries begin), perhaps at levels of 800 million cubic feet a day, in exchange for later swaps of Alaskan gas to supply Canadian markets. The pre-building of facilities in the more traditional southern areas should help reduce the negative impacts of inflation for the overall project and help the pipeline consortium perfect new pipelining techniques for the tricky Yukon and Alaska sections.

The "players" in the pipeline game

The Alaska Highway gas pipeline consortium was originally the brainchild of two Canadian gas pipeline companies, The Alberta Gas Trunk Line Co. Ltd. of Calgary and Westcoast Transmission Co. Ltd. of Vancouver. Since it was designed to initially transport U.S. gas from Alaska to markets in the lower 48 states, a U.S. partner was recruited, Northwest Pipeline Corp. of Salt Lake City, Utah.

The two Canadian partners originally formed Foothills Pipelines Ltd. to promote an all-Canadian gas pipeline and at first proposed a route along the Mackenzie River Valley. Alberta Gas Trunk held 70% of the shares and Westcoast 30%. Subsequently, a wholly owned subsidiary, Foothills Pipe Lines (Yukon) Ltd. was established to handle the Alaska Highway project through the Yukon. Then, when the Canadian government gave initial approval to the Alaska Highway pipeline (rejecting the Canada-U.S. and the all-Canadian Mackenzie Valley pipeline projects), Foothills Yukon was reorganized to become the lead company responsible for the Canadian portion of the Alaska Highway pipeline project, and Northwest Pipeline took on the responsibility for organizing the Alaskan portion and the connecting facilities, new and expanded, in the United States.

At present, Foothills Yukon is 40% owned by Alberta Gas Trunk and 40% by Westcoast Transmission, with consideration being given to a later public share offering to reduce the respective corporate shares as much as possible, though not lower than 33% for each company. TransCanada PipeLines Ltd. of Toronto, a supporter of the competing Mackenzie Valley pipeline project to tap both Alaskan and Mackenzie Delta gas, joined the Alaska Highway pipeline project and is to take up a 20% equity interest in Foothills Yukon.

The three Canadian corporate members of Foothills Yukon are the country's three largest gas pipeline transmission companies. Westcoast, with \$757 million in gross plant assets at the end of 1976, operates the main gathering and transmission facilities for gas in British Columbia. Alberta Gas Trunk, with \$863 million in gross plant assets (including a growing diversified investment in petrochemicals and pipeline-related manufacturing sectors), operates the main gathering and transmission facilities for gas in Alberta, Canada's largest producer of oil and gas. TransCanada, with gross assets of \$1.6 billion, operates the large-diameter transmission system carrying gas from Alberta into markets in central and eastern Canada, as far east as Montreal. TransCanada and Alberta Gas Trunk are vying for the right to extend Canada's gas transmission facilities into Quebec province and to the Maritimes.

As it is now planned, Foothills Yukon will own and operate the main pipeline in the southern Yukon, stretching some 513 miles [820 kilometers] from the Alaska border to the British Columbia border.

Foothills Yukon will own 51% in subsidiary companies to be established to build the various sections in southern Canada, but actual construction and operation of each segment will be by the other owner of the subsidiary, the local transmission company. For example, in northeastern British Columbia, Westcoast will have the remaining 49% interest in the local subsidiary and will be responsible for overseeing the 439 miles [700 kilometers] of large-diameter pipe there. In Alberta, Alberta Gas Trunk will have the 49% interest in the local subsidiary and be responsible for operating and managing some 630 miles [1,010 kilometers] of large-diameter pipe. And in Saskatchewan, TransCanada will be the active partner overseeing 160 miles [255 kilometers] of pipe to the U.S. border.

For the 105-mile [170-kilometer] leg through southeastern British Columbia, to connect with pipelines going to California, Alberta Natural Gas Co. Ltd. (ANG) will be the active partner in the local subsidiary and will expand its existing pipeline there. ANG currently has gross assets in service of \$75 million.

The major Canadian multinational oil companies with gas reserves in the western Canadian Arctic — Imperial Oil Ltd. (the Canadian Exxon subsidiary), Shell Canada Ltd., and Gulf Oil Canada Ltd. — had backed the rival Mackenzie Valley pipeline project and have been effectively shut out from equity participation in the Canadian portion of the Alaska Highway pipeline project. The two original backers of Foothills — Alberta Gas Trunk and Westcoast — want to keep equity control in Foothills Yukon in the hands of Canadian-owned companies.

On the U.S. side, Northwest (operator of a regional gas transmission system in northwestern United States) has recently been joined by the major U.S. backers of the rival Mackenzie Valley pipeline project: Columbia Gas Transmission Corp., Michigan Wisconsin Pipe Line Co., Natural Gas Pipeline of America, Northern Natural Gas Co., Pacific Gas Transmission Co., Pacific Lighting Gas Development Co., Panhandle Eastern Pipeline Co., and Texas Eastern Transmission Corp.

The U.S. participants will be responsible for the 731 miles [1,170 kilometers] of pipeline in Alaska, and all of them would like to receive some of the Alaskan gas for their own distribution systems in the lower 48 states.



Upturn in capital spending and FIRA cases

by Edward M. Cape

It now seems almost certain that the upturn in business capital spending in Canada, which began in the fourth quarter of 1976 (see Chart 1), will continue through 1977 and into 1978 — and may well accelerate. So far, from the third quarter of 1976 to the second quarter of 1977, the rate of advance has been moderately strong — 2% per quarter in "real" terms, equivalent to an annual rate of 8%.

... trends in FIRA cases may possibly prove... to be sensitive indicators... of trends in capital spending

Meanwhile, new applications for review under the Foreign Investment Review Act (FIRA) have shown a much sharper upturn (see Chart 2). Acquisition cases soared from less than 10 per month in the first quarter of 1976 to almost 30 per month in the third quarter of 1977. New business cases, which had levelled off at about 20 per month in late 1976 and early 1977, also soared to about 30 per month in the second and third quarters of 1977.

There has not yet been enough experience of trends in FIRA cases to warrant any firm conclusions about the extent to which they may reflect — or indeed forecast — trends in business capital spending. Acquisitions of Canadian businesses by non-Canadians became subject to the Foreign Investment Review Act on April 9, 1974. Since then, the trend in acquisition applications has been, on the whole, upward; the annual figures for the three years 1974-76 were 102, 166, and 171. But there was what appeared to be a "cyclical" slump and recovery in 1975-76.

Historical evidence suggests that foreign acquisition activity in Canada is likely to show "cycles" which roughly coincide with those of capital spending and overall business activity. Since the Second World War, at any rate, foreign acquisition activity in Canada has usually, though not always, displayed a cyclical pattern similar to that of general business activity. The correlation has been greater in timing than in amplitude. (See G.A. Edwards, "Historical Perspective on Acquisition Trends", *Foreign Investment REVIEW*, Autumn 1977; and same author, *Foreign Acquisition Activity in Canada: A Long-Term Perspective*, FIRA Paper No. 1, February 1977.)

The establishment of new businesses (as distinct from the acquisition of existing businesses) by non-Canadians became subject to review under the Foreign Investment Review Act on October 15, 1975. But investors were well aware many months earlier that the provisions for review of new businesses would eventually come into effect, and the date of their coming into

effect was announced July 18, 1975. There is therefore every likelihood that many investors, prior to October 15th, speeded up their plans to establish new business — and that in consequence the number of FIRA new business cases was abnormally low for at least half a year after October 15, 1975. But the number was rising quite rapidly towards more-normal levels.

The flattening out of the trend in FIRA new business cases in late 1976 and early 1977, at about 20 per month, followed by sharply higher levels of about 30 per month in the second and third quarters of 1977, seems to suggest a "cyclical" pattern and one which roughly coincides in timing with that of business capital spending. Further experience with trends in FIRA cases may possibly prove them — particularly the new business cases — to be sensitive indicators, perhaps forecasting indicators, of trends in capital spending. They may also prove to be indicators of trends in the confidence that foreign investors feel towards Canada as a place to invest.

... applications for review under the Foreign Investment Review Act (FIRA) have shown a much sharper upturn

We should not, of course, read too much as yet into the sharpness of the upturn in FIRA new business cases as an intimation of impending strength in capital spending. Neither, however, should we rule out the possibility that a meaningful signal has been flashed regarding prospective strength in business capital spending.

What are some of the other factors in the outlook for business capital spending?

The Conference Board in Canada, one of the most respected forecasting groups in the country, expects "real" business spending to rise 7% between the second quarter of 1977 and the second quarter of 1978. This would be roughly the rate of increase that has occurred since the current uptrend began. The projected 7% increase is expected to be made up of a 10% increase in machinery and equipment outlays and a 4% increase in non-residential construction.

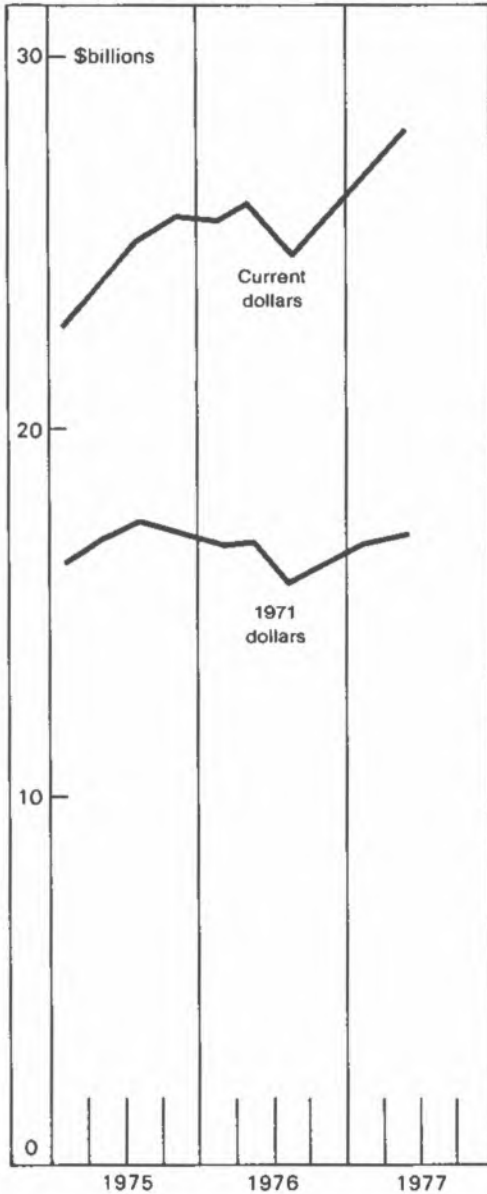
Most other economic forecasters in Canada are expecting smaller increases than the Conference Board. But a few economists, including this writer, expect larger increases.

