

# FOREIGN INVESTMENT REVIEW

A quarterly journal on investment conditions in **CANADA** Summer 1978 Vol. 1, No. 4

The Canadian experience of Marks and Spencer  
Licensing agreements in Canada  
Tax considerations for investment



# FOREIGN INVESTMENT REVIEW

## **Foreign Investment REVIEW**

a quarterly journal on investment conditions in Canada

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The Matagami-Radisson highway.  
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# News briefs

## ECONOMY

### Federal and provincial budgets

Recent Canadian federal and provincial budgets have generally sought to contain government expenditures while giving some impetus to economic recovery by stimulating consumer and business spending.

The stimulus to consumer spending in the federal budget took the form of a proposal to bear part of the cost of a temporary reduction in sales taxes, which in Canada are levied by the provinces. Sales taxes were then reduced or selectively eliminated for varying periods in all provinces (except Alberta which has no retail sales tax). In addition, some provinces, notably Saskatchewan, Manitoba, Quebec and New Brunswick, reduced personal income taxes.

The federal budget brought down on April 8th by Finance Minister Jean Chrétien contained tax provisions of interest to business in three specific areas: industrial research and development, oil extraction, and railway equipment. These measures included:

- Deduction from income of 50% of any increase in research and development expenditure over the average level of the previous three years. This allowance, which is to be available for 10 years, is in addition to existing incentives that included a 100% write-off of R & D expenditures, investment tax credits of 5 to 10 percent, and direct assistance programs.
- More generous depletion allowances — up to 50% of total income — for qualifying investments in non-conventional oil projects.
- A higher depletion allowance — \$1 for every \$2 spent — for machinery and equipment for enhanced recovery systems in the petroleum industry.
- Heavy-oil upgrading plants now to be treated as manufacturing plants, eligible for fast write-offs and the reduced tax rate.
- Additional depletion allowances of 6% on railway capital expenditures undertaken before 1983. This measure is intended to improve the railway system and benefit suppliers of railway equipment.

While the federal budget contained no special incentives to mining, the Minister noted that the government is proceeding with a review of mining taxation. The On-

tario provincial budget, meanwhile, gave the mining industry a number of tax concessions worth about \$5 million.

### Economic Council of Canada to monitor wages and prices

Canada's wage and price controls, started in October 1975, are now in the process of being gradually phased out. All income earners and companies will be free of controls by the end of this year. But the Economic Council of Canada has accepted the new additional role of monitoring wage and price developments.

The Economic Council, an advisory group of leading Canadian businessmen, economists, and others, was established in 1963 by the federal government to advise and recommend on how Canada could achieve high levels of employment and economic efficiency and a consistent high rate of growth. The Council was requested to take on its new role by Prime Minister Trudeau following his meeting with provincial premiers in February. In assigning the Council its new mandate, the Prime Minister spelled out the specific duties to include:

- publishing of studies and reports on general developments affecting prices, incomes or productivity;
- monitoring of changes in prices, incomes or productivity and determining and analyzing the reasons for such changes;
- inquiring into the structure and operations of markets and recommending possible improvements that would contribute to lower rates of inflation or increased productivity.

A new unit of the Council, with its own staff and director, has been formed to take on the monitoring function.

Dr. Sylvia Ostry, Chairman of the Economic Council, has indicated that the new unit will focus on the "macro" rather than "micro" aspects of the postcontrols period — that is, on the broad situation affecting inflation and productivity rather than on specific price and income decisions. "We would want to look at major developments in productivity, price, and income movements and to do sectoral analyses which are not done in regular fashion and a range of analyses on such subjects as what the consumer price index really means in a period of rapid inflation."

The Economic Council will rely on information that is publicly available or that can be obtained from government departments such as Statistics Canada and Labour Canada. The Council has no power to hold its own inquiries, but it can recommend to the government that a special inquiry commission be set up.

The monitoring role of the new unit will continue until the end of 1981.

### Capital spending and profits to rise

A federal Industry, Trade and Commerce survey of some 300 large companies in Canada indicates that they plan to increase their capital spending in 1978 over 1977 by 13.1% in current dollars and 5.5% in real terms. This compares with the previous year's increase of about 4% in real terms. Companies covered in the survey, which was conducted in late March and early April, account for over two-thirds of Canada's nonfarm business outlays on new plant and equipment.

The capital goods inflation rate assumed in corporate budgets was, on the average, 7.6% for 1978 compared with 8.5% for 1977 in the similar survey a year earlier. The recent survey reflected improvements in several other conditions besides prices — notably in profit expectations and exports.

Profitability is expected to improve by a rising proportion of companies — following a sharp rise in actual profits in 1977. In the recent survey, a profit improvement in 1978 over 1977 was expected by 60% of companies (with 14% expecting no change and 26% expecting a decline), and a profit improvement in 1979 over 1978 was expected by 76% (with 12% expecting no change and 12% expecting a decline). It thus appears that 1979 is shaping up as the best of several consecutive years of strong profit gains.

For manufacturing firms in the survey, current dollar investment is planned to rise by about 19% in 1978 over 1977, compared with an estimated actual increase of 8% in 1977. Actually, larger-than-average increases are expected in most manufacturing industries, but the overall average is dampened by a levelling out of expenditures in two large sectors — chemicals and forest products.

Outside manufacturing, large expenditure increases are planned for pipelines, electric utilities, and finance and trade, while declines are expected for the oil and gas and mining industries.

For foreign-controlled firms in the survey, the planned expenditure increase for 1978, at 7% in current dollar terms, is not as large as the total 13.1% for all firms in the survey. However, the planned increases in manufacturing are just about as large for the foreign-controlled as for all manufacturing firms in the survey. The overall increase for foreign-controlled firms is moderated by relatively weak expectations in certain large sectors, such as oil and gas and forest products. In any event, the profit and expenditure prospects for foreign-controlled firms, as for Canadian-controlled firms, appear to indicate increases from 1977 through 1979.

### Foreign direct investment rises

The flow of foreign direct investment into Canada amounted to \$410 million in 1977, according to preliminary data issued by Statistics Canada. This was in marked contrast to the previous year, which recorded statistically a "disinvestment" of \$295 million. The sharp upturn in 1977 confirms the judgment that the previous brief decline was mainly an "irregular" result of a number of large "non-recurring" transactions, namely purchases by Canadians of some Canadian assets of foreign-owned firms. As indicated in the Winter 1977/78 issue of *Foreign Investment REVIEW*, the "non-recurring" transactions amounted to about \$725 million in 1976.

Statistics Canada estimates that purchases by Canadians of foreign-owned Canadian assets declined to \$225 million in 1977. If these are excluded from the statistics, the "adjusted" figure for foreign direct investment in Canada is \$635 million for 1977, an increase of nearly 50% from the adjusted figure for the preceding year.

Portfolio investment inflows into Canada by non-residents amounted to \$5,778 million in 1977. This was \$3.3 billion below the record level of 1976, but far higher than in all previous years.

### Foreign-controlled firms among largest in Canada

The proportion of foreign-controlled firms tends to be higher among large-size companies in Canada and to decline as the size range declines, according to a study by Statistics Canada of nearly 30,000 companies in Canadian manufacturing, mining, and forestry industries. Although the study was based on 1972 data, its conclusions are still applicable because the industrial structure changes very slowly.

Of the 100 largest companies in the three major sectors taken together, 66 were found to be foreign controlled. Of the largest 500 companies, 69% were foreign controlled; of the next 500, only 45% were foreign controlled. The proportion continues to decline with the size of firms: below the top 1,000, only 3.6% of companies are foreign controlled.

### Multinationals are a strength to build on

Subsidiaries of multinational companies have special advantages which are an important strength in the industrial base of Canada (or any country in which they operate), and government policies should build on this strength instead of being concerned with who owns what shares, said Douglas Marrs, Chief Executive Officer of Westinghouse Canada Limited, in a recent public address entitled "Build on Strength".

Multinational companies realize, he said, that the role of their subsidiaries must change as the country develops and as its industrial policies change. And Canada must now reorient its economic policies to a strategy more in keeping with the country's changing position in the world. The key factors in this changing position are, he contended:

- A reduced ability to rely on raw material exports, because of the resources now being developed in many Third World countries.
- A reduced ability to rely on labour-intensive manufacturing industries, because these are increasingly being placed in low-wage countries or in developed countries that have achieved economies of scale by aligning themselves into trading blocs.

The new economic policies needed by Canada would, according to Mr. Marrs, encourage manufacturers in Canada to specialize, move into areas of excellence, and increase their competitiveness and participation in export markets.

The strengths of multinationals on which Canada should build, he said, are these:

1. The multinational is always looking around the world for host-country environments which are conducive to the receipt by subsidiaries of international product mandates or "world charters".
2. Many Canadian subsidiaries already have the facilities in place to accept world-

charter responsibilities for specialized product lines — responsibilities all the way from the research and development through to the after-sales service.

3. The research and development capability of the parent company is by no means usually an obstacle to the subsidiary's rapid expansion of technological capability — it can be a great advantage in a host country with a supportive economic environment.

4. Multinationals have worldwide sales networks that are usually prepared to work very hard on behalf of Canadian (or other) subsidiaries — and this is a major resource that Canada can utilize to its advantage.

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## LABOUR RELATIONS

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### Industrial relations climate

A study published recently by an economic research company takes issue with a prevalent view that Canada's industrial relations have been about the worst of any industrialized country except Italy.

The author of the new study, Paul Malles, while agreeing that the general industrial relations climate deteriorated during the late 1960s and early 1970s, maintains that international comparisons of strike-lockout data are at best uncertain. This is not only because of differences in statistical methods among different countries, but because of differences in structures of economies and in occupational compositions of labour forces.

The fact, according to the author, is that the number of Canadian workers involved in conflict situations as a percentage of the paid labour force is relatively low by international standards — much lower than in France, Italy, and Australia, and also lower than in Belgium, Denmark and Japan. He explains much of the loss of working time in Canada as the result of *duration* of strikes and lockouts. Duration is greater in Canada than in other industrial countries except the United States. It thus appears to be a North American phenomenon.

The author contends that if it were possible to reduce the duration of strikes by half, Canada's record of time lost through industrial disputes would drop to an insignificant level. Even now time lost through strikes and lockouts amounts to only about one-half of one percent of worked time.