The Canadian Government's mid-1977 survey of capital spending intentions indicated that business enterprises planned to spend 13.3% more in current dollars in 1977 than they spent in 1976. If these reported plans are taken at face value, and if account is taken of evidence that the inflation rate for capital goods is unlikely to

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CHART 1

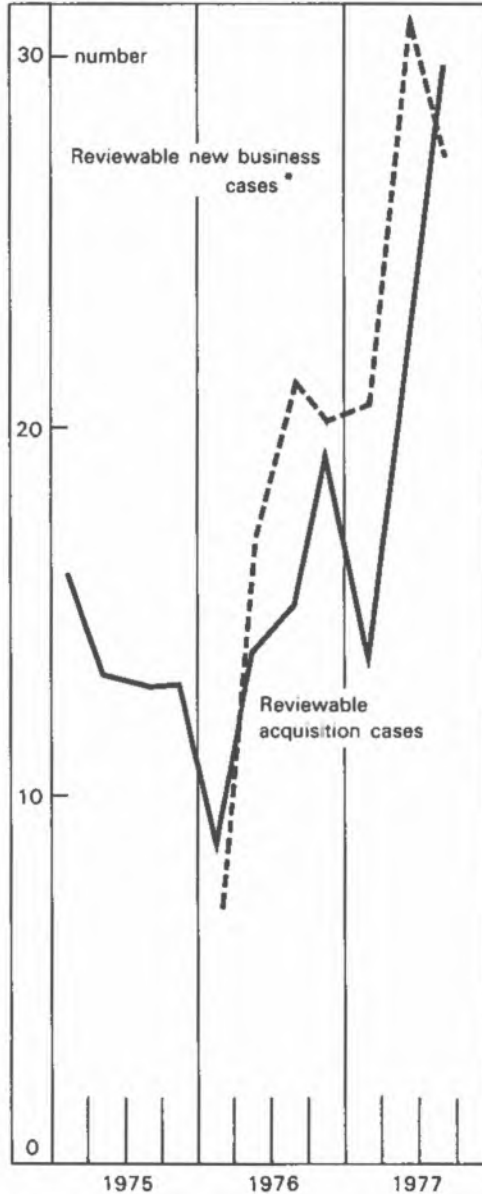
BUSINESS CAPITAL SPENDING IN CANADA
(quarterly, seasonally adjusted at annual rates)



Source: Statistics Canada, *National Income and Expenditure Accounts*, Second Quarter, 1977.

CHART 2

NUMBER OF NEW FIRA CASES
(monthly average per quarter)



* Provisions for review of new businesses came into force October 15, 1975.
Source: Foreign Investment Review Agency.

even a "mere" 4.5% increase in real spending for the full year 1977 over 1976 would mean that the second-half figure would have to be about 6% higher than that for the first half of 1977 — an advance at an annual rate of about 12%.

Secondly, excess capacity exists in some industries and this, according to some analysts, makes a significant capital spending upturn unlikely. The same type of argument has been made during every recession; yet every upturn in capital spending has begun and has gathered momentum during a period of considerable excess capacity. In the third quarter of 1977, according to government

Undistributed profits... averaged 17% higher in the first half of 1977 than in the last half of 1976

estimates, Canadian industry was operating at 83% of capacity, with the ratio somewhat higher in manufacturing and somewhat lower in mining. However, as best as could be determined, only about one-third of all business firms were actually operating significantly below capacity; fully two-thirds of all firms were operating at, or only slightly below, capacity. Another source of evidence, a Conference Board survey in September, indicates that only 28% of respondents felt that excess productive capacity was a factor inhibiting their company's capital spending.

Thirdly, there are questions about the amount and quality of corporate profits. Undistributed profits, adjusted for seasonal factors, averaged 17% higher in the first half of 1977 than in the last half of 1976. But much of this sharp increase was due to inventory profits resulting from the decline in the Canadian dollar. Other doubts about the quality of profits are the well-known ones related to the absence of adequate inflation-accounting. At any rate, most analysts expect the uptrend in profits to continue, but to be moderate. The Conference Board, for

A profit increase of about 20% in 1978 would seem to be well within range

instance, forecasts a profit increase of 11.2% in 1978 over 1977 — a rather small increase in "real" terms.

This may not be entirely consistent with a set of business opinions reported by the Conference Board in September. The survey question enquired about "the expected financial position of their firms in six months time": 54% of respondents expected an improvement in their company's financial position, 44% expected no change, and 2% expected a deterioration. This would seem to

exceed 7.5% in 1977 as a whole, the implication is that the year-over-year increase in business capital spending will be about 6% in real terms.

In view of what the national income and expenditure accounts show to have already occurred in the first half of 1977, the implication of a 6% increase for the full year over 1976 is that business capital spending in real terms will be 7.7% higher in the second half than in the first half of 1977 — equivalent to an annual rate of increase of over 15%.

A few of the cautionary factors in the outlook ought to be noted — though not

necessarily given great weight.

Some businessmen may have been building into their statements of intended capital spending a higher assumption about the inflation rate than is warranted by current evidence. That is, if businessmen were assuming an inflation rate of, say, 9% in capital goods, their statements of intentions to increase current dollar spending by 13.3% (as reported) would have meant they were intending to increase "real" outlays by about 4.5%. It is difficult to see how businessmen could have been assuming anything more than a 9% inflation rate in capital goods when the actual rate during the first half of 1977 was averaging less than 7%. In any event,

intimate a larger increase in overall profits than the Conference Board is forecasting.

This writer expects a much larger profit increase than 11% in 1978 — something more in the order of 20%. Most forecasts of Canada's total output of goods and services (GNP) expect it to be up in 1978 by about 5% in real terms. Since little or no real growth is expected in output of government and community services, output of the commercial sector is likely to be up more than 5% — say 7%. A 7% volume increase coupled with, say, a 7% price increase would mean a 14% value increase in the commercial sector's output. Profit is likely to increase more than value of output, especially during the early stages of a recovery, when underutilized capacity is being employed more effectively and productivity gains are relatively large. A profit increase of about 20% in 1978 would seem to be well within range. An increase of this size would probably not, in these circumstances, exceed the profit guidelines of the Anti-Inflation Board, which generally allows profit increases related to production and productivity gains.

The budget was conceived as essentially a stimulus to business activity...

Although high profits (and cash flows) have historically proved to be the strongest of the supports to higher business capital spending, inadequate profits too may sometimes spur some business firms to invest more — as a necessary route to higher earnings. As well, a good deal of capital spending in Canada is related to the need to develop new supplies of natural resources, and this need is not closely related to short-term trends in profits.

Retained profits are, of course, only part of the cash flows available to business firms for capital spending. The federal budget of March 31, 1977, was designed to inject some \$800 million into business cash flows and some \$400 million into other tax relief — and to have its main impact in the second half of the year. The budget was conceived as essentially a stimulus to business activity, and there is every reason to expect that the intended impact will occur, more or less on schedule.

A fourth cautionary consideration is the fact that many of the investments planned are for "frontier" and "start-up" situations. This raises questions about how likely they are to proceed on schedule. Frontier and start-up projects are notoriously liable, despite the best-laid plans, to encounter problems and delays. But delays rarely result in cancellation; the spending trend is correspondingly increased at a later stage.

One of the brighter signs in the outlook for business capital spending is the breadth of the increases that seem to be in prospect. The planned increases for 1977, as indicated in the mid-year review, are 26% for oil and gas, 18% for mining, and 18% for utilities. Most heartening of all are the indications of recovery — and breadth of recovery — in manufacturing expenditures.

Capital outlays in chemicals and paper, which have been strong for several years, continue to show strength, with planned increases of almost 21% in each of these industries for 1977. But "all other"

Most heartening of all are the indications of recovery... in manufacturing expenditures

manufacturing, where "real" outlays declined in the past two years, also shows an average prospective increase of almost 21% in current dollars. Among the notable planned increases for 1977 are those for transportation equipment (85%), tobacco products (50%), primary metals (25%), food and beverages (24%), and machinery (21%).

There is another encouraging factor in the capital spending outlook. Two successive government surveys of business spending intentions showed that businessmen revised their plans for 1977 upward by 2% in May-June 1977 over November-December 1976.

Meanwhile, surveys of opinions by the Conference Board have shown that businessmen in Canada have been growing more optimistic about a moderation of inflation. In other words, businessmen may be revising their spending plans upward in real terms.

A third encouraging consideration is that any uptrend in capital spending is itself a stimulus to further increases. As businessmen become increasingly assured that the uptrend is firmly established and likely to continue, they undertake expenditures which they may not have planned to undertake so soon.

A fourth encouraging factor, and a very important one, is the firmness and smoothness of the U.S. business recovery. These characteristics of the U.S. recovery promise to make it also a relatively long one. For most Canadian exporters, the strength of the U.S. economy far outweighs in importance the weakness of some overseas economies. It also augurs well for a recovery of those economies.

All in all, while the spending uptrend implied in the surveys of intentions may perhaps not materialize precisely as scheduled, the rate of advance will almost certainly exceed, sooner or later, anything indicated in recent surveys and most forecasts. It would not be surprising, at least to this writer, to see business capital spending in Canada increasing, before long, at a fairly strong pace of about 3% per quarter, or 12% a year, in real terms.

MID-1977 INDICATIONS OF CAPITAL SPENDING INCREASES 1976-77

	Percent increase, 1976 actual to mid-77 estimate	Percent revision from preliminary estimate to mid-year estimate
Business enterprises (including government-owned businesses)	13.3	2.0
Manufacturing	20.5	4.5
Pulp and paper	20.8	0.6
Chemicals	21.1	1.2
Other manufacturing	20.3	6.5
Petroleum and gas	26.1	4.1
Mining	18.1	1.1
Utilities	17.8	0.6
Electrical power	26.1	2.3
Telephone and telegraph	9.3	-1.8
Other utilities	8.3	-1.2
Housing and social capital		
Housing	5.2	4.7
Institutions (schools and hospitals, etc.)	-0.7	-1.3
Government departments		
Federal	4.8	-1.9
Provincial	3.5	-4.1
Municipal	20.5	7.1
Total private and public	10.5	2.3

Source: Statistics Canada, *Private and Public Investment in Canada, Mid-Year Review 1977*.

Regional economic development — a Canadian priority

One of the traditional principles of federalism in Canada has been that the economic strength of the nation should be used to strengthen the less economically prosperous regions of the country. In 1969, the Department of Regional Economic Expansion (DREE) was established to channel and direct federal government efforts to this end.

Industrial development is a key element in Canada's regional development strategy

The primary aim of DREE is to ensure that development opportunities existing in Canada's slow growth regions are effectively pursued so as to improve employment and general economic conditions. Industrial development is a key element in Canada's regional development strategy. More investment in industry in the slower growth regions is an essential ingredient in developing or expanding economic activity. The federal government is doing this through direct incentives in the form of grants to private investors and by improving the local infrastructure — including industrial parks and related supportive services — in order to offset locational disadvantages.

The principal mechanisms by which regional development policies are pursued in Canada include the General Development Agreement and the Regional Development Incentives Program

The principal mechanisms by which regional development policies are pursued in Canada include the General Development Agreement (GDA) and the Regional Development Incentives Program (RDIP). From the investor's standpoint, both mechanisms are of interest because they can provide assistance, either directly or indirectly, for private investment.

The General Development Agreement (GDA) approach evolved as a DREE mechanism during a departmental policy review in 1973 and 1974. In that review it was recognized that each region of Canada — indeed each province — has its unique set of economic and social circumstances and development opportunities. Special measures, devised in relation to each province and circumstance, has been the government's approach to tackling these challenges.

A General Development Agreement has been signed between the federal government and each Canadian province except Prince

Edward Island, where a similar type comprehensive development agreement has been in effect since 1969. Specifically, each GDA gives a statement of mutually agreed upon federal-provincial objectives and sets out a broad strategy on the basis of an analysis of the province's socio-economic circumstances. The agreement also outlines guidelines and criteria for the implementation of the strategy through the signing of subsequent subsidiary agreements, which define specific development opportunities.

To date, more than 70 subsidiary agreements have been signed under the GDA mechanism. These agreements call for a commitment of over \$2.3 billion of public funds, of which the federal government's share is more than \$1.4 billion.

The wide range of activities under the GDA framework is a direct reflection of the diversity of the economic circumstances and opportunities in Canada. The inherent flexibility of the GDA approach is well illustrated by the diversity in the nature of the subsidiary agreements signed to date. Some deal with development opportunities in a given sector, such as the forestry agreements in New Brunswick and Newfoundland or cover wide geographic areas, such as with the northlands agreements in Ontario and the Western provinces — Manitoba, Saskatchewan, Alberta — or address a particular industrial initiative, such as the steel-related agreements with Quebec and Saskatchewan.

While the direct creation of jobs in areas of high unemployment is and must remain an important DREE goal, subsidiary agreements seek to go beyond such immediate issues. They tend to address themselves to removing impediments to self-sustainable economic growth, while taking advantage of unexploited economic opportunities.

Another area of significant progress under the GDA framework has been the ongoing process of communication, co-operation and co-ordination which has developed between DREE and other government departments at both the provincial and federal levels.

More investment in industry in the slower growth regions is an essential ingredient in developing or expanding economic activity

A vital adjunct to the General Development Agreement is the Regional Development Incentives Program which is designed to stimulate increased manufacturing investment and employment in the slow-growth regions of Canada. The program is applicable in all of Newfoundland, Nova Scotia, New

Brunswick, Prince Edward Island, Manitoba and Saskatchewan, most of Quebec, as well as in portions of Alberta, British Columbia and Ontario.

Financial incentives including cash grants and loan guarantees are eligible for development incentives and loan guarantees

Financial incentives including cash grants and loan guarantees are available to foreign as well as Canadian investors. These incentives are offered to encourage entrepreneurs to consider locating in the regions designated for incentive assistance and to enable industries already established in these regions to expand or modernize.

More than \$585.5 million has been committed in regional development incentives since inception of the program in 1969. These grant offers are expected to generate total capital investment in eligible assets of about \$2.8 billion. Approximately 124,000 new jobs are expected to be created when all facilities which have so far received assistance are brought into commercial production.

Most kinds of manufacturing and processing activities are eligible for development incentives and loan guarantees.

The major exceptions are certain types of initial processing — such as petroleum refining and pulp and newsprint production; other types of initial processing — such as smelting and food processing — are eligible. Key parts of the service industries, including distribution warehouses and freight handling facilities, can qualify for loan guarantees.

Expansion and modernization of existing facilities, as well as establishment of new ones, can qualify for incentives.

The amount of a grant depends upon such factors as the location of the project, its size, the type of project being undertaken, its economic contribution to the region and the financial need of the applicant.

Many international entrepreneurs have invested in Canada's designated regions

The government gives consideration to such factors as the probable rate of profit on the same kind of project in another location and to the rate of return from alternative projects open to the investor. For the establishment of industry, grants are calculated on the basis of capital costs and the number of new jobs provided, up to a maximum of 50% of capital employed or \$30,000 per job. For plant expansions or modernizations, only capital costs are taken into account.

Many international entrepreneurs have invested in Canada's designated regions, for example: International Business Machines of the United States, SKW of West Germany, Sekine of Japan, ICI Ltd. of Britain, Leroy-Somer of France, Pagnossin of Italy, Wihuri of Finland, McKay of Australia and Michelin of France.

Significant projects now underway with RDIA assistance include a \$7 million plant in Moncton, New Brunswick undertaken jointly by Dow-Corning-Owens of the United States and Duplate of Canada to produce fibreglass insulation products, and a \$16 million plywood facility of Georgia Pacific of the United States at McAdam, New Brunswick.

In Quebec, Moteurs Leroy-Somer S.A. has undertaken construction of a \$7 million plant at Granby to manufacture electric motors.

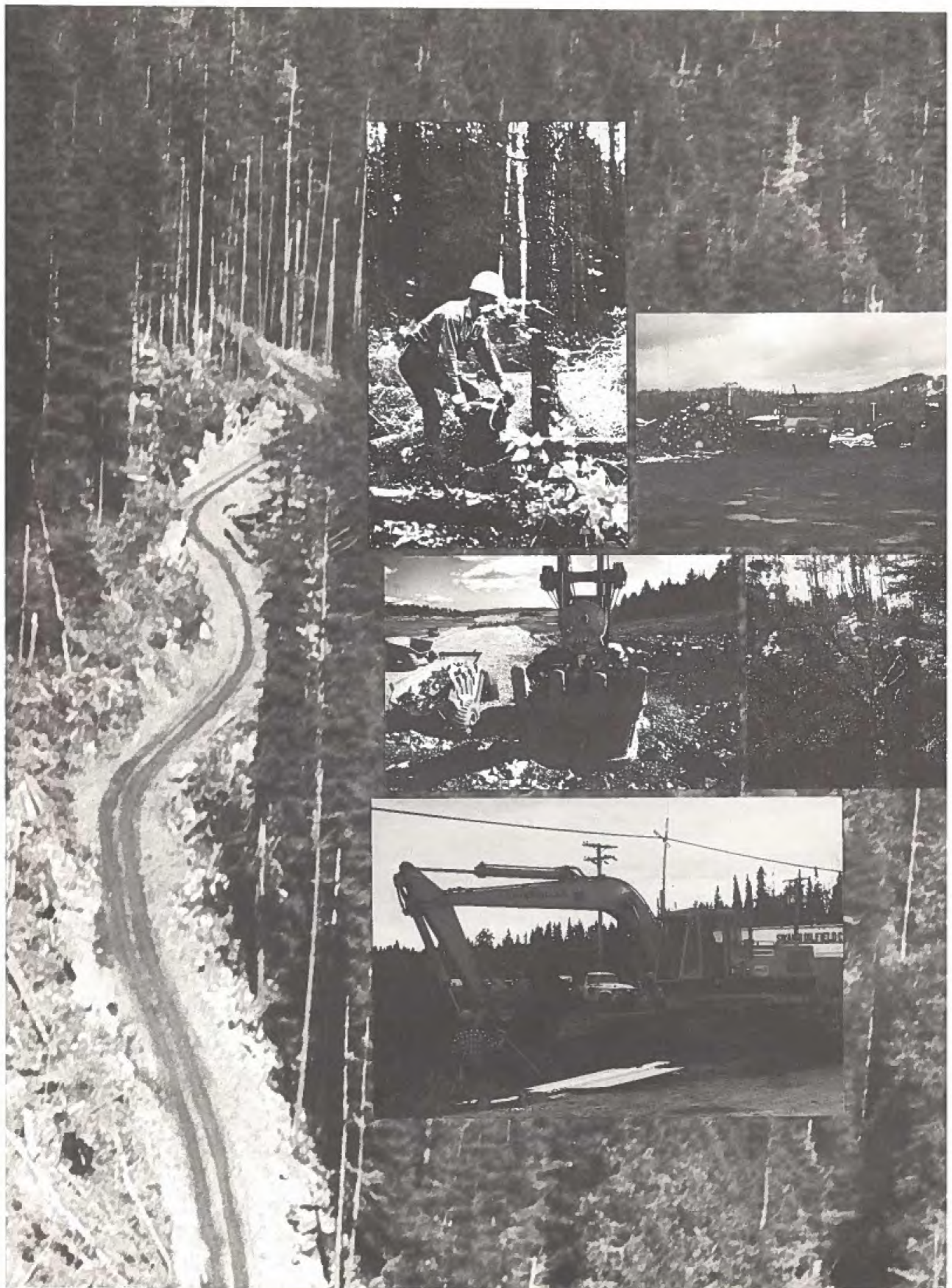
Projects in Western Canada include the West German-owned Henniger Malting plant at Biggar, Saskatchewan, while in Winnipeg, Manitoba, a facility to produce computer systems equipment is being undertaken by Burroughs Business Machines Limited, of the United States.