# Features

## The Canadian experience of Marks and Spencer

by Charles J. Byron

In 1975, the most famous retail clothing chain in Britain, Marks and Spencer, was allowed, under Canada's Foreign Investment Review Act, to acquire a majority shareholding in Peoples Department Stores Limited, a Montreal-based retailing chain. Peoples Department Stores was operating 50 variety stores under the "Peoples" name in Ontario, Quebec, and the Maritime provinces, 47 junior department stores known as "Walker/Smith's" in Ontario, and 35 women's wear stores known as "D'Allaird's" in major cities across Canada. It also shared ownership with Marks and Spencer in 17 St. Michael Shops, which sold Marks and Spencer's private-label clothing imported from Britain. Now, nearly three years after the acquisition, Marks and Spencer, although yet to show a profit in Canada, appears to have achieved a solid base for a highly successful enterprise.

This progress has not been easy. The company was forced to make adjustments and modifications to its store-expansion plans to suit changing economic conditions and the Canadian retailing marketplace. This meant that a couple of its commitments to the Canadian government could not be fully accomplished in the specified time period. A new round of discussions with the government resulted in a new agreement, one that reflected Marks and Spencer's more accurate growth expectations. All things considered, the story of Marks and Spencer's first years in Canada is a good example of how a foreign investor and a host country can work together to shape — and reshape — an investment proposal to the benefit of both.

### A reputation for quality and value

In Britain the Marks and Spencer name has long been a household word. From modest beginnings in 1884 when founder Michael Marks set up a tiny market stall in Leeds under the banner "Don't ask the price — it's a penny," Marks and Spencer has burgeoned into a national network of more than 250 stores which attract 14 million shoppers weekly and take in sales of \$2 billion a year.

In its early stages, the firm prospered because of a simplified and modest price structure for its merchandise. But for a long time now its appeal has been based on selling products of recognizable quality and excellent value. It offers its customers a select range (about 2,000 lines) of men's, women's and children's wear, textiles, footwear and foodstuffs. Although a good

part (28%) of sales are food items, Marks and Spencer's strength and public appeal continue to be in its textiles and clothing. All merchandise offered for sale is marketed under the company's exclusive "St. Michael" label.

### Reputation built on control and coordination

In seeking to provide the consumer with quality and value, the design, production, and ultimate sales to the consumer, of St. Michael merchandise is tightly coordinated with textile mills, clothing manufacturers, and Marks and Spencer's retail operations. St. Michael merchandise is, first and foremost, designed to appeal to the broad public. Fashion extremes are shunned — because, says Patrick Murphy (Marks and Spencer's chief Canadian technical executive), "We are a fully planned business and are active followers of fashion. We do not plan to be fashion leaders." Each and every St. Michael product is designed and developed by Marks and Spencer's own Product Design Group according to strict specifications covering both manufacturing standards and the raw material content. Its people are extremely proud of the finished product. Quality control, for example, extends all the way from yarn production to the clerk at the cash register — "for if the customer picks up a flaw," says Patrick Murphy, "then we have failed."

Although goods are made up by an approved list of independent manufacturers, Marks and Spencer's people are quick to point out that items found to be not up to quality standards are quickly returned to suppliers at the latter's expense. Tony Orton, who heads up the Canadian Marks and Spencer operation, bluntly insists, "We are not prepared to offer faulty merchandise to our customers."

Marks and Spencer devotes an enormous amount of its resources to product design, technology and quality control, and has in recent years set up an Industrial Management Group to provide its suppliers with free advice on any management problem, whether it be production engineering, floor layout, or personnel. In Britain the idea of retailers dictating not only what products should be made but how they should be made was resisted for many years by textile manufacturers. Indeed, there was a time when the few suppliers willing to do business with Marks and Spencer were reluctant to admit it to anyone. But all that has changed. Despite the odd complaint about Marks and

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Spencer's high-handedness, suppliers cannot resist the temptations of long production runs and steady orders. And suppliers who have gone along with Marks and Spencer's approach have generally prospered with it.

The company's retailing methods too are quite different from North American norms. Store interiors tend to be plain and the merchandise presentation simple. Merchandise prices are everyday prices — there are no sales promotions, except to clear discontinued or seasonal lines, and media advertising is almost entirely restricted to new store openings and renovations. The stores do not offer any of the added services, such as credit and delivery, that are commonly expected of large North American retailers. Yet, however controversial the methods, the Marks and Spencer merchandising formula is obviously working — and the company continues to achieve a remarkable growth rate in Britain.

With this formula in mind, and with a moderate but growing volume of business in Canada, Marks and Spencer felt that its direct presence would fill a void in the Canadian retail scene. The Marks and Spencer people recognized that a lot of good-quality clothing was already available in the Canadian market. But they felt that most of the inexpensive clothing available was of inferior quality — what they refer to as "disposable clothing". There was no doubt in their minds that Marks and Spencer would win out in Canada, because, says Tony Orton, "with today's inflation rates, the Canadian homemaker can no longer afford to buy 'disposable clothing'."

## Market strategy in Canada

Soon after the Canadian acquisition was completed, Peoples Department Stores was reorganized into three operating divisions: Marks and Spencer, Peoples, and D'Allaird's. Peoples and D'Allaird's would, for the time being, be left to continue business in much the same way as they had in the past, while 17 "St. Michael Shops" and 47 "Walker/Smith's" stores would be brought together to form the basis of the Marks and Spencer Division. All initial efforts would focus on this new division, the first objective of which would be to achieve a higher level of acceptance of St. Michael products. It was intended that this would be accomplished through the gradual conversion of the "Walker/Smith's" stores to Marks and Spencer outlets and through the opening of new stores in suitable locations.

As a first step, the conversion process involved devoting a proportion of the selling space in the "Walker/Smith's" outlets exclusively to St. Michael merchandise.

This was the "shop within a store" technique which had worked for Marks and Spencer franchisees in other (export) markets, the idea being that as sales of St. Michael merchandise increased, additional space would be made available at the expense of less successful lines.

On the production side, Marks and Spencer would, through a newly created Canadian department set up along the lines of its U.K. Industrial Management Group, seek out Canadian textile mills and clothing manufacturers willing and able to supply St. Michael products. In the meantime, merchandise requirements would be supplemented by imports from Britain.

At that time, the Canadian textile and clothing industry was largely an unknown entity to Marks and Spencer. In view of a lifetime of problems in convincing British industry to cooperate with its methods and its exacting requirements, Marks and Spencer was understandably apprehensive about the Canadian industry's response. And Patrick Murphy admits quite frankly that "for new suppliers, the first 12 months with us can often be painful."

## Textile industry in Canada was co-operative and imaginative

Finding suitable Canadian suppliers, however, did not turn out to be the problem that was anticipated. Whereas the required co-operation and liaison between Marks and Spencer and its independent suppliers took many years to develop in Britain, it was largely accomplished in a matter of months in Canada.

Much to Marks and Spencer's relief, it found that despite the many problems facing the Canadian textile industry, a good many of the firms in it were much more innovative and imaginative than their British counterparts.

Riviera Slacks, Inc. of Toronto, is one such Canadian supplier. Bill Krangle, Riviera's Marketing Manager, is pleased with the relationship that has been built up. He notes that "Marks and Spencer do not buy garments; they buy production." Specific examples of the benefits of doing business together include Marks and Spencer's specifying of finished cuffs on men's slacks — resulting in a substantial savings in material costs; the advantages of delivering garments on hangers as opposed to flat boxes — thereby eliminating unsightly creasing; and, generally, improvements in Riviera's production as a result of Marks and Spencer's attention to cut and design.

There can be little doubt about the company's commitment to the Canadian production of St. Michael merchandise, for it has on occasion, when unable to

source a particular fabric in Canada, imported the yarn, turned it over to Canadian textile mills for manufacture into cloth, and then given this to its Canadian clothing manufacturers to convert into the desired final product.

Marks and Spencer now has over 100 Canadian suppliers producing St. Michael merchandise. The suppliers constitute something like the top 10% of the Canadian textile and clothing industry. The response to Canadian production has been extremely favourable. Even in knitwear, for which British mills have long been renowned, the Canadian production of St. Michael's men's, women's and children's garments is increasing sharply — from 11,000 dozen garments last year to 30,000 dozen garments projected for this year. A portion of the increase will displace some 14,000 dozen garments imported from Britain.

Reaction in Marks and Spencer's British export office to Canadian-made merchandise has also been very encouraging: Canadian-made merchandise is now marketed in several countries in Europe, Central America, Africa and in Australia. "Last year," says Tony Orton, "we exported half a million dollars of Canadian-made St. Michael textiles — and this year we should export over a million."

The introduction of "St. Michael" foodstuffs — mostly convenience-type items, such as meat pies, and bakery products, including biscuits and candies — to the Canadian market was not contemplated in Marks and Spencer's original plans. Some items were, however, tried in an experimental way and are finding a high level of consumer acceptance. Currently, sales of foodstuffs account for 18% of Canadian sales and are mostly imported from Britain. Four Canadian firms, however, are now supplying a variety of meat pies, bakery products and honey. One of the company's current priorities is to find additional Canadian suppliers to produce other food items for the St. Michael line.

## Problems were in store expansion

While the production side of Marks and Spencer's Canadian activities for both St. Michael clothing and foodstuffs was much more successful than had been expected, it became increasingly clear that the retailing operations were having major problems. The company's steps towards gradually converting the "Walker/Smith's" stores to Marks and Spencer stores, for example, were not producing satisfactory results. The concept of "a shop within a store" created a myriad of problems including duplicate buying, inventory control difficulties, and differing garment construction standards that confused

suppliers and consumers alike. And the number of product lines in the stores' merchandise catalogue was too large to yield an adequate turnover.

It was decided that if Marks and Spencer hoped to increase public awareness of what it had to offer, the conversion process would have to be completed more rapidly than had been planned. It was also becoming clear that the Marks and Spencer outlets in shopping centres and other high-traffic locations, where consumers could readily compare St. Michael merchandise with its competitors' products, were much more successful than its solitary downtown and main street locations, some of which have since been closed because they were unprofitable. This led the company to reconsider its expansion policy, which now calls for the opening of five or six stores a year in new or successful shopping malls.