In countries outside Canada, further information on DREE and its programs can be obtained from the Commercial Section of the nearest Canadian Embassy or Canadian High Commission, or by writing to: Director General, Industrial Incentives, Department of Regional Economic Expansion, 161 Laurier Avenue West, Ottawa, Canada K1A 0M4.

Some DREE-assisted ventures involving international entrepreneurs

- Suddedeutsche Kalkstickstoffe-Werke A. G. (S.K.W.) of Trotsberg, West Germany opened a \$50 million subsidiary — S.K.W. Electro-Metallurgy Canada Ltd., to manufacture ferrosilicon and silicon metal alloys at Bécancour, Quebec. A total of 220 jobs were created and DREE incentive assistance amounting to \$5,970,000 was provided for construction of the plant.
- Moteurs Leroy-Somer Canada Ltée received a \$1,987,000 incentive offer from DREE to build a \$7.5 million plant at Granby, Quebec. The plant manufactures monophase and polyphase electric motors that can deliver up to 200 horsepower. When in full operation, the facility will employ about 400 workers. Moteurs Leroy-Somer Canada Ltée is controlled jointly by Moteurs Leroy-Somer S.A., headquartered in Angoulême, France and the Quebec Industrial Development Corporation. The French company owns a 60% interest in the Granby facility.
- Henniger Malting (Saskatchewan) Limited, a subsidiary of Henniger-Brau KGaA of Frankfurt, West Germany has established a \$12.4 million plant at Biggar, Saskatchewan to process malting barley. The facility employs about 50 workers. DREE incentive assistance totals approximately \$1.3 million.
- The Merloni Group has accepted a DREE incentive offer of \$2,657,500 to establish a facility to manufacture compact household refrigerator units. The company will have as its main shareholder the Merloni Finanziaria S.P.A. company, a major Italian manufacturer of domestic appliances. The second shareholder will be the Quebec Industrial Development Corporation. The project is expected to create 179 jobs and generate investments of about \$11 million. Commercial operations are scheduled to start early in 1979.

Some construction projects supported by Canada's Department of Regional Economic Expansion. This department encourages economic development and expansion in the slower growth areas of the country. PHOTOS: Department of Regional Economic Expansion



The joint-venture alternative for investing in Canada

by Frank Swedlove

Multinational companies that want to set up operations in Canada appear increasingly to be aware that they can gain more business advantages in going the joint-venture route with Canadian partners than in going the sole-ownership route. They also realize that, in doing so, they can help serve Canada's interests too.

Canada, unlike some other countries, does not insist that foreign direct investments can take place only in joint ventures with local interests. But the Canadian government does regard joint ventures as one of the means of improving the benefits that foreign investment brings to both host country and investors.

In the Foreign Investment Review Act, for example, one of the five criteria for determining whether a proposed investment is of "significant benefit to Canada" is "the degree and significance of participation by Canadians."

The term "joint venture" can be defined in different ways. It can range from the one extreme of a loose licensing agreement to the other extreme of a new and separate corporate structure that has its own management and independent policy. The kinds of joint ventures discussed here are those which seem the most relevant because they are the most broadly realistic alternatives to wholly owned subsidiaries — that is to say, the kinds of joint ventures in which each partner has both an equity participation and a voice in policy.

Some of the advantages that joint ventures offer investors are the following:

First, the use of joint-venture arrangements with Canadian firms allows, in many cases, an easier and more effective introduction into Canada, a better understanding of the economic and cultural environment, and most important, higher profits.

Secondly, a firm may enter a joint venture arrangement if it has limited capital resources and desires rapid growth. The joint-venture arrangement can help it expand into more markets in a shorter time.

Thirdly, firms may wish to obtain the complementary skills or techniques of others. A joint venture may bring benefits to both when, for instance, one firm is strong in technology, the other in marketing. An example of this is the joint ownership of Sanyo Canada Ltd. by the Sanyo Electric Trading Company Limited of Osaka, Japan, and Magnasonic Canada Ltd. of Montreal. While the Japanese firm supplies the technology and expertise for the assembly of television sets and stereo assemblies in Canada, Sanyo Canada Ltd. uses Magnasonic's Canada-wide distribution network to market the Sanyo line.

A fourth and increasingly important reason for joint ventures is the need for risk sharing in large capital projects. In the recent years of growing economic and political uncertainty, it has become more and more difficult for companies to estimate returns to their investment projects, especially over the life of the project. Companies find it more prudent to share and spread the risks with several partners.

Also, in a large and high-risk venture, they may find it easier to find financing for a part of the project than for the whole project.

In addition to these reasons which are valid in many countries, there are joint-venture advantages which are particular to the Canadian scene. One such advantage relates to the Foreign Investment Review Act. As noted, one of the five criteria for determining whether a proposed investment offers significant benefit to Canada is the degree and significance of Canadian participation in the enterprise. While the other four criteria are also relevant in assessing significant benefit, a joint venture in which the Canadian partner has a significant equity and management participation obviously starts with a better chance of being looked upon favourably than a corresponding wholly owned subsidiary.

In a few "key" sectors in Canada in which participation by foreign-controlled firms is restricted, a foreign-controlled firm that may nevertheless want to enter that sector may seek out a Canadian partner as a means of entering. For instance, foreign investors have used joint ventures as the means of entering the uranium mining sector, in which it is Canada's policy to limit the degree of non-resident ownership.

The size and complexities of the Canadian market may also be factors that encourage joint ventures

The size and complexities of the Canadian market may also be factors that encourage joint ventures. In physical size, Canada is the second largest country in the world, encompassing almost four million square miles [10 million square kilometers]. But the population is only a little over 23 million. The great majority of Canadians live within a narrow strip along the U.S. border, which is about 4,000 miles long [6,400 kilometers]. Unlike the case in most other countries, the population is very diverse. Forty-eight per cent of Canada's population are of British origin, 30% are of French origin, and the remaining are made up of many ethnic groups, the predominant ones being German, Ukrainian, Dutch, and Polish.

Both French and English are official

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languages in Canada. The problems of serving a market so spread out and diverse — and serving it in two languages — may be very difficult for a foreign investor not familiar with the Canadian scene. Difficulties may be especially great in such matters as distribution, marketing and staffing.

Also, Canada has a federal system of government with a sharing of powers between the federal and 10 provincial governments. In addition, there are municipal governments with whom business firms must also deal. Since the contacts between governments and business have tended to become more extensive, it may be a distinct advantage to have a partner who is aware of the roles and responsibilities of each level of government and many of the legal and practical intricacies involved in dealing with the various governments.

Of the 166 new businesses [FIRA cases]... joint-venture arrangements... accounted for almost one-fifth of the total

Joint-venture agreements as a means of entering the Canadian market have been increasing. Of the 166 new businesses allowed to be established under the Foreign Investment Review Act in the fiscal year ended March 31, 1977, joint-venture arrangements between a foreign firm and a Canadian partner accounted for 29 or almost one-fifth of the total. The heaviest concentration of joint-venture activity was in the primary sector, where a majority of the new businesses — five out of eight — were joint ventures. Meanwhile, 18% of the new business cases in the manufacturing sector and 13% in the service sector were joint ventures. It is interesting that, for the new business cases in the manufacturing sector the average planned investment of joint ventures was over twice that for all new business cases — \$3.3 million compared with \$1.4 million. This reflects one of the main advantages of joint ventures — the ability to take advantage of larger investment opportunities without having to take on the total risk.

The reasons for entering joint-venture arrangements in Canada appear to vary to some extent according to the sector.

In mining, it seems that the majority of the joint ventures arise predominantly out of a need for huge capital spending, increased risk, and increased desire to spread the risk. Very few companies are able and willing to undertake alone the financing necessary to start up even a medium-sized mine. This is especially true nowadays when mining companies must search farther and farther afield for new discoveries — with more than proportional increases in cost. Also, by

splitting costs in each project, a mining company can participate in more projects and thus reduce the likelihood that its customers or processing operations will be inconvenienced by interruptions of supplies. This policy of "not keeping all your eggs in one basket" allows the mining company more effectively to guarantee a steady stream of output — and this, of course, is an advantage in obtaining and holding customers.

Owing to the high costs of establishing a mine and the complexity of the financing, the agreements for joint ventures are precise, detailed, and lengthy. Matters such as cost and output sharing, quality levels desired, the disposal of assets, and the structure of management are clearly stated in the agreement, leaving little room for the possibility of later conflict over policy. Management is often the responsibility of the largest partner — or may be left to an independent management group who are experts in the managing of mines. With mining companies becoming increasingly familiar with joint-venture agreements, subsequent conflicts are becoming increasingly rare.

Most of the largest recent mining ventures involve some combination of Canadian and international firms

Most of the largest recent mining ventures involve some combination of Canadian and international firms. Some examples from among the largest operating mines are in the iron ore sector — Wabush Mines, which is owned by Steel Company of Canada and Dominion Foundries and Steel Co. (both of Canada) and a consortium of five American firms and one Italian firm; the Iron Ore Company of Canada, which has eight separate owners; and the Hilton Mine, which is 50% owned by Steel Company of Canada and 25% by Jones and Laughlin Steel Corporation and 25% by Pickands Mather and Co., both of the United States. Also there are several large joint venture arrangements in the exploration and development of oil and natural gas. For example, in Alberta, the Syncrude oil sands project has Canadian and American interests, while the Primrose Oil Sands Research Project has Japanese and Canadian interests.

In pre-manufacturing processing sectors, a frequent reason... is to share the output of the new business

In pre-manufacturing processing sectors, a frequent reason for joint ventures is the desire by the partners to share the output of

the new business. For example, the petrochemical joint venture in Sarnia, called Petrosar Limited, is a partnership of Polysar Limited, Union Carbide Canada Ltd., and DuPont of Canada Ltd., all of whom will obtain petroleum by-products from the plant. Another example is the establishment of Maple Leaf Monarch Co. which is opening a new vegetable-oil mill and refinery. Its two parent companies, Maple Leaf Mills Ltd. and Monarch Fine Foods Ltd. (a subsidiary of Lever Bros. Ltd.) will take up most of the oil production from the new plant for their consumer food products divisions. In the processing of minerals, a plant at Port Cartier, Quebec, will provide pelletized iron ore concentrates to its principal owners — Sidbec (a Quebec-government-owned agency), British Steel Corp. Ltd., and Quebec Cartier Mines Co. (a subsidiary of U.S. steel) — for

In the manufacturing sector... joint ventures are usually entered into... to obtain a certain skill from another firm

the production of steel. In all these joint ventures, the partners have integrated "backwards" in order to ensure themselves a source of supplies for their major operations.

In the manufacturing sector, those joint-venture considerations that are important in mining and processing — huge capital costs, the spreading of risk, and the ensuring of inputs — are usually not significant. Rather, joint ventures are usually entered into by one manufacturing firm in order to obtain a certain required skill from another firm. It appears that a large majority of manufacturing joint ventures in Canada are ones in which a foreign manufacturer supplies the technology and expertise for the production of the goods while the Canadian partner offers management assistance or an established distribution system. An example of this has already been mentioned — the case of Sanyo Canada Ltd. of Montreal. Another example is a joint venture between Canada Packers Ltd. of Toronto and Spillers Foods Ltd. of England — called Spratts Pet Foods Canada Ltd. The British firm is a major seller of pet food in the United Kingdom and has offered its formulas and production expertise to Canada Packers, who can supply both the required production and a nationwide distribution network. A third example is the establishment of Fuji Dyeing and Printing Limited of Trois-Rivières, Quebec, a 50-50 arrangement between Fiam Textiles Co. Ltd., one of Canada's largest textile importers and distributors, and three Japanese textile companies who can supply financing and technology.

For the foreign partner in a manufacturing joint venture, the above kinds of arrangement allow quicker entry into the markets — including readier acceptance by

retailers because of the existing reputation of the Canadian firm. For the Canadian partner, the joint venture gives the firm the latest technology and know-how and reduces the chances of a foul-up in the start-up of production.

In the service sectors, where there have been fewer cases of joint ventures, no single reason can be identified as the predominant one in encouraging joint ventures.

In retailing in Canada, where there have been several joint ventures, one of the oldest and most successful is Simpsons-Sears Limited, which is one-half owned by Simpsons Limited of Toronto and one-half owned by Sears Roebuck and Co. of Chicago. Simpsons, in 1952, did not have the capital to expand significantly its retail department store operations outside its existing market of five cities, and thus to complement adequately its national mail-order business. Sears, meanwhile, was hesitant to enter on its own a market so strongly dominated by Simpsons and Eaton's. An agreement was reached whereby Simpsons contributed its mail-order business to the new venture, while Sears Roebuck offered an equivalent amount of capital. Sears Roebuck also offered its expertise in centralized buying and its private-brand line of products. The joint-venture company has expanded greatly — it now has 60 stores across Canada and had sales of almost \$1.9 billion in 1976.

Another Canadian service industry in which there are several joint ventures is the leasing industry. In that industry, one joint-venture company is Canadian Dominion Leasing Corporation of Toronto. Before 1973, the company was a fully owned subsidiary of U.S. Leasing International of San Francisco. However, in that year, a part interest was sold to the Bank of Montreal, one of the leading banks in Canada. The bank felt that there was a good opportunity to enter a new field with a company experienced in international leasing. U.S. Leasing International and its subsidiary company saw the joint venture as an opportunity to gain access to the Bank of Montreal's enormous customer base. The success of the joint venture is reflected in Canadian Dominion Leasing's excellent growth since 1973 — new business generated increased in dollar terms by more than 135% in the subsequent three years. Another successful joint venture in leasing is Norco Financial Services Ltd., whose owners are Laurentide Financial Corporation, of Vancouver, and BankAmerica Corp., of San Francisco. Laurentide supplied the joint venture with staff and market expertise while BankAmerica provided financial consulting services.

There are, of course, cases where joint ventures have failed. Some have led to management conflicts, bickering over general policy direction, and sometimes even dissolution of the company. But in a large

The allocation of responsibilities... must be clearly agreed upon before the joint venture activities get under way

and growing majority of cases, success can be attained when the companies are compatible in their objectives and in their style of operation. As the mining companies especially are so well aware, the allocation of responsibilities between the partners — for financing, management, sales, etc. — must be clearly agreed upon before the joint venture activities get under way if there is to be avoidance of problems later on.

Many foreign companies who may not be able to enter the Canadian market on their own may be able to enter it through joint ventures with Canadian firms. Even for those foreign firms capable of establishing a wholly owned Canadian subsidiary, there may be merit in analyzing with care the advantages that can be gained by entering a joint venture with a Canadian partner. This approach certainly achieves, among other things, compatibility with a very important economic policy objective of the federal and provincial governments — and is sometimes highly important to the investors in helping them to obtain government financial assistance and other public support for the project.

ANNUAL REPORT 1976/77

Foreign Investment Review Act

The Honourable Jack H. Horner
Minister responsible for
the administration of the Act

Government of Canada
Foreign Investment Review Agency

Government of Canada
Agence d'études et
d'investissement étrangers

ANNUAL REPORT 1976/77 ON THE ADMINISTRATION OF THE CANADIAN FOREIGN INVESTMENT REVIEW ACT

The report
may be obtained
free of charge
by writing to:

**Circulation Manager
Foreign Investment Review Agency
Box 2800, Station "D"
Ottawa, Canada
K1P 6A5**

Changing patterns of foreign investment in Canada

by Gilles Gratton
and Marcel Custeau

A number of striking changes have taken place in the past few years in the composition of capital flows into Canada. In 1976, for the first time ever, the recorded amount of foreign direct investment in Canada showed up as a minus figure (-\$295 million). Secondly, business firms greatly increased their borrowings in capital markets abroad. Thirdly, an even greater increase occurred in borrowings from abroad by provincial and municipal governments and utilities. Further analysis of these transactions throws some interesting light on these developments.

The annual rate of foreign direct investment in Canada declined from \$725 million in 1974 to \$670 million in 1975 and to -\$295 million in 1976. Some observers saw this decline as a sign of worsening in the investment climate in Canada. Some even spoke of a "flight of capital." But closer study shows, for one thing, that the data on foreign direct investment has been distorted in recent years by a number of large "non-recurring" or "irregular" transactions.

The customary figures on foreign direct investment are computed on a "net" basis

These transactions involved the purchase by Canadians of some assets of foreign-owned firms in Canada. That is, they were initiated by Canadians rather than by investors wanting to withdraw capital from Canada. Whereas transactions of this type amounted to less than \$10 million in 1970, they reached more than \$700 million in 1976. For the period 1971-76 they totalled \$1.4 billion.

The customary figures on foreign direct investment in Canada are computed on a "net" basis; that is, they represent inflows of new investment capital less any disinvestment by non-residents, such as through the sale of foreign-owned Canadian assets to Canadians. If one were to exclude the "irregular" transactions mentioned above, an entirely different statistical picture would emerge. Thus, instead of a net "outflow" of foreign direct investment amounting to \$295 million in 1976, there would be a net *inflow* into Canada of \$430 million that year.

... the data on foreign direct investment has been distorted in recent years by a number of large "non-recurring" or "irregular" transactions

Among the larger of the "irregular" transactions that occurred during the past few years, one might note the purchases by the Canadian Government of De Havilland Aircraft from its former British owners (1974) and of Canadair Ltd. from Americans (1976); the 1975 purchase by the Canada Development Corporation of most of the Canadian oil and gas interests of Tenneco Inc., a U.S. company, for \$102 million; and the 1976 purchase by Petro-Canada of the Alberta assets of Atlantic Richfield for an estimated \$340 million.

Still, even the "adjusted" figure showing a foreign direct investment "inflow" of \$430 million in 1976 is considerably lower than the inflow in earlier years. The reasons for the moderate decline in 1975 and the more pronounced decline in 1976 are complex and

There appears to have been a trend away from corporate borrowing from parents and affiliates abroad and towards borrowing in the open market abroad

difficult to untangle, but it is evident that much of the decline was offset by a marked increase in debt financing by corporations.

A few figures will serve to indicate the nature and extent of the changes. New issues of Canadian corporate securities sold abroad amounted to \$448 million in 1974 (see Table 1), but to over \$1 billion in 1975 and to \$3.4 billion in 1976. A good portion of these increased amounts was for the account of foreign-owned firms in Canada which form so large a part of the Canadian economy. There appears to have been a trend away from corporate borrowing from parents and affiliates abroad and towards borrowing in the open market abroad. Whereas borrowing from parents and affiliates abroad is treated for statistical purposes as foreign direct investment, borrowing in the open market abroad is treated as foreign portfolio investment. While the change in the pattern of financing certainly contributed to the decline in the flow of foreign direct investment, the degree of this influence is difficult to ascertain.

The main factor which caused corporations to resort to massive borrowing in capital markets abroad was, undoubtedly, the unusually large spread between high interest rates in Canada and lower interest rates in other countries, particularly the United States. And certain fiscal measures, notably the removal in June 1975 of the Canadian withholding tax on interest payments to non-residents, further enhanced the attractiveness of Canadian bond issues for foreign investors.

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... retained earnings re-invested by foreign-controlled firms in Canada had risen to \$2.8 billion — compared with \$725 million in foreign direct investment

In estimating the rate of foreign-controlled business investment in Canada, one must, of course, also take into account, in addition to capital inflows, the re-investment of retained earnings by foreign-controlled subsidiaries in Canada. Retained earnings have always been a major source of investment financing. However, in 1970, the annual level of retained earnings of foreign-controlled firms in Canada was only a little higher than that of foreign direct investment (see Table 1). But by 1974, the latest year for which this figure is available, the level of retained earnings re-invested by foreign-controlled firms in Canada had risen to \$2.8 billion — compared with \$725 million in foreign direct investment — and accounted for about 80% of the total increase in 1974 in the book value of the stock of foreign direct investment. Thus, retained earnings in Canada and new bond issues abroad have, in recent years, become far more important than foreign direct investment as sources of funds for expansion of business activity in Canada.