By the end of 1976, the conversion of the "Walker/Smith's" stores had effectively been completed and the acquisition of suitable sites for new stores became a high priority. The losses incurred in the first six months of the year, mostly attributable to store conversions, amounted to over \$7 million. In the second half of the year Marks and Spencer broke even. But the company could not fully achieve, within the agreed time period, its commitment to the government to open 14 new Marks and Spencer outlets, convert 16 "Walker/Smith's" stores to Marks and Spencer outlets, and create 550 jobs. While 43 rather than 16 "Walker/Smith's" stores were converted, only 10 new stores were opened and 370 new jobs created.

### **A new FIRA agreement reflected more accurate plans for expansion**

The Foreign Investment Review Agency, which had maintained close contact with the company, was well aware that Marks and Spencer was having problems. The Agency felt that the firm had made every reasonable effort to comply with its commitments — for example, two new store openings involving a significant number of jobs, which had been scheduled to open in 1976, did not take place because of construction delays. But the Agency felt, and Marks and Spencer agreed, that a new agreement should be negotiated which would more accurately reflect the company's plans for Canadian expansion and the potential benefits to the country. Both the Agency and Marks and Spencer were flexible in developing an agreement which would not in any way restrict the company's ability to grow and compete effectively, yet would be equal, if not superior, to the original agreement in terms of benefit to Canada. Such an agree-

ment was completed in early 1977; among its provisions were the following:

- an investment of \$1 million in 3 new stores in 1977 and an additional \$3 million for 12 new stores by 1980;
- 83 new jobs for Canadians in the new stores to be opened in 1977;
- obtaining from Canadian suppliers at least 70% of St. Michael textiles and clothing and at least 40% of St. Michael foodstuffs;
- using Marks and Spencer textile technology and industrial management expertise in the development of Canadian-made St. Michael merchandise;
- spending at least \$100,000 annually through 1980 on Canadian research and development in textile and clothing technology;
- promoting the export of Canadian-made St. Michael products;
- ensuring that a Canadian is elected and maintained on Marks and Spencer's board of directors in Britain.

So far the new agreement has worked well. All specific performance objectives to be fulfilled by 1977 were exceeded. For example, six new stores involving 222 jobs

were opened last year and the company's technology group spent more than twice the amount stated in its commitment for research and development.

Therefore, despite their earlier setbacks in new store openings and the closing of some unprofitable stores, Marks and Spencer's people are confident that the company has created the basis of a profitable enterprise and is firmly established in the Canadian retail market. It is too early to make a final determination of the full extent of the benefits to Canada that are likely to result from Marks and Spencer's presence here. Certainly, some of the evident impact on the Canadian textile and clothing industry — an industry which has fallen on hard times in recent years — is already striking. If, for example, Marks and Spencer had chosen to stay with its original schedule — which called for the production of 60% of its Canadian-made "St. Michael" textiles and clothing in seven years — its 1977 purchases would have supported about 250 production jobs. Instead, by accelerating Canadian sourcing to 70% within 18 months, its purchases now support some 900 Canadian production jobs. Moreover, Canadian suppliers can now benefit from being plugged into Marks and Spencer's marketing organization, which exports to 50 countries. In view of the encouraging response to Canadian-made St. Michael merchandise, exports and the related foreign exchange earnings seem very likely to continue to rise.



Photo: Gilles Gratton

# When does a licensing agreement in Canada make sense?

by J. Peter Killing

The Marsland division of Leigh Instruments, in Waterloo, Ontario, is today one of the world leaders in optical character recognition (OCR) technology, the technology used to read postal codes in mail sorting equipment. With no significant U.S. or European competition, Marsland's potential market is huge. To date, 41 units, at approximately \$300,000 each, have been sold to the Canadian Post Office, and the probability of export orders is high. Yet only five years ago Marsland was not even considering the OCR business, and would have been very sceptical of predictions of their present success. The development is the result of Marsland's ability to take advantage of a good licensing agreement.

A licence agreement between two firms gives one of them access to the patents, know-how and possibly the trademarks of the other, for a specific number of years, in exchange for a royalty based on sales. When the agreement is successful, both parties benefit: the licensee gains a proven package of technology which may cut years off a program of diversification, and the licensor gains an income stream at little risk and cost. Not all agreements are successful however: sometimes licensing can work against, rather than for, the best interests of both parties concerned. This article discusses some of the factors that can make licence agreements appropriate or inappropriate in Canada.

## An overview of licensing in Canada

The only comprehensive survey of licensing in Canada was carried out in 1972 by Statistics Canada. This survey of 6,000 Canadian enterprises showed 3,417 licence agreements in effect between 760 Canadian licensees and foreign licensors, at a net royalty outflow of approximately \$119 million per year. One-third of the licence agreements were between affiliated companies. A few simple calculations based on these statistics suggest that the average Canadian licensee has 4.5 licence agreements in effect, and sales under licence of about \$3.1 million, or just under \$700,000 per agreement. This assumes 5% on sales as an average royalty rate. The survey found that 77% of the licensors in the 3,417 agreements were American, 9% European, and 4% British; 16 of the licence agreements involved Japanese licensors.

As Table 1 shows, most licence agreements were in the manufacturing sector. The greatest use of licences was between U.S. licensors and Canadian manufacturing firms, and approximately 40% of these were between affiliated com-

panies. Just under half of all agreements restricted the licensee to the Canadian market.

Two different types of licence agreement are in common use, the *current technology* agreement and the *current and future technology* agreement. The difference between them is important.

In a current technology agreement the licensor transfers only those know-how and patent rights in existence at the time the agreement is signed. Any future development work must be done by the licensee. An example of such an agreement, again involving the Marsland division of Leigh Instruments, was the one in 1972 between Western Electric and Marsland which gave the latter rights to produce teletype terminals under approximately 30 Canadian Western Electric patents. Detailed drawings were supplied to Marsland by Western Electric, but rights to any further patents or know-how developed by Western after 1972 were withheld: any necessary refinements or developments to the terminal would have to be made by Marsland's own engineers. The only regular communications between the companies since the agreement has been the passing of royalty cheques from Marsland to Western Electric. Because the licence agreement gave no continuing help to Marsland, the firm has had to do all its own development work on the terminal and build up its own area of competence relating to teletypes. This new competence cost Leigh several million dollars, but the end result was a Canadian market share in excess of 90%, and a healthy program of exports.

In the current and future technology agreement, the licensor continues to supply the licensee with relevant product and/or process improvements as they are made. In Canadian licensees this continuing stream of information and help seems to have one of two effects. The firm is either lulled to sleep, becoming increasingly dependent on the licensor, or begins to develop its own technical skills, using whatever help it can get from the licensor.

## Why do Canadian firms enter licence agreements?

Clearly, a significant amount of licensing is taking place in Canada. The Statistics Canada survey found that 300 firms entered into agreements or re-executed existing agreements in 1972. A partial listing of licence agreements by the Ontario Ministry of Industry and Tourism shows 185 agreements were entered in the two-year period 1975-76. The question is, why do Canadian firms enter licence agreements?

*J. Peter Killing is an Assistant Professor at the School of Business Administration, University of Western Ontario. He and Professors Harold Crookell and Leonard Wrigley are co-authors of a forthcoming publication, Licensing and Corporate Strategy. The broad research of this team has received financial assistance from the federal Department of Industry, Trade and Commerce, the University's Centre for International Business Studies, and the School's Fund for Excellence.*

In 1976 the author undertook the only in-depth study to date of firms manufacturing under licence in Canada (J. P. Killing, "Manufacturing Under Licence", *Business Quarterly*, Winter 1977). The author interviewed managers of 21 firms producing 62 products under licence agreements, and found that firms manufacturing under licence in Canada do so for three primary reasons: (a) to strengthen their existing business, (b) to diversify into products closely related to those already being produced, and (c) to diversify into products only loosely related to the existing product line. A secondary motive stated by some firms was that they wished, over time, to build up a research and development competence. A very clear relationship was found between the primary licensing motive and the type of agreement used, as shown in Table 2.

**Strengthening the existing business:** Licensing to strengthen an existing area of business is a relatively low risk, low return, proposition for the licensee. Generally firms are licensing to use competitors' patents because they have decided that this is cheaper than trying to design around them, or are adapting to industry product standards in situations where product standardization is needed. These firms are already competent to design, produce, and market the product in question. The purpose of the licence agreement is not to learn new skills but to obtain legal permission to use a patent. The costs and benefits of taking a licence in such a situation can be calculated with relative certainty. This use of licensing is felt to be entirely straightforward and appropriate, but it does not open up new areas of new business to the firm; it merely helps it to do a better job of something that it is already doing.

**Closely related diversification:** Using licence agreements to introduce products related to those already produced by the firm can open significant opportunities for growth. The risk being taken by the licensee in terms of possible failure of the new product are higher than in the licensing to strengthen the existing business situation described above, but is manageable because the area of new business is closely related to the firm's existing business, and thus judgments concerning the new technology and market are generally well made. The attraction of licensing in such a situation is that it can move a firm very quickly into a promising growth area at a lower level of risk than it would face if it were to undertake its own research and development. Firms using current and future technology agreements to produce closely related products are often trying to upgrade their in-house technical skills. Although the process is a long one, as much as 15 years in some cases, it can be done: the case of Rolls Royce, described later, is a good example.

**Loosely related diversification:** In this situation firms are manufacturing under licence products which require some skills unrelated to those existing in their firms. For this reason they generally use current and future technology agreements which allow the firms to rely on the licensor for new developments. These agreements, however, usually prevent the licensees from exporting. The future of firms using licensing in this way is not bright. The success of their products often depends, not on their own skills, but on the ability of the licensor to keep abreast of the competition. Not only are they unlikely to be able to compete on world markets but their position in the Canadian market may last only as long as tariffs remain at current levels. The fundamental problem is that the firms have been enticed into a new product area which they do not have the skills to support, because taking the licence agreement made it look like an easy transition. This type of licensing is not recommended, and any firm contemplating entering an agreement in this situation should be discouraged.