New bond issues abroad for the account of provincial and municipal governments and utilities surged from less than \$1 billion in 1973 to \$5.5 billion in 1976

Corporate borrowing was not the only cause of the huge increase in recent years in debt capital investment in Canada by non-residents. Governments in Canada were even more active in capital markets abroad (see Table 1). New bond issues abroad for the account of provincial and municipal governments and utilities surged from less than \$1 billion in 1973 to \$5.5 billion in 1976. Major social investment programs and the inception in several provinces of large-scale hydro-electric projects (partly in response to the energy crisis) were among the factors which impelled governments and their utilities to go heavily into the capital markets. At the same time, as noted earlier, the much lower interest rates in other countries than in Canada, were a key factor which caused much of the borrowing to be done outside Canada.

In face of the exceedingly large capital requirements in Canada in the years ahead — the Economic Council of Canada estimates them at \$800 billion for the 15

TABLE 1

SELECTED INVESTMENT TRENDS (millions of dollars)

	1970	1971	1972	1973	1974	1975	1976
Foreign direct investment in Canada							
Foreign direct investment	835	880	605	725	725	670	-295
Re-investment of earnings	900	1,380	1,580	2,370	2,800	n.a.	n.a.
Other factors	199	-700	-579	265	-93	n.a.	n.a.
INCREASE IN BOOK VALUE OF FOREIGN DIRECT INVESTMENT	1,934	1,560	1,606	3,360	3,432	n.a.	n.a.
Canadian bond issues abroad							
Business firms	541	391	345	306	448	1,031	3,394
Governments and their utilities							
Federal	26	28	30	12	14	47	92
Provincial	528	725	1,140	857	1,713	3,334	4,691
Municipal	65	26	169	110	234	541	826
Subtotal governments	619	779	1,339	979	1,961	3,922	5,609
TOTAL BOND ISSUES	1,160	1,170	1,684	1,285	2,409	4,953	9,003

n.a. — not available

Source: Statistics Canada

years to 1990 — there has been a good deal of discussion about the amount of capital likely to be needed or available from abroad. According to a vice-president of the Toronto-Dominion Bank, Doug Peters, net inflows of foreign capital are likely to rise from \$4.7 billion in 1976 to \$5 billion in 1983 and to \$7.3 billion in 1991. Despite these increases, foreign capital inflows as a proportion of total investment in Canada may well decline somewhat because of a spectacular increase in the rate of Canadian domestic saving. Mr. Peters estimates that the latter will increase from \$45.6 billion in 1976 to \$83.4 billion in 1983 and \$174.3 billion in 1990.

... the change in the pattern of financing certainly contributed to the decline in the flow of foreign direct investment

In the immediate future, however, there is likely to be a temporary decline in Canadian borrowing in capital markets abroad. This seems to be the likeliest prospect in view of the narrowing spread between interest rates in Canada and those abroad, the distinct moderation in growth of expenditure by all levels of government in Canada, and the increase in government and corporate revenues as the Canadian economy regains momentum. Furthermore, favourable market conditions and the general receptivity of Canadian issues in foreign capital markets in

recent years encouraged governments and corporations to place issues abroad in anticipation of future needs.

... the decline in the net flows of direct investment cannot be taken as an indication that foreign investors have become less interested in Canada as a place to invest

In summary, the statistical picture of a recent decline in foreign direct investment in Canada may be misleading. A number of "irregular" transactions in which Canadians purchased foreign-owned assets in Canada offset — and in 1976 more than offset — foreign investment inflows. To that extent, the decline in the net flows of direct investment cannot be taken as an indication that foreign investors have become less interested in Canada as a place to invest. Analysis of the figures also shows that the funds required for that investment were obtained to a much greater extent through corporate borrowing in capital markets abroad, as well as through corporate earnings retained in Canada. Retained earnings and new security issues have, in recent years, become far more important than foreign direct investment as sources of funds for expansion of business activity in Canada.

Capital investment projects in Canada

11. OIL, GAS AND ELECTRIC POWER

This list shows major capital spending projects now in progress or in the final planning stages. Part I (published in the Autumn issue of *Foreign Investment REVIEW*) covered minerals and forest products. Part II covers oil, gas, and electric power and is limited to projects costing more than \$10 million. Other industries will be covered in future issues of *Foreign Investment REVIEW*.

In oil and gas processing, the largest single project under construction is the synthetic crude recovery complex (oil sands) at Fort McMurray, Alberta, which is nearing completion. A number of oil sands pilot or test projects are under way or in final planning stages, but only three of these, financed jointly with the Alberta Oil Sands Technology and Research Authority, exceed \$10 million. New petrochemical operations have initiated ethane recovery facilities at four gas processing plants in Alberta, as well as an extensive ethane-ethylene pipeline system. Two new oil refineries (one associated with a new petrochemical complex) are being built in Ontario, and a major plant-modernization is in process at a third refinery.

The major pipeline project now in prospect is one that will bring Alaskan natural gas through Canada to the United States. The Canadian portion of this project, which could begin late next year, is estimated at about \$4.4 billion (see article p.5.).

Electrical energy projects now in progress or firmly committed will add more than 25% to Canadian generating capacity by 1981 and over 50% by 1986. In addition, a number of projects are awaiting licensing or assessment of need. The largest project is the \$16 billion James Bay hydro development in Quebec, which will add 10 million kw to generating capacity when all four stations are completed in 1985; initial generation is expected in 1980. In Ontario, an extensive program of nuclear generation is expected to add nearly 11 million kw to capacity by 1987. British Columbia and Manitoba are both doing preliminary work for new billion-dollar projects. For eastern Canada, the federal government has recently offered assistance which could encourage power generation and transmission projects, including a \$2 billion project at Gulf Island, Labrador, which is currently suspended. Most provinces make substantial expenditures each year for new transmission projects, but because costs are not often available on a project basis, only a few of these are described in the listing below. Wherever possible, grids are included in the total cost of new power projects.

Company and project description	Completion date	Cost (\$ million)	Location	
British Columbia				
Oil refining:				
Husky Oil Co. Ltd. Increased capacity	1978	12	Prince George	
Gas processing:				
Westcoast Transmission Co. Ltd. New plant	1979	60	Chetwynd	
Electric power:				
B.C. Hydro and Power Authority New power plant	hydro	1977	500	Mica Dam, Columbia R.
	hydro	1980	550	Peace River, Site I
	hydro	1981	500	Seven Miles, Pend d'Oreille River
	hydro	1984	1,200	Revelstoke
Underwater HVDC link	1978	n.a.	Mainland to Vancouver Island	
Alberta				
Oil sands projects:				
Amoco Canada Petroleum Co. Ltd.	1978	46	Gregoire Lake	
BP Exploration Canada Ltd.	1979	17	Cold Lake	
Shell Canada Resources Ltd.	1979	58	Peace River	
Syncrude Canada Ltd.	1979	2,152	Fort McMurray	
Gas processing:				
Alberta Natural Gas Ltd. Ethane recovery unit	1979	58	Cochrane	
Dome Petroleum Ltd. Ethane recovery unit	1978	60	Empress	



An oil derrick tower at Cloverleaf Lake, Northwest Territories.
PHOTO: Ted Grant, National Film Board Phototeque

Company and project description	Completion date	Cost (\$ million)	Location	
Dome Petroleum Ltd. and Canadian Utilities Ltd. Ethane recovery unit	1978	40	Edmonton	
Pacific Petroleum Ltd. Ethane recovery unit	1979	75	Empress	
PanCanadian Petroleum Ltd. New gas plant	1980	20	Morley	
Shell Canada Resources Ltd. New gas plants	1979 1980	22 50	South Rosevear Limestone Mtn./Wilson Creek	
LPG Recovery unit	1978	25	Waterton	
Compressor stations	1978	20	Waterton	
Pipe lines:				
Alberta Oil Sands Pipe Line Inc. Oil pipe line	1978	80	Fort McMurray to Edmonton	
Dome Petroleum Ltd. Ethane gathering system	1978	40	Edmonton-Cochrane-Empress-Joffre	
Ethane-ethylene-propane pipe line (Cochin)	1978	277	Edmonton to Sarnia, via U.S.A.	
Foothills Pipe Lines Ltd. Gas pipe line (Canadian portion)	1981	4,400	Alaska to U.S.A.	
Shell Canada Resources Ltd. Gas gathering system	1980	15	Burnt Timber	
Electric power:				
New/expanded power plant				
Alberta Energy Co. Ltd.	thermal	1978	300	Mildred Lake (Syncrude project)
Alberta Power Ltd.	thermal (5th unit)	1981	232	Battle River, Forestburg
Calgary Power Ltd.	thermal (last 3 units)	1980	417	Sundance, Lake Wabamun
		1983	510	South Sundance, Keephills Area
Dow Chemical Co. Ltd.	thermal	1979	48	Fort Saskatchewan
Edmonton Power Ltd.	thermal	1978	45	Clover Bar
Electrostatic precipitators:				
Calgary Power Ltd.		1978	15	Lake Wabamun
<hr/>				
Saskatchewan				
<hr/>				
Oil refining:				
Consumers' Co-operative Refineries Ltd. Increased capacity	1977	25	Regina	
Electric power:				
Saskatchewan Power Corp. New/expanded power plant	thermal	1977	78	Boundary Dam
	thermal	1979	150	Poplar River
<hr/>				
Manitoba				
<hr/>				
Electric power:				
Manitoba Hydro New power plant	hydro	1978	50	Jenpeg, Nelson River
	hydro	1979	500	Long Spruce, Nelson R.
	hydro	1986	1,100	Limestone, Nelson River
Export transmission line	n.a.		57	Winnipeg to U.S. border
<hr/>				
Ontario				
<hr/>				
Oil refining:				
Gulf Oil Canada Ltd. Replacement of lubricating oil unit	1978	180	Clarkson	



Hydro lineman at work, Churchill Falls, Labrador.

PHOTO: Ted Grant, National Film Board Phototeque

Company and project description		Completion date	Cost (\$ million)	Location
Petrosar Ltd				
New refinery and petrochemical complex		1977	650	Sarnia
Texaco Canada Ltd.				
New refinery		1978	400	Nanticoke
Electric power:				
Ontario Hydro				
New/expanded power plant	nuclear	1979	1,500	Bruce 'A' Douglas Point
	thermal	1980	35	Windsor
	thermal	1981	300	Thunder Bay
	thermal	1983	1,100	Wesleyville
	nuclear	1983	2,500	Pickering 'B'
	thermal	1984	800	Atikokan
	nuclear	1986	2,800	Bruce 'B' Douglas Point
	nuclear	1987	3,500	Darlington
Heavy water plant		1979	500	Bruce 'B' Douglas Point
		1981	650	Bruce 'D' Douglas Point
Quebec				
Electric power:				
Quebec Hydro				
New power plant	hydro	1978	n a	Outardes II
	hydro	1985	16,200	James Bay—La Grande (and transmission grid)
	nuclear	1979	600	Gentilly II
Atomic Energy of Canada Ltd.				
Heavy water plant		1982	362	La Prade
New Brunswick				
Electric power:				
N.B. Electric Power Commission				
New/expanded power plant	hydro	1979	28	Mactaquac
	thermal	1979	120	Dalhousie
	nuclear	1980	684	Point Lepreau
Nova Scotia				
Electric power:				
Nova Scotia Power Commission				
New power plant	hydro	1978	135	Wreck Cove
	thermal	1981	294	Lingan
Prince Edward Island				
Electric power:				
Provincial government				
Submarine cable		1977	38	Link to New Brunswick
Newfoundland				
Electric power:				
Newfoundland and Labrador Hydro Commission				
New power plant Plant expansion	hydro	1980	100	Hinds Lake
	hydro	1977	40	Baie d'Espoir
	thermal	1979	n.a.	Holyrood

Incentives to industry

The following is a regularly-updated 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

Note: a number of programs which are cost-shared and jointly-administered by the federal and provincial governments are listed only under **Provincial 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, 240 Sparks St., Ottawa, Ontario, Canada K1A 0H5.*

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, 240 Sparks St., Ottawa, Ontario, Canada K1A 0H5.*

Agricultural and Food Products Market Development Program (AGMAP)

Financial assistance to develop domestic and export markets for agriculture and food products. **Contact:** *Program Unit, Agriculture Fisheries and Food Products Division, Department of Industry, Trade and Commerce, 240 Sparks St., Ottawa, Ontario, Canada K1A 0H5.*

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, 240 Sparks St., Ottawa, Ontario, Canada K1A 0H5.*

National Research Council

Industrial Research Assistance Program (IRAP)

Shares cost of selected research projects. **Contact:** *National Research Council, Montreal Road, Ottawa, Ontario, Canada K1A 0R6.*

Pilot Industry/Laboratory Program (PILP)

Provides shared-cost research between NRC laboratories and industrial firms. **Contact:** *National Research Council, Montreal Road, Ottawa, Ontario, Canada K1A 0R6.*

Department of Regional Economic Expansion (DREE)

Regional Development Incentives Program (RDIP)

The program provides grants and loan guarantees to foreign and Canadian firms undertaking ventures in designated regions in all provinces under the Regional Development Incentives Act. Incentives are provided principally to manufacturing or processing operations and loan guarantees are also available to certain new service facilities. The Montreal Special Area designated under the DREE Act is eligible for grants in certain manufacturing or processing sectors. **Contact:** *Industrial Incentives Branch, Department of Regional Economic Expansion, Sir Guy Carleton Building, 161 Laurier Avenue West, Ottawa, Ontario, Canada K1A 0M4.*

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, 901 Victoria Square, Montreal, Quebec, Canada H3C 3C3.*

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, Place Bell Canada, 160 Elgin St., Ottawa, Ontario, Canada K1A 0G5.*

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

The corporation provides financing in the form of term loans, loan guarantees, performance bonds, deficiency guarantees, leasing of buildings and machinery, and in special cases, equity. While there is no limit on the amount of funds the corporation may provide, in larger scale projects it prefers to provide assistance in conjunction with other financial institutions. BCDC provides serviced land on a sale or lease basis to secondary manufacturing and related service industries. Land is available through the land development division. BCDC acts as project manager of large capital projects in British Columbia. **Contact:** *British Columbia Development Corporation, 272 Granville Square, 200 Granville St., Vancouver, British Columbia, Canada V6C 1S4.*

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

MANITOBA

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 Carlton St., 5th floor, Winnipeg, Manitoba, Canada R3C 3H8.*

Export Incentive Program

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

NEW BRUNSWICK

New Brunswick Industrial Development Board

Provides financial assistance to manufacturers or processors, normally in the form of a loan guarantee or direct loan. 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 an equity position in 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

This joint federal-provincial 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% of the cost of new land and buildings of secondary manufacturers and up to 60% financing of new machinery with 10 years to repay. Minimum loan financing available under this program is \$150,000. **Contact:** *Industrial Estates Ltd, 5151 George St., Suite 700, Halifax, Nova Scotia, Canada B3J 1M5.*

Industrial Loan Act, Industrial Development Act

Loans for new or expanding resource-based industries and tourist facilities at current interest rates. **Contact:** *Nova Scotia Resources Development Board, Bank of Montreal Towers, P.O. Box 519, Halifax, Nova Scotia, Canada B3J 2R7.*

Department of Development

The department offers a number of assistance programs to business and industry. These include: The Marketing Assistance Program, the Management Development Program, the Product Design and Development Program, the Rural Industry Program, the Opportunity Identification Program and the Industrial Malls Program. The Strait of Canso Development Office is a joint federal-provincial agency funded by the Department of Regional Economic Expansion and the Nova Scotia Department of Development. The deepwater port is particularly appropriate for the location of heavy industry, particularly as related to the petro-chemical industry and "bulk supership" shipments. **Contact:** *Nova Scotia Department of Development, 5151 George St., 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 production machinery and equipment

A retail sales tax exemption is granted to a manufacturer or producer who purchases machinery and equipment which alters the goods in process as well as a wide variety of mining, logging, waste removal and pollution control equipment and other types of machinery. **Contact:** *Ministry of Revenue, Retail Sales Tax Branch, Queen's Park, 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 provides assistance in the form of forgivable performance loans to manufacturing and processing businesses. Where the maximum capital expenditure is \$25,000, eligible businesses may receive a maximum forgivable performance loan of \$12,500 or 25% of the total capital cost and up to \$2,000 for each new job created.

The Service Sector Assistance Program provides assistance to primary resource industries and/or secondary manufacturers and processors to purchase new, used, or reconditioned equipment and machinery. It also assists in the financing of construction or renovation of production facilities. For a maximum capital expenditure of \$60,000, the amount of forgivable performance loan would be 25% of the approved capital costs to a maximum of \$30,000 and up to \$2,000 for each new full-time job created. Financing for these programs is on a joint federal-provincial basis. **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)

QIDC offers financial assistance to manufacturing projects in compliance with

the industrial policies of the Quebec Ministry of Industry and Commerce. Long-term financing of capital costs, reduced rates of interest and shared equity in manufacturing projects, are available. These forms of financial assistance are offered to most sectors of industry in Quebec by QIDC together with direct government grants offered by DREE's specially-designated zone in Montreal. **Contact:** *Quebec Industrial Development Corporation, 1126, Chemin Saint-Louis, Room 700, Sillery, Quebec, Canada G1S 1E5.*

Quebec Ministry of Industry and Commerce

An industrial financing fund to encourage the development of small plants through fiscal abatement at the accrued rate of 25% annually and a tax rebate to encourage regional industrial development for the general industrial sector is available in addition to QIDC development assistance programs. (See listing above). The costs of exporting Quebec-manufactured products are supported by interim financing. The ministry also contributes financially to the organization of trade missions, feasibility studies and market surveys, promotes manufacturing under foreign licenses, conducts regional labour surveys, and studies problems related to industrial productivity, at the request of potential investors. The ministry maintains permanent economic delegations in New York, Boston, Chicago, Dallas, Los Angeles, Toronto, Brussels, Dusseldorf, London, Milan, Paris, and Tokyo. **Contact:** *Quebec Ministry of Industry and Commerce, Industrial Promotion Directorate, Place Ville-Marie, Suite 2300, Montreal, Quebec, Canada H3B 3M6.*

SOQUEM, SOQUIM, SOQUIP, SOQUIA, REXFOR

These Quebec-government-owned societies are involved in financial participation in joint ventures with Canadian or foreign private sector investors in the mining sector (SOQUEM), oil and gas (SOQUIP), agriculture and food industries (SOQUIA) and forestry (REXFOR). **Contact:** *Quebec Ministry of Industry and Commerce, Industrial Promotion Directorate, Place Ville-Marie, Suite 2300, Montreal, Quebec, Canada H3B 3M6.*

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.*

The Enterprise Development Program (EDP)

Objective

The Enterprise Development Program (EDP) of the Canadian federal Department of Industry, Trade and Commerce is designed to enhance the growth in the manufacturing and processing sectors of the Canadian economy by providing assistance to selected firms to make them more viable and internationally competitive.

The program is mainly to assist smaller and medium-sized firms to undertake relatively high risk projects. Risk is assessed in relation to the overall resources of the firm, and projects must be viable and promise attractive rates of return on the total investment.

The EDP is administered by the Enterprise Development Board and 10 regional Enterprise Development Boards which report to Cabinet through the Minister of Industry, Trade and Commerce.

The EDP uses the corporate approach and attempts to examine all the problems and risks facing a firm at each of the following phases of a product's life cycle:

- concept
- development
- pre-production
- production
- marketing

The program's intent is to identify present and future requirements for assistance and to tailor one or more forms of assistance under EDP, together with other government assistance programs and private sector financing, into a financing package suitable to the applicant company needs.

Replaces previous programs

In April 1977, several of the Industry, Trade and Commerce Department's development and incentive programs were restructured and further decentralized. The EDP replaces the department's previous innovation and adjustment assistance programs: Program for the Advancement of Industrial Technology (PAIT), Industrial Design Assistance Program (IDAP), and the Productivity Enhancement Program (PEP), Automotive Adjustment Assistance (AAA), Footwear and Tanning Industries Assistance

Program (FTIAP) and the Pharmaceutical Industries Development Assistance Program (PIDA). EDP combines the basic features of these previous programs.

Types of assistance

The following forms of assistance are available to both Canadian and eligible non-Canadian investors:

- shared cost programs to develop proposals for projects eligible for assistance;
- shared cost programs to study market feasibility;
- shared cost programs for industrial design projects;
- shared cost programs to study productivity improvement projects;
- shared cost programs for innovative projects;
- special purpose forms of assistance such as surety bond guarantees and footwear or tanning industries assistance;
- loans and loan insurance for restructuring (plant expansion, equipment changes, working capital, etc.).