### Licensing at its most successful: the Marsland story

Marsland's success with OCR technology, outlined at the beginning of this article, dramatically illustrates the power of a good licensing agreement when used by a competent firm, and the critical role which government purchasing can play. In 1972 the Canadian Post Office invited tenders for OCR equipment to be delivered over the following four years. At that time no Canadian firm was in a position even to consider bidding, but the Post Office required that the successful bid should allow for a portion of the equipment to be delivered by a Canadian firm. The winning combination was the Nippon Electric Corporation of Tokyo, with Marsland as the Canadian licensee. After extensive visits by Canadian engineers to Japan, and their Japanese counterparts to Canada, the technology transfer was made, and Marsland successfully completed its part of the contract (as did Nippon). Not content to stop there, however, Marsland has done its own research and development, working from the Japanese base to develop a "Mark 2" technology which will involve little, if any, royalty payment to the Japanese. It is with this technology that Marsland hopes to capture export markets. Their most significant competitor is already proving to be — Nippon Electric.

There appear to be three factors critical to the success of the Marsland venture:

- The foresight of the Post Office in specifying the Canadian content

component in the contract, and their willingness to pay a penalty in terms of price to ensure such content. It undoubtedly would have been cheaper simply to buy direct from Nippon.

- Nippon Electric's choice of Marsland as the licensee. Marsland had engineering skills related to those necessary to develop the new technology and thus was able properly to absorb and utilize it. Firms without related skills would have been in over their heads.
- The willingness of Marsland to invest in further research and development and strive to make the most of their opportunity. Too many other firms would have accepted the situation as a once-only deal, and then let it go.

This example illustrates licensing at its most successful, used for a related product diversification, to produce a product for a growing market, by a firm willing to invest in additional research and development to develop its own skills and carry out further product modification itself. The agreement is a current technology agreement and thus the licensee is free to export.

### Why do foreign firms licence in Canada?

Foreign firms can penetrate the Canadian market by exporting, forming joint ventures, establishing wholly owned subsidiaries, and by licensing. Most firms consider that there are advantages and disadvantages to each form of market entry. Table 3 presents some of the options and the arguments for and against each as they might be seen by a foreign firm considering entry in Canada.

An examination of Table 3 suggests that foreign firms may choose to licence in Canada for several reasons. Firstly, the firm may be too small to have the capital and management expertise to establish a wholly owned subsidiary, or the Canadian market may be judged to be too small to warrant one. Secondly, firms may use licence agreements to see how their new product will sell in Canada, at little risk to themselves. (The danger to Canadian licensees in such a situation is that they will build a Canadian market for the product, only to have the licensor take over the market after the licence has expired.) A final reason to licence may be the hope that the licensee will make technical improvements on the licensor's products. About 25% of the licences in the Statistics Canada survey included a clause stating that technical improvements made by the licensee would accrue to the licensor.

**Table 1**  
**LICENCE AGREEMENTS INVOLVING CANADIAN FIRMS, 1972**

	Petro- leum	Manu- factu- ring	Mining	Merchan- dising	Finan- cial	Other	Total
Licences reported	164	2,523	49	483	10	188	3,417
Licences by country of residence of licensor:							
Canadian subsidiary of foreign company	4	108	7	24	—	2	145
Other Canadian licensors	4	128	4	9	—	7	152
United States	142	1,893	29	394	9	156	2,623
United Kingdom	4	103	1	29	—	4	141
Europe	7	250	6	25	1	15	304
Japan	2	13	—	1	—	—	16
Other	1	28	2	1	—	4	36
Licences held from affiliates:							
In Canada	—	33	—	5	—	63	101
Outside Canada	38	751	1	308	3	53	1,154
Licences held from non-resident individuals or corporations and from Canadian subsidiaries of foreign companies that:							
Allow market access to:							
All countries	72	957	39	21	—	107	1,196
All countries other than source of licence	2	105	—	6	—	—	113
Same countries other than source of licence	8	263	1	22	1	7	302
Canada only	78	1,070	5	425	9	67	1,654
Specify mandatory source of supply of materials, components, sub-assemblies or equipment	3	227	3	36	—	8	277
Value of purchases from man- datory sources (\$ thousands)	50	47,219	42	17,581	—	612	65,504
Payments to non-residents under licensing agreements (\$ thousands)	2,186	95,764	237	13,912	416	6,357	118,872

Source: Statistics Canada, *Quarterly Estimates of the Canadian Balance of International Payments*, Third Quarter 1973.

**Table 2**  
**USE OF LICENCE AND LICENCE AGREEMENT TYPE**

Licence agreement	Use of licence	
	Current and future technology	Current technology
Strengthen existing business	16	2
Closely related diversification	12	10
Loosely related diversification	2	32
	30	44

Source: J. P. Killing, "Manufacturing Under Licence", *Business Quarterly*, Winter 1977.

## A British-U.S. example of investment benefit from a licence agreement

A good example of a case in which the licensor benefitted significantly from the technical developments made by the licensee was the 1961 Rolls Royce agreement with Continental Motors of the U.S.A. to produce light aircraft engines. While the British firm had produced piston engines for cars, and marketed auxiliary equipment for light aircraft, it had never manufactured piston engines for light aircraft. The licence agreement was a current and future technology agreement, with rights to any development within the scope of the agreement made by either party to be given freely to the other. Because of Rolls Royce's familiarity with piston engine technology the firm's engineers were able to assimilate rapidly the flow of information from Continental. A Rolls Royce engineer was permanently located in one of Continental's plants to send information back to Britain using concepts and language familiar to the British engineers. In two years Rolls Royce was able to produce and obtain certification for its first engine produced under licence. By 1970 the firm was fully competent in the technology, and Rolls Royce and Continental jointly developed a new line of light aircraft engines in the early 1970s. Neither firm paid a royalty to the other on these engines. Thus the licensor, Continental, gained a competent partner who made it possible for a new line to be developed and manufactured in the United States.

## Conclusions

As the examples presented in this article illustrate, licensing can be a beneficial activity for both licensors and licensees. Certainly the rate of new agreements (over 100 per year in Ontario alone) indicates that Canadian firms are well aware of this. For Canada as a whole licensing is a beneficial form of entry by foreign firms: it provides valuable technology that can lead to economic growth, without an increase in foreign ownership. Licence agreement may also stimulate domestic research and development, as was seen in the Marsland example.

There can be dangers in licensing, however, particularly for the licensee. One of these is that the firm will take a licence for a product which is too far removed from its existing set of skills. Firms can be lured by the prospects of new markets into products which they have not the strength to support, and consequently become totally dependent on the licensor. If the licensor falls behind other manufacturers of the product, so will the licensee. If the licensor decides to place more of its

product development effort on other areas of its product line the licensee may be out of luck.

The other danger is that licensees may view a licence agreement as a complete substitute for an in-house research and development program. Licensing is best used by a firm which does have a research and development competence in a related area. This is not surprising when the tasks facing the licensee are considered; they can be best accomplished if technical people with similar knowledge and backgrounds in each firm can speak to each other "in the same language". Clearly the licensee needs technical people: this is even more true if a current technology agreement is used and the licensee will have to carry out further product development.

In summary, licensing can be a very effective corporate strategy, and has the potential to be particularly beneficial in Canada. It is, however, a tool which must be employed with discrimination.

**Table 3**  
**MARKET ENTRY STRATEGIES**

	<u>Advantages</u>	<u>Disadvantages</u>
Exporting	<ul style="list-style-type: none"> <li>— no capital investment</li> <li>— no management required</li> <li>— leaves other options open</li> <li>— no political risk</li> </ul>	<ul style="list-style-type: none"> <li>— vulnerable to changes in tariff, freight rate</li> <li>— vulnerable to local manufacturers starting up</li> <li>— "foreign made" may hurt sales</li> </ul>
Wholly owned subsidiary	<ul style="list-style-type: none"> <li>— potentially a high monetary payoff</li> <li>— the subsidiary may develop new business opportunities in Canada</li> </ul>	<ul style="list-style-type: none"> <li>— capital investment required</li> <li>— management required</li> <li>— political risk of nationalization, devaluation, etc.</li> </ul>
Licensing	<ul style="list-style-type: none"> <li>— little management required</li> <li>— no capital investment</li> <li>— no political risk</li> <li>— possible technical gain from licensee</li> <li>— market knowledge may be gained</li> </ul>	<ul style="list-style-type: none"> <li>— generally a low financial payoff</li> <li>— may be creating a competitor (the licensee)</li> </ul>

**OTHER LICENCE AGREEMENTS**

Bombardier-MLW Ltd. has used licence agreements as part of its program to diversify away from dependence on snow-mobiles. In 1974 the company licensed subway car technology from CIMT-Lorraine, leading to a \$117.8 million contract to build cars for the Montreal metro. In 1977 the company negotiated an agreement with a subsidiary of American Motors to build transit buses. A bid has

been made to supply 1,200 of these buses, worth \$84 million, to Quebec.

Northern Telecom Ltd. recently renewed licence agreements with Western Electric to last until 1980. Northern has the largest industrial research laboratories in Canada, yet 50% of sales are still made under licence. In 1960 Northern designed only 6% of the products it produced, but intends that this proportion will rise to 70% by 1978.

Spar Aerospace Limited uses a licence agreement to diversify away from military work. In 1975 the company signed a licence agreement with Carl Hurth of Germany to produce transmissions for street-cars and light rail vehicles. The company already produces helicopter gears. Subsequent to the licence agreement, the company received a \$3.2 million order from the Toronto Transit Commission. The company is now examining possibilities of licensing other products from Hurth.