Who is eligible

The orientation of the program is towards smaller and medium-sized firms engaged in manufacturing or processing activities.

Firms in the service sector are, under limited circumstances, also eligible provided that the provision of services provides direct, tangible and significant benefit to firms engaged in manufacturing or processing.

Each of the various forms of assistance listed above has specific eligibility criteria which, in general terms, might be described as follows:

- the firm and the project must be viable;
- for loans and loan insurance, the firm must be unable to obtain financing on reasonable terms;
- for grants, the project must represent a significant burden to the firm in respect of its resources;
- the firm should be incorporated in Canada

Books

Storm Over the Multinationals: The Real Issues

by Raymond Vernon

Cambridge, Mass.: Harvard University Press, 1977

The last decade has produced a great deal of literature on the multinational enterprise and its relationships with governments. *Storm Over the Multinationals: The Real Issues* attempts to put all the evidence — and the polemics — in some perspective. While the book contains little that is new — it is essentially a synthesis of almost all recent studies — its comprehensiveness and balance make an important contribution to the discussion.

The book, which was written under the auspices of The Centre for International Affairs and the Graduate School of Business Administration, Harvard University, examines the characteristics and operating strategies of MNEs, showing how they have evolved, multiplied and gained strength. But the characteristics that give them their vitality and strength also make them a focus of concern, and these concerns are examined in the second part of the book.

The author concludes that multinationals are often mistakenly believed to limit national autonomy and thereby to thwart national objectives. The fact of the matter, in his view, is that the growing interdependence of national economies, due to increased efficiency in international communication, is the root of the problem. To the extent that this is so, he points out, nothing would be changed by limiting — or eliminating — the multinationals.

However, there are some problems that arise directly from the transnational structure of enterprise. According to the author, these stem mainly from the fact that the multinational is exposed simultaneously to several national jurisdictions. When each state tries to use the multinational network to further its own industrial policies there is bound to be conflict and frustration. The solution he puts forward is that national governments should co-operate more effectively to "disentangle" national

jurisdictions. They should set limits on the application of their laws or agree to a common approach in such fields as taxation or restrictive business practices.

The author does not see any evidence that states are ready to build a co-operative international regime that would be fair to both the national state and the multinational enterprise. He regards the initiatives taken so far — the disclosure program of the UN Centre for Transnational Corporations and the OECD Voluntary Code — as "trivial in relation to the issues." But he is hopeful that the necessity for concerted action may yet find greater recognition and expression.

— Joan Gherson

Joan Gherson is an economist with the Research and Analysis Branch of the Foreign Investment Review Agency and a contributing editor to Foreign Investment REVIEW.

Book list

International business

Storm Over the Multinationals: the Real Issues

Vernon, Raymond

Cambridge, Mass.: Harvard University Press, 1977

A study of the factors involved in the growth of multinational enterprises and an exploration of the causes of tension between multinationals and national institutions.

Concentration in Modern Industry

Hannah, Leslie and Kay, J.A.

London: The MacMillan Press Ltd., 1977

An analysis of the growth in power and impact of large organizations in British manufacturing and suggestions for public policy on mergers.

Acquisitions and Mergers:

Government Policy in Europe

Chiplin, Brian and Lees, Dennis

London: Financial Times, 1976

A description of the economic effects of mergers and of trends in government policy towards mergers in the United Kingdom, the European Community and other regions.

Energy

The Politics of Energy:

The Emergence of the Superstate

Evans, Douglas

Toronto: MacMillan of Canada, 1976

A comparative study of energy policies of the United States, the European Community, the Soviet Union, China and Japan.

Alternative Energy Strategies

Hagel, John

New York: Praeger Publishers Inc., 1976

A summary of the current status and future direction of research and development in energy, especially in non-conventional sources of energy, and of alternative energy strategies for the United States, Western Europe and Japan.

Oil and Natural Gas Resources of Canada, 1976

Oil Sands and Heavy Oils: The prospects
Department of Energy, Mines and Resources
Ottawa, 1977

* Catalogue No. M23-12 77-1 and 2
(2 vols.) \$3.00 Canada, \$3.60 outside
Canada.

This study estimates oil and gas reserves in Canada for both conventional oil and gas and non-conventional oil sands and heavy oils. The second volume provides an interpretation of the information on non-conventional oils and examines their production prospects.

Corporations, Corporation law

Decision Making and Planning for the Corporate Treasurer

Bierman, Harold Jr.
New York: John Wiley & Sons, 1977

An interpretation of the current state of the art in investment and financial decision-making as it affects the corporate treasurer. It covers working-capital decisions, capital budgeting, performance measurement, capital structures, and mergers and acquisitions, including valuation of a prospective acquisition.

Canadian Business Corporations

Iacobucci, Frank; Pilkington, Marilyn L. and Prichard, J. Robert S.
Agincourt, Ontario:
Canada Law Book Limited, 1977

An analysis of recent Canadian legislative developments, both federal and provincial, affecting incorporation, classification of corporations, corporate capacity and finance, rights of shareholders and powers of directors and also some aspects of business combinations.

Canada — Economy, Business

Managing Canada's Renewable Resources

Krueger, Ralph R. and Mitchell, Bruce (editors)
Toronto: Methuen Publications, 1977

Readings on resource-management problems and case studies on the management of specific Canadian land and water resources.

Mineral Industry Trends and Economic Opportunities

Department of Energy, Mines and Resources
Ottawa, 1976
* Catalogue No. M38-2/158
\$2.00 Canada, \$2.50 outside Canada

A study of Canadian mineral trends, factors affecting mine output and growth options for mining in Canada.

The Ontario Economy 1977-1987

Foot, David K. and others
Toronto: Ministry of Government Services,
1977

A study prepared by the Institute for Policy Analysis, University of Toronto, for the Ontario Economic Council.

The determinants of leisure demand and the prospects for leisure

Department of Industry, Trade and Commerce
Leisure Products and Crafts Division
** Ottawa, 1976

An analysis of the market for leisure products in Canada.

Location Policies and Practices in Canada

Wong, Kenneth B. and Halpin, J. Gary
Ottawa: The Conference Board in Canada,
1977 (Canadian Studies No. 44)

A study of kinds and amounts of assistance given by firms in Canada to employees who are required to re-locate.

The Film Industry in Canada

Bureau of Management Consulting Services
Department of Supply and Services
Ottawa, 1977
** Catalogue No. S32-53/1977

A profile of the Canadian film industry and the market for film products in Canada.

Canadian Marketing: A Casebook Approach

Banting, Peter M.
Toronto: McGraw-Hill Ryerson, 1977

Explores a wide range of marketing topics, using authentic company experience.

The Corporate Marketing Function: An Overview

Caldwell, G. T.
Ottawa: The Conference Board in Canada,
1977 (Canadian studies, No. 42)

A description of the corporate marketing function in Canada, based on a survey of 179 corporations.

Which Way Ahead? Canada After Wage and Price Control

Walker, Michael (editor)
Vancouver, B.C.: Fraser Institute, 1977

Contributions on the subject from a number of specialists.

Canadian Federal Government Services to Business

Department of Industry, Trade and Commerce
** Ottawa, September 1977

A description of all federal programs and services available to business and whom to contact for further information or assistance.

Small Business: Building a Balanced Economy

Peterson, Rein
Erin, Ontario: Press Porcepic, 1977

A comprehensive study of the function and role of small business in Canada and recommendations for a federal government policy for small business.

Acquisitions and Mergers in Canada (2nd edition)

Morin, Desmond B. and Chippendale, Warrer (editors)
Toronto: Methuen Publications 1977

Contributions on the subject from a number of specialists.

Doing Business in Canada

Newberger, Edward L. (editor)
New York: Mathew Bender for New York University, International Institute on Tax and Business Planning 1975

Business and Government in Canada, Selected Readings

Rea, K. J. and McLeod, J. J.
Toronto: Methuen Publications 1976

* To order this book, send a cheque or money order in Canadian funds made out to: The Receiver General for Canada, and mail, together with title, author and Catalogue Number to: Printing and Publishing Centre Supply and Services, Canada, Ottawa, Canada K1A 0S9

** Available free from issuing Department.

Statistical tables

QUARTERLY FIGURES

TABLE I — SUMMARY

REVIEWABLE ACQUISITION CASES						
	1976			1977		
	second quarter	third quarter	fourth quarter	first quarter	second quarter	third quarter
Total Industry	42	45	58	41	60	80
Primary	3	4	3	3	2	11
Manufacturing	25	28	29	16	27	28
Construction and services	14	13	26	22	31	41
Country of control						
United States	27	28	40	25	40	55
United Kingdom	4	7	8	10	10	9
Other Europe	10	8	9	6	4	16
All other	1	2	1	—	6	—

REVIEWABLE NEW BUSINESS CASES						
	1976			1977		
	second quarter	third quarter	fourth quarter	first quarter	second quarter	third quarter
Total Industry	51	64	61	62	93	86
Primary	4	3	5	3	6	8
Manufacturing	19	17	17	16	25	29
Construction and services	28	44	39	43	62	49
Country of control						
United States	25	31	28	35	48	52
United Kingdom	7	7	6	5	8	6
Other Europe	16	17	23	15	24	21
All other	3	9	4	7	10	7

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	33
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
Japan	2	2	3
Others	1	3	1
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
Denmark	—	5
Finland	—	1
France	—	9
Germany, West	—	22
Italy	1	9
Liechtenstein	—	2
Luxembourg	—	—
Netherlands	—	2
Norway	—	—
Spain	—	1
Sweden	—	3
Switzerland	—	8
All other	1	21
Australia	—	2
Hong Kong	—	3
India	—	3
Japan	—	4
Others	1	9
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.

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	—	—
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

Foreign Investment Review Agency Publications *

- Foreign Investment REVIEW
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- L'investisseur étranger
 - French language edition of Foreign Investment REVIEW
- Annual Report 1974-75
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 - The Foreign Investment Review Regulations (SOR/77-226)
 - Guidelines
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 - Organization Chart

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 - No. 1: Foreign Acquisition Activity in Canada: A Long-Term Perspective by G. A. Edwards

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