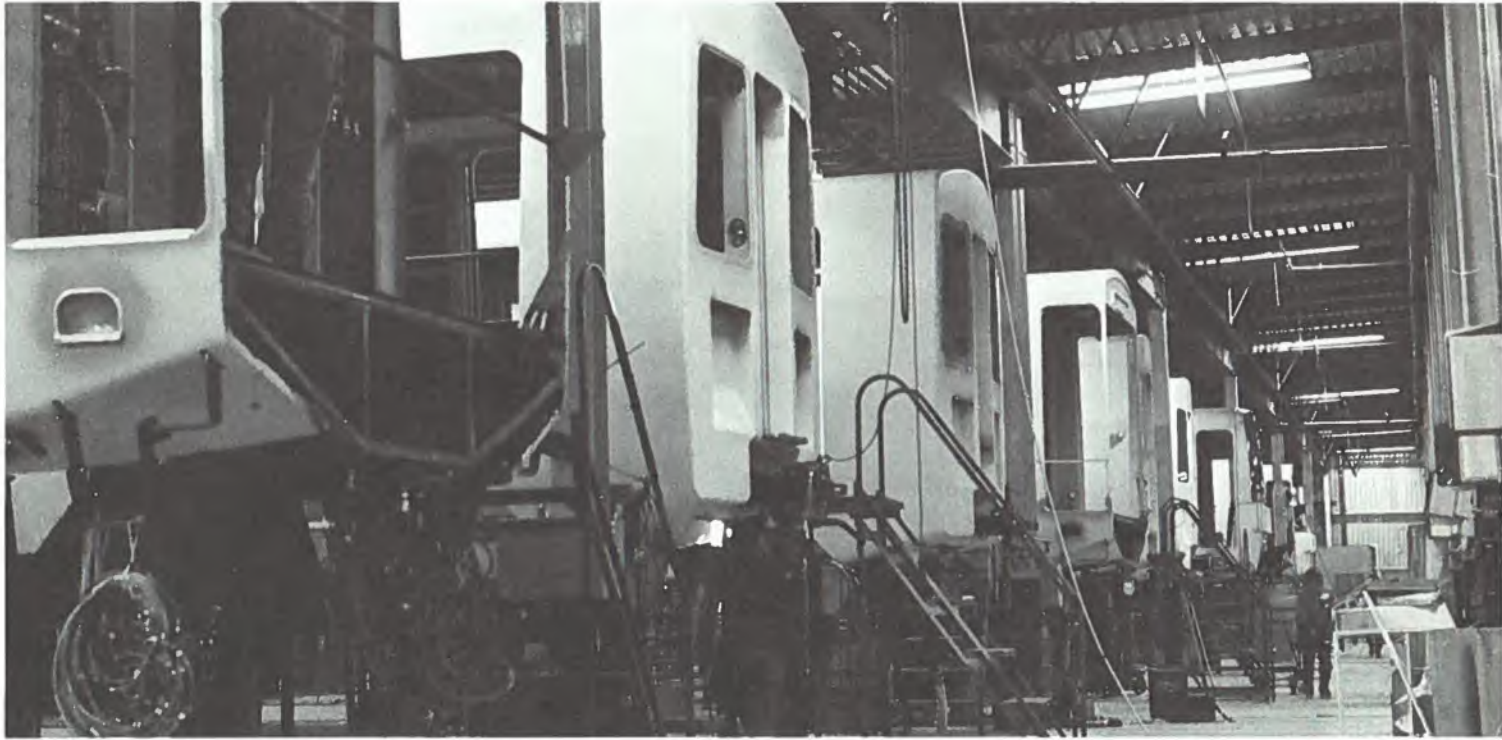


Photo: Department of Regional Economic Expansion

# Tax considerations for investment in Canada

by E. Cal Cochrane

From an investor's point of view the tax climate of a country is often as important to his investment decision as the market conditions and supply of labour and materials. The Canadian tax system is one of the most sophisticated in the world and it is therefore one that merits close examination as part of the overall investment decision process. This paper discusses how a potential investor might structure his investment in a Canadian enterprise with special emphasis on the tax considerations for an investor who wishes to include other Canadian investors or employees as participants in the ownership of the enterprise.

Although there is no requirement under Canadian laws that a foreign investor must allow Canadian participation in his venture it has become increasingly popular — for reasons of access to established markets, shared technology and local financing — to invite Canadian partners into the investment. The involvement of Canadian partners in the inception, or their proposed involvement in the future, are important factors taken into consideration by the Foreign Investment Review Agency in assessing whether an investment is likely to be of "significant benefit to Canada".

## Vehicles for new investment

The investor who decides to share the participation in a new enterprise with Canadians has several vehicles from which to choose. Some of the more common arrangements are:

- A. Formation of a new Canadian corporation with ownership split between the foreign investor and Canadians;
- B. Formation of a new Canadian corporation owned entirely by the foreign investor which would enter into a joint venture or partnership arrangement with Canadians;
- C. Formation of a joint venture or partnership that would be participated in directly by the foreign investor and Canadians.

The choice of one of those vehicles could have the effect of substantially altering the Canadian tax levied on the profits of the enterprise and the tax on the distribution of profits to the foreign jurisdiction.

There are distinctions for Canadian tax purposes between a "partnership" and a "joint venture" which would effect taxes primarily in the timing of deductions for capital cost allowance (tax depreciation on fixed assets) available to the participants. The tax differences and the legal aspects of joint ventures or partnerships should be examined with care. For instance, it is

possible for one or more of the participants to limit his legal liability under the arrangement to the amount of funds he has invested. Similarly, the use of a limited corporation as the partner or venturer could limit the risk of a participant. For purposes of this discussion joint ventures and partnerships will be referred to collectively as "partnerships". The investor must also review the laws of his own country to assess the legal and tax implications of the vehicle he chooses for foreign investment.

## Comparison of vehicles

In the following comparison of the Canadian tax position resulting from each of the three investment vehicles described above, it has been assumed, for the sake of illustration, that the foreign investor wishes to own 70% of the equity and voting control of the new enterprise with Canadians owning the other 30% (as a private investment rather than through a Canadian Stock Exchange).

### A. New Canadian corporation

In this example, the new corporation which would be owned 70% by the non-resident investor and 30% by Canadians would be a private Canadian corporation for Canadian tax purposes. Since the majority of the voting shares would be owned by non-residents of Canada the new corporation would not be a Canadian-controlled private corporation, a "CCPC". (It is important to note that a Canadian corporation will qualify as a CCPC as long as a non-resident does not *control* the corporation. Therefore, where the non-resident owns 50% of the voting shares and Canadian residents own the other 50% the company will qualify as a CCPC.) The major significance of not qualifying as a CCPC is that the profits of the corporation would be initially taxed at the highest Canadian corporate rate of 48%, whereas the profits earned by a CCPC are eligible for a much lower tax rate of 24% on the first \$150,000 of taxable income to an aggregate of \$750,000 of accumulated taxable income. The tax rate on profits above \$150,000 each year for a CCPC would be at 48%; however, the \$750,000 accumulation can be extended by the payment of dividends.

Note: The rate of 48% includes an assumed provincial corporate tax rate of 12%. Provincial corporate tax rates vary from 10% in Prince Edward Island to 15% in Manitoba and British Columbia. The initial rate may be reduced for companies that qualify as CCPC's. For example, the Ontario rate of 12% may be reduced to 9%, and the British Columbia rate from 15% to

12%. The low rate of 24% assumes a provincial rate of 9%.

The corporate rate may be reduced further through tax incentives. For example, the high rate of 48% may be reduced to a rate as low as 42% for manufacturing operations; similarly, the low rate of 24% could be reduced to 19% for manufacturing operations.

The distribution of profits by way of dividend from the Canadian corporation to the foreign investor is subject to Canadian non-resident withholding tax at 25%. This rate is reduced to 20% if the company has a "degree of Canadian ownership". In general terms, this condition is met if resident Canadians own 25% or more of the voting shares and equity of the Canadian corporation. The withholding rate may be further reduced by virtue of a tax treaty between Canada and the jurisdiction of the foreign investor. For example, under the Canada-U.S. Tax Convention the Canadian withholding rate is limited to 15% on dividends paid to a United States shareholder and would be reduced a further 5 points to 10% where the Canadian corporation has a degree of Canadian ownership. Other countries with which Canada has tax conventions are shown in the Table.

## B. New Canadian corporation as partner

Assume that the foreign investor forms a new Canadian corporation (Co. X) that enters into a partnership arrangement with Canadian investors who participate through a second Canadian corporation (Co. Y) which qualifies as a CCPC. The 70% of profits of the partnership that are attributable to Co. X would be subject to the high corporate rate of 48%. However, the 30% of profits that are allocated to Co. Y would be eligible for the lower rate of 24% on the first \$150,000 of those profits since that company qualifies as a CCPC. If we assume partnership profits of \$500,000, the Canadian tax system would permit a reduction of tax by as much as 24% of \$150,000 (Y's share). In this example the use of a partnership of Canadian corporations, rather than one Canadian corporation, could mean a saving of \$36,000 annually.

Distributions of profits from Co. X to the foreign investor would be subject to withholding tax at 25% (unless reduced by treaty) since it would not have a degree of Canadian ownership. In many foreign jurisdictions the Canadian withholding tax can be utilized as a foreign tax credit against domestic tax on Canadian dividends or other foreign source income. This is particularly true where a tax treaty limits the withholding tax rate to 15%.

## C. Direct participation in a partnership by the foreign investor

Where the foreign investor, as a foreign corporation, enters directly into a partnership with a Canadian, 70% of profits allocated to the foreign corporation would be subject to the high rate of tax of 48%. If the Canadian partner uses for this investment a Canadian corporation that qualifies as a CCPC, the 30% of profits allocated to his CCPC would be taxed at the low rate of 24% on the first \$150,000 of those profits. This result would therefore be identical to the amount of corporate tax in the previous example.

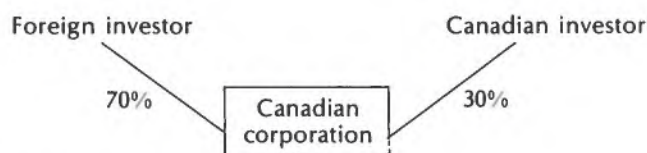
However, with such a partnership, the foreign participant may be entitled under the tax laws of his country to offset any start-up loss against profits his company has earned in the foreign jurisdiction. An initial loss incurred by a Canadian corporation under the examples in A or B would be of no immediate tax benefit to most foreign investors. That benefit would be available only when the loss is used against future profits of the Canadian corporation under Canada's tax-loss rules that permit a one-year carryback and a five-year carryforward.

On the other hand, profits allocated to

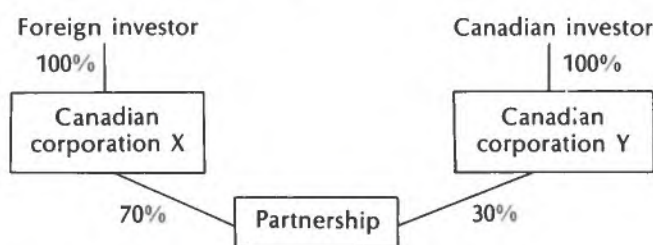
the foreign company would be subject to an additional Canadian tax referred to as a "branch tax." The branch tax is levied at 25% unless reduced by treaty (for example the branch tax rate for U.S. corporations is 15%). Since distributions from the partnership to the foreign corporate partner would not be subject to the non-resident withholding tax that applies to dividends, the branch tax was designed to compensate for a withholding tax on the distribution of profits. As such, the branch tax effectively applies to the foreign corporation's share of partnership profits after normal corporate tax less a deduction for the foreign corporation's share of partnership property that remains in Canada. Thus, in general terms, the branch tax on the foreign corporation's partnership profits would be imposed only as cash and other assets in excess of the original investment are remitted to the foreign jurisdiction. As with the withholding tax on dividends the tax laws in the jurisdiction of the foreign investor may permit a credit against domestic taxes for all or a part of the Canadian branch tax. Where such credits are available careful tax planning is necessary to ensure that the branch tax is imposed in a period when the credit can be utilized, giving consideration to timing of the recognition of income and expenses in the foreign jurisdiction and other similar factors.

### Vehicles for new investment

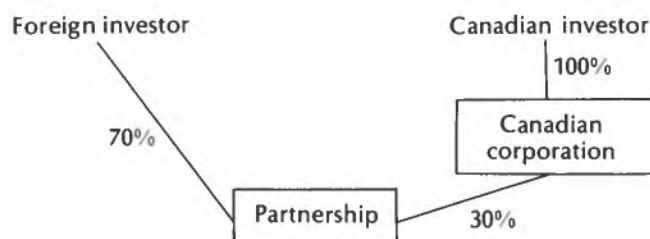
#### (A) New Canadian corporation



#### (B) New Canadian corporation as partner



#### (C) Direct participation in a partnership by the foreign investor



## Employee participation

**Stock Option Plan:** A foreign investor may wish to invite employees of the enterprise to participate in its ownership either at the outset or during a specified future period. If the enterprise is a Canadian corporation this participation would commonly be arranged through a stock option program. Selected employees would be permitted to purchase shares of the corporation at a predetermined price and would have the option to make the purchase during a stated period of time. Canadian tax rules do not permit the employer corporation a deduction from income for the granting or exercise of stock options. The employee is not taxed on receiving the option but on exercise he will be taxed on the difference between the fair market value of the stock at the date of exercise and the amount he pays for the stock. This gain will be taxed as a benefit from employment. Some of the sting is taken out of this rather onerous result by a provision that allows the employee to purchase an annuity which will effectively defer the taxation of most of the deemed benefit to future years when the proceeds of the annuity are received in equal annual instalments. In this manner the employee can defer the taxation and smooth the tax rate applicable to the benefit over the period of the annuity which can be for a specified number of years up to 15 or for life with a guarantee period no greater than 15 years.

Where the employer corporation qualifies as a CCPC (no more than 50% of the voting shares owned by non-residents) a stock option plan receives more favourable treatment. The employee is not required to recognize the deemed benefit on exercise of the option as long as he deals at arm's length with the employer

and provided that he retains the stock for at least two years. Thereafter he would be taxed on a gain arising from the sale of the stock as a capital gain, one-half of which would be taxable for Canadian purposes. Thus, for employers and employees who meet this requirement the employee does not pay tax until the shares are sold and the gain between cost and the value of the shares at date of exercise is taxed at one-half the normal rate.

**Deferred Profit Sharing Plan:** At some future time the foreign investor may wish to involve employees in ownership of the corporation through a deferred profit sharing plan (DPSP). This is a registered plan that permits the employer an annual deduction for contributions up to \$3,500 per employee (or 20% of the employee's wages if that is lower). The contributions must be made out of profits of the employer but can be a fixed dollar commitment per employee. The employee is not subject to tax on the contributions or earnings of the plan but will be taxed as withdrawals are made.

There are prescribed investments that can be made by a DPSP. One of the most interesting investments permitted is in the shares of the employer corporation. In order to qualify, the employer must have established a track record for earnings or dividends in the past five consecutive taxation years. During at least four of those years the employer must have either had earnings of at least 4% of the cost of the shares which the DPSP would acquire or have paid a dividend on those shares at least equal to 4% of their cost. Thus, once this kind of track record is established the employer corporation can register a DPSP that permits the deduction of contributions and can receive the contributions back for treasury stock issued to

the plan (thereby causing no cash flow drain) while permitting the employee to acquire a stake in the company at no immediate personal tax cost.

## Financing the enterprise

After choosing the vehicle for investment in Canada the foreign investor should examine the tax consequences of the form his investment will take. For example, if he chooses the structure described in A or B, he should be aware of Canada's rules on thin capitalization. These rules state that where interest-bearing debt is owing to the controlling non-resident shareholder or to non-resident related parties a portion of the interest charged on the debt may be disallowed for tax purposes as a deduction to the payor corporation. Interest is disallowed on that portion of the greatest amount of debt outstanding to these non-residents in the year that exceeds an amount equal to: 3 x (the retained earnings of the corporation at the beginning of the year plus the paid-up capital of the corporation). Therefore, in a start-up situation the interest-bearing debt to the non-residents should not exceed 3 times the amount injected as paid-up capital of the company. Repayments by the Canadian company of debt and redemption of the capital can be made free of Canadian non-resident withholding tax.

## Tax Conventions

Throughout this article there have been references to tax Conventions that Canada has with other nations and the effect they may have on limiting the tax on distributions to the foreign investor. These Conventions should always be examined since they may provide other benefits such as the limitation of Canadian withholding tax on interest paid to the non-resident and exemption from Canadian tax on a sale of all or part of the Canadian investment in the future. If the jurisdiction of the foreign investor does not have a tax Convention with Canada it may be possible to find a third country with which Canada and the foreign jurisdiction have Conventions and link them through a conduit holding company in the third country.

A potential investor should seek advice on the important aspects of the Canadian tax system particularly as they relate to special incentives that may be available in that particular field. These comments have focused on the structure of the investment especially where Canadian participation is desired. Other important Canadian tax incentives to investment — including accelerated depreciation allowances for equipment used in manufacturing and special incentives to investment in resource industries — were described in Foreign Investment REVIEW, autumn 1977.

### Principal non-resident tax rates (in percentage) for some treaty countries

Country	Management fees	Interest	Rentals	Royalties	Dividends*
Australia	25	25	25	25	15
Belgium	25	15	25	10/25	15
Denmark	25	15	15	15	15
Finland	25	15	15	15	15
France	25	15/25	25	10/25	15
Germany (West)	25	15/25	25	15/25	25/15
Ireland	15	15	15	15	15/Nil
Japan	25	15	25	15/25	15
Netherlands	Nil	15/25	15	15/25	15/Nil
New Zealand	25	25	25	25	25
Norway	25	15	25	15/25	15
Sweden	25	15	15	15	15
Switzerland	25	15	10	10	15
United Kingdom	25	15	10/25	10/25	15
United States	15	15	15	15	15

Where two rates are shown, clarification may be obtained from relevant articles of the Tax Convention or Agreements.

\* For corporations which have a degree of Canadian ownership the rate specified in the schedule will be reduced by 5%.

Source: Revenue Canada

## The James Bay development: a photosketch

In 1972 the Quebec government set up the James Bay Energy Corporation to harness the La Grande River — a \$16.1 billion project that is expected to increase Quebec's output of electricity by up to 80% when completed in 1985. At about the same time the James Bay Development Corporation was formed to develop the infrastructure needed by the power project and to plan the orderly development of the natural resources of the region in a way that would respect the interests of the native people, Indians and Inuit, as well as the natural environment. In its six years of operation the JBDC has signed agreements with about 40 private exploration companies. Many foreign as well as Canadian investors are showing great interest in the vast region now opening up.



Forests and lakes stretch north to the edge of the Arctic tundra and cover a region almost one-fifth the total size of Quebec (that is, nearly one-half the size of France). The most visible natural resource of the region is its wood. The JBDC is planning to promote a pulp and newsprint plant in the Chibougamau area and is looking for other proposals for ways to make the best use of the rich forest resources. The potential of the region's mineral resources also seems enormous. In a small strip in the southern part of the territory, eight mining companies have produced \$1 billion worth of zinc, copper, lead, gold, silver and nickel — just an indication of the mineral wealth likely to exist in the rest of vast territory.



The great hydro project needed a huge infrastructure — and it serves the needs of resource exploration and development as well as hydro development. A 450 mile highway (see cover) links Matagami with the brand new town of Radisson, built in the wilderness to house the families of employees of companies working in the territory. Two new airports, at Radisson and Matagami, have regular service to the south provided by Quebecair and Nordair. Already, a tourist industry is starting in the once remote and inaccessible region.



The JBDC and its partners have already invested over \$22 million in mineral exploration. Probing scientists and rough drilling rigs are becoming a familiar sight as the mining companies prospect all over the territory. Drilling in the Lake Albanel region has indicated one of the largest reserves of iron-ore in Canada — over one billion tonnes of ore, averaging 31.3% in weight of recoverable magnetite ore. The region also shows great promise of rich uranium deposits. Results of preliminary geochemical exploration covering an area of some 222,700 square kilometers (86,000 square miles) and radiometric tests show a huge reserve of primary uranium. The JBDC is taking part in uranium exploration projects with private enterprise throughout the region: with Inco in the Lake Sakami area in the northwest; with SES (Séru Nucleaire-Eldorado Nuclear-SBDJ) along the La Grande, where drilling will take place in at least six areas showing indications of uranium; with Inco and Uranerz in the Otish mountains area, where strong concentrations have been found in two places; with Pancontinental and McDame, an affiliate of Cominco, in the southeast of the territory, and with Imperial Oil on two properties covering some 10,300 square kilometers (4,000 square miles). The possibility of establishing a uranium enrichment plant is being studied.



**Some of the corporations and groups  
taking part in the James Bay area development**

Société québécoise d'exploration minière (SOQUEM)  
Noranda Explorations Company Limited  
Ducanex Explorations, New Jersey Zinc  
General Crude Oil Company,  
Selco Mining Corporation Ltd. and  
Muscocho Explorations Ltd.  
Beth-Canada Mining Company,  
Groupe minier Sullivan Ltée, Brinex et Proginimes Ltée  
Coopérative Minière de Cadillac  
Kennco Explorations Ltd. and Brinex Canico  
Canico and Uranerz Exploration & Mining Ltd.  
Monexco Resources Ltd.  
Canex Placer, Louisiana Lands, El Paso  
Berqminex Associates (Serem,  
Boliden-Preussag, Delaware Ventures)  
Urangesellschaft  
Seru Nucléaire (Canada) Ltée  
Eldorado Nucléaire Ltée

Pancontinental Mining (Canada) Ltd.  
and Mc Dame Explorations Ltd (affiliate of Cominco)  
Falconbridge Nickel Mines  
Lynx Canada Explorations Ltd.,  
Dejour Mines Ltd. and Camflo Mines Ltd.  
Kennco  
Selco and Muscocho  
Canico and Union Minière  
Explorations and Mining Corporation Ltd. (Umex)  
Canico  
Compagnie Pétrolière Impériale Ltée  
Meston Lake Resources Ltd.  
Duval International  
Seru  
Matagami Lake Mines Ltd.  
Falconbridge  
Eldorado and Seru  
Eldorado and Uranerz

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Photos: James Bay Development Corporation



# GATT trade talks: implications for investment in Canada

by John Downs

The Multilateral Trade Negotiations now taking place in Geneva seek to reduce both tariff and non-tariff barriers to world trade. A successful outcome of the negotiations could have far-reaching implications for the pattern of investment in Canada.

The structure of investment in this country — as indicated, for example, by the pattern of trade — has already been greatly influenced by the large reductions in trade barriers that have been achieved since 1948. Merchandise exports and imports as a percentage of the output of the goods-producing industries have grown substantially. In 1962, the value of merchandise exports was only about 37% of goods output, and the value of imports was 36%; by 1976 the proportions had risen to 56% for exports and 54% for imports. Increased openness to trade has been a conspicuous and major factor in increasing the productivity and use of labour, capital, and resources.

From 1948 to 1978, real gross national product per capita in Canada more than doubled, from \$2,300 to \$5,100 per head in constant 1971 dollars. Much of this increase was due to capital formation, typically about 24% of GNP. This experience of rising affluence clearly related to the increasing openness of the world economy is important to the consideration of the current trade discussions, especially since the most recent period has been one in which many governments have been under pressure to resolve specific problems of industrial under-employment by resorting to protectionist measures. Canada could be a massive loser if the world trading system reverted to protectionism.

In January 1978 Canada agreed with the other main trading countries at Geneva on a working hypothesis which envisages the reduction of industrial tariffs by a weighted average of 40%, provided that certain other objectives are also achieved. Significantly, among these other objectives of the GATT countries is to reform the General Agreement in such ways as to reduce the use of non-tariff barriers (NTBs) and to stabilize the rules for world trade. Additional measures being considered would affect trade in agricultural and fishery products.

Canada itself has a number of export objectives that are so important as to be, from Canada's standpoint, conditions for the achievement of reciprocity in the exchange of concessions. One of these important Canadian objectives is the elimination of many of those foreign tariffs which appear on the surface to be low, but which actually provide a much larger amount of effective protection than their nominal rates would suggest. Access to large markets on equal terms with other countries' domestic industries would

facilitate specialization and longer production runs in Canadian plants, thus encouraging both the better use of existing plant and labour resources and the flow of new investment into new highly productive lines. In this connection, it should be noted, investment decisions would almost certainly be influenced far more by the complete elimination of low duties than by merely their reduction. To illustrate the breadth and importance of such possible tariff reductions, one might note that about 65% of Canada's dutiable exports (or roughly 20% of total exports) to the United States now enter that country at low rates of duty (5% or less) and that the United States has indicated its willingness to consider reducing or eliminating a large number of them.

Canada also seeks greater-than-average cuts for two selected trade groups — forest products and non-ferrous metals. The aim here is to reduce tariffs and NTBs to levels low enough to allow competitive Canadian industry to do more processing of natural resources in this country and additional related manufacturing.

As well, Canadian exporters could hope to benefit from the more general reduction of foreign tariffs and NTBs — to enhance productivity growth via specialization and two-way trade. Tariffs now applied by the big foreign importing countries to manufactured goods amount, on average, to almost 10%.

The prosperity of the trading countries, and especially that of Canada, depends on the resolution of three types of problem: structural, commercial, and cyclical. These problems are interdependent, and lack of adequate progress in solving any one could seriously hamper accomplishment in the others.

## Structural change is a key issue

On the question of structural change, it is seen to be desirable that each country should move resources from industries or lines in which the country is less competitive into those in which it is stronger. Of course, no country wishes to subject its weaker industries to processes of rapid and brutal adjustment. However, fears expressed in Canada and elsewhere about the adjustment process are exaggerated. The greater danger would be to try to freeze the *status quo* by protecting weaker industries at the expense of the actually and potentially more competitive ones. Such a course would only perpetuate current problems of slow growth and low productivity and would make structural problems more difficult to solve when, sooner or later, they would have to be faced.

On the whole, the major countries have resolutely held to their agreed policy of

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moving towards freer trade and stabilization of rules. However, protectionist issues have recently become more acute in the wake of slow economic growth internationally. Several countries have imposed temporary measures — quotas, "trigger prices", and the like — to shelter specific industries against a decline in demand and an increase in import competition.

Against this background, the role of policies to facilitate and soften the difficult processes of change is a key one. Adjustment assistance programs are important existing instruments in most countries — for reasons in addition to that of trade liberalization. However, since freer trade opens the way to more effective use of resources, it enables adjustment programs to be administered with greater economic rationality and success. In Canada's case, programs of modest size already exist, and the government is considering more comprehensive measures to meet the emerging needs of the 1980s.

To facilitate an orderly adjustment process, the multilateral trade negotiations provide also for the phasing of tariff cuts over at least eight years — from 1980 to 1987. The period may be shorter for industries that are in a position to benefit from a more rapid reduction of barriers, and longer for other industries that may need more time to adjust.

## Canadian trade and investment opportunities

The outcome of the current round of trade negotiations will affect Canadian investment opportunities in various ways.

On the assumption that the negotiations on low-tariff items will be relatively successful, it is clear that the improved access for Canadian goods will be extensive. To judge from existing trade patterns and tariff categories, some 200 foreign tariff categories relevant to Canadian exports would be affected. Table 1, for example, provides a summary analysis of U.S. imports of low-duty items from Canada in 1973.

Without attempting to make detailed judgments or to be comprehensive, one can describe the nature of some individual U.S. tariff items (all below 5%) covered in Table 1. Group B includes some processed foods, certain manufactures of pulp, a range of chemicals, siding and end-glued wood, certain manufactured papers, a number of machinery items and special function motor vehicles, steel wire rods, synthetic rubber, and articles of asbestos. Group C includes products such as office machinery, parts of aircraft and spacecraft, aluminum and alloys, copper and zinc. In total, the value of imports from Canada in Table 1 was about 10% of the value of Canadian exports (excluding oil) to all

countries — or more than the total of Canadian exports to Japan, Canada's largest overseas market.

Among these items are many lines in which Canadian costs could be reduced by re-organizing production towards greater product specialization to take advantage of wider markets. There are many additional items on which U.S. and other foreign tariffs could be reduced, and this would tend to create similar opportunities for Canadian industry. Once Canadian industry was organized to produce at closer to, or at, the lowest internationally attainable cost per unit, it would be in a better position to exploit market opportunities around the world. Moreover, during the next decade or two, export and investment opportunities are very likely to emerge even in lines which do not at present figure prominently in trade.

For Canadian producers, one of the beneficial fallouts from the reduction of foreign trade barriers would be an expansion of opportunities to sell more Canadian products abroad to offset Canadian defence purchases abroad. In the decade ahead, Canada plans to do a large portion of its defence spending in foreign coun-

tries — in order to get the best possible quality and terms. For balance of payment and employment reasons, Canada must arrange for a measure of offsetting sales by Canadian industry. And with freer trade, Canadian suppliers could develop a competitive base for permanent export business in civilian as well as military markets.

## Other sector prospects

Clearly, a reasonable degree of success for Canada in sector negotiations would increase the scope for investment and trade in processed forest products and metals. Several of the major existing exports of highly to moderately processed products already have duty-free access to the U.S. market. The further thrust, now, is to create equally favourable access for products with a greater manufacturing content — prepared and pre-fabricated wood, manufactures derived from pulp, metal sheets, shapes, and wire, and a considerable variety of more-manufactured goods.

In petrochemicals, Canada is already building a number of world-scale plants to supply basic materials for both the export

Table 1

### U.S. IMPORTS OF LOW DUTY PRODUCTS FROM CANADA IN 1973

Product groups	Value (\$ millions)				
	Number of tariff items	Canada	World total	Percent from Canada	Average tariff (%)
<b>Main manufactured items</b>					
A	37	379	4,761	8.0	4.1
B	77	602	1,587	37.9	4.2
C	7	808	1,605	50.3	4.3
Subtotal A-C	121	1,788	7,954	22.5	4.2
<b>Other manufactured and processed goods</b>					
D	965	509	9,793	5.2	3.8
Subtotal A-D	1,086	2,297	17,747	13.2	3.9
<b>Crude products</b>					
E Oil	2	1,216	6,668	18.2	2.5
F Other	25	153	203	75.5	2.8
TOTAL A-F	1,113	3,667	24,618	14.9	3.8

Source: Based on official U.S. data.

Notes: Totals may not add up due to rounding. Groups A to C duties range from 2.0 to 5.0 percent, ad valorem or equivalent, and imports under individual items exceeded \$1 million.

Group A includes manufactured goods where the Canadian share of imports under individual tariffs is less than 20 percent.

Group B includes goods where the Canadian share exceeded 20 percent, and the range of import values is \$1.1 to \$50.0 million.

Group C includes goods where the Canadian share exceeded 20 percent, and import values exceed \$50 million per tariff item.

and domestic markets. The basic petrochemical industry is one where overall economies of scale are crucial. This contrasts in one respect with the bulk of Canadian industry, where scale of total plant is less important than plant specialization with long production runs of a few items for a large market. Given the emergent supply of competitively priced basic petrochemical products, Canada's interest lies in further promoting the conditions for successful operation of these industries in a large market area — and for economic participation by Canadian-based "downstream" processing and manufacturing industries in market growth. At present, these considerations relate mainly to the North American market. The United States has said it is prepared to entertain proposals for reductions of barriers to entry of petrochemicals and manufactured derivatives.

Freer trade could mean new opportunities for new technology. Many of the investment opportunities created by trade liberalization during the 1980s could, in turn, create springboards for further new investments in the late 1980s and in the 1990s. Participation in one internationally competitive industry is an excellent springboard for the application of new technology to create other internationally competitive industries. Existing participation provides an experienced pool of scientists, engineers, and managers. For instance, without a petrochemical industry based on gas or oil derivatives, Canada's chances of successfully operating a similar industry based on coal would be greatly reduced. In the same way, without a viable metal-processing sector, Canada would be less likely to achieve quantum jumps in new technology applications such as electroforming and ionic spraying — which could revolutionize product design and output costs. Freer trade could enable our large forest industries to apply such new technologies as synthetic lumber.

Clearly, the outcome of the current GATT trade negotiations will be worth analysis by industrial investors interested in taking advantage of new production opportunities afforded by declining trade

barriers. Concurrently, with the accelerated rise of two-way trade flows which is inherent in trade liberalization, there will be new opportunities for investment in transport and distribution facilities.

It should be understood that the Canadian transitional objective is an orderly reorganization rather than the elimination of import-competing industries at the lower end of the scale of comparative advantage in Canada. Specialized parts of such industries would probably continue to produce on a viable commercial basis after a period of restructuring. Public measures to facilitate this change and to encourage the creation of alternative occupations for the resources released by declining sectors would probably play an important role. Thus, even in declining industries there would be scope for selective investments based on ingenuity and specialization.

### Concluding perspectives

Concerns have been expressed both in Canada and abroad that the decline of competitiveness of Canadian industry since the early 1970s has eroded the attractions of Canada as a base for industrial investments. These concerns are probably justified by the evidence of Canadian economic performance over a period of perhaps five years. But it is also clear that the negative reaction (partly a reaction to the optimistic euphoria of 1973-74) has gone too far. For there is evidence of solid underlying strength and resilience in the Canadian economy.

In 1976, for example, the Economic Council of Canada published an index of Canada's competitive international trade performance. When this is extended to the present, it shows that Canadian competitiveness has improved considerably since 1974, although it has not yet regained its 1971 level. From an index level of 100 in 1971, there was a decline to about 81 in 1974, then a steady climb back to about 90 at the present time.

It is encouraging that the trend of this index in recent years has been upward; and that public policies at the federal and provincial levels are showing renewed focus and priority on an acceleration

of Canada's productivity growth. Another encouraging indication is the fact that productivity levels in Canadian manufacturing have been rising relative to those in U.S. manufacturing. In aggregate terms, Canadian manufacturing productivity was about 55% of the U.S. level in 1950, about 66% in 1967, and around 78% in 1976. Moreover, Canadian productivity levels in many of the durable goods industries are very close to those of their U.S. counterparts. A good part of this improvement is due to the large increase in Canadian trade and specialization under the automotive trade agreement of 1965 with the United States.

Most of the decline in Canadian competitiveness was due to the rapid increases in compensation and unit costs in Canada compared with the United States, rather than to productivity weaknesses. Hearteningly, it appears that this counterproductive binge is ending. Unit labour costs of production appear to have risen no faster in Canada than in the United States during 1977. Moreover, the Canadian dollar has depreciated by about 13% relative to the U.S. dollar since 1976. This decline will confer at least a short-term advantage on Canadian suppliers and provide a breathing space in which to consolidate the effects of underlying, positive, long-term trends.

Future investors who consider Canada will, of course, make their own assessments and decisions. What is suggested here is that these decisions would best be based on a long-term view of Canada's prospects, including the new opportunities likely to arise from the trade negotiations and related policies. The prospects are that massive investments will continue to be made in Canada in the future — and that there will be a large shift from social capital spending to business capital spending. Among the positive aspects of the Canadian situation is the recent improvement in domestic supply prospects for energy — natural gas, crude and synthetic petroleum, and uranium. Together with well-known substantial coal reserves, these resources will provide scope for very large investments — and with beneficial impacts on a great many other Canadian economic activities.



Photo: Central Mortgage and Housing Corporation

# A businessman's comments on FIRA

by Guy P. French

In a recent address, I made two comments about FIRA which, to my surprise, received a fair amount of publicity.

The first remark was that I had no objection to Canada's establishing an agency to review prospective foreign investments. I am not sure why this viewpoint should be considered remarkable by some people. Perhaps they are surprised to hear it emanate from a senior business executive of a foreign-controlled Canadian company, whose U.S. parent company has itself twice experienced the FIRA review process. However, as a Canadian, I believe that the Canadian public should have some means by which to evaluate the potential benefits to our country of at least some of the specific investments that non-residents propose to make here. Such a view is certainly not intended, on my part, to suggest any bias whatever against foreign investment as such. Canada, no less than the vast majority of other countries, needs large inflows of capital and superior technology in order to progress. But it cannot be assumed that every single foreign venture into Canada will produce attractive benefits. For example, a foreign acquisition of an existing Canadian firm (whether domestically or foreign owned) for no other reason than to eliminate a competitor or curtail its competitive vigour is obviously an undesirable intervention — albeit an extreme example of one. Also, for example, the foreign acquisition of a large or long-established Canadian company — particularly if the latter is one of the few Canadian presences in its industry — is surely something that ought to be reviewed from the standpoint of Canada's national interest.

My second remark was to the effect that FIRA's operation and decision-making process appear generally to have been effective: that is to say, efficient, fair and reasonable. One hears occasionally of lengthy review and negotiation periods, but not seemingly as the result of perverse attitudes within the Agency. One sees and hears more criticism, especially in the media, that the Agency has been too speedy or liberal with its approvals, than complaints about slow procedures or negative decisions. On the whole, the Agency appears to be carrying out its mandate quite well — perhaps surprisingly well.

A third comment I made was not widely publicized. I suggested that a clearcut national industrial strategy, if developed, would surely assist FIRA (and other public agencies and departments) in decision-making. As a businessman, I am very aware of the value of "strategies". Strategies differ from policies and principles (which we seem not to lack) in that they lay down not only what we want to achieve, but the basic means by which we will achieve it. A

strategy is long term by nature. Typically, it is highly contentious and difficult to arrive at. Yet it must be achieved. Among the strategy questions that need answering in Canada are: What industries are we going to bank on most heavily in our best long-term interests and why? What are our regional objectives and why? How do we intend to achieve these industrial and regional objectives? Only when questions such as these are answered can we hope, for example, to rationalize some of our industrial situations in which rationalization on a national basis seems in conflict with some notions of supporting the regional economies.

Businessmen today have two significant concerns in regard to government, and the two are inter-related. One is the plethora of government bureaus impacting on business. This problem is acutely felt by established businesses. Concern is reflected in complaints about government spending, about the increasing cost of responding to government demands, and so on. Emotionally, if not rationally, FIRA's relatively recent arrival on the scene has evoked some feelings of this sort.

The other concern is closely related to the strategy vacuum, as well as to the government intervention issue. It is particularly worrisome to the prospective investor, domestic or foreign. It is simply the apparent frequency of change in the rules of the game for business. The recent resort to wage and profit controls is a striking case in point. Another is the repeated introduction of proposed "competition" legislation which, on again and off again, threatens to change and regulate basic competitive market structures. In this respect too, the arrival of FIRA, insofar as it was a change, caused some businessmen to re-adjust their thinking and planning.

Business will never be free of psychological factors, and it must be recognized that FIRA's psychological effect on business, at least on international business, must be at least somewhat negative. We can never know the number of potential investments that may have been turned off by the new requirements of the review procedure. When taken together with changing regulations and the creation of new regulatory bodies in the past decade, it would be difficult to imagine that FIRA's existence would be regarded positively by the investment community.

All of this is simply to observe that those responsible for foreign investment review in Canada must be sensitive to the real life environment in which they operate.

And in my view, all things considered, the establishment of the Foreign Investment Review Agency was soundly based, and the personnel and procedures are generally reasonable.

*Guy P. French is President of American Can of Canada Ltd.*

# Capital investment projects in Canada

## IV. TRANSPORTATION, STORAGE AND COMMERCIAL DEVELOPMENTS

This list shows major capital spending projects now in progress or proposed. Three other parts (published in previous issues of *Foreign Investment Review*) covered minerals, forest products, oil, gas, electric power and manufacturing. Part IV covers investment in transportation and storage sectors, as well as new commercial developments, and is limited to projects costing over \$3 million. Information on projects has been obtained mainly from press reports, verified, where necessary, by the companies concerned.

This report was prepared for *Foreign Investment Review* by L. E. Dewis, Analyst with the Capital Expenditures Group, Economic Analysis Branch, Department of Industry, Trade and Commerce.

In the area of **transportation** the federal government will be providing \$70 million in 1978-79 to the two major Canadian railways for the rehabilitation of prairie rail branch lines. The work will involve bank widening, brush clearing operations, ballasting and tie renewals on several branch lines between the Prairie Provinces and British Columbia ports, in addition to the annual renewal of rail and ties which the railways undertake in the Prairies and other regions of the country.

**Grain elevators** are being built in Vancouver, British Columbia and Windsor, Ontario. A new grain elevator, renovations to two existing elevators, and a new two-berth container terminal are planned for Montreal, Quebec. A new container pier is to be built at Halifax, Nova Scotia, with a 50-acre storage area; the terminal is expected to be completed by 1980. The federal government has approved an expenditure of \$100 million to construct new repair facilities in the Canadian Armed Forces Dockyard in Halifax.

In the **commercial** sector, during the next four years developers are expected to build about 20 million square feet of shopping centre space. Most of the projects included in this figure are either under construction and will open in the next two years, or have received municipal approvals and firm commitments.

Company and project description	Completion date	Cost (\$ millions)	Location
<b>British Columbia</b>			
<b>Shopping centres</b>			
Abacus Cities Ltd. New development	1983	50-75	New Westminster
Abacus Cities Ltd. New development	1978	9	Terrace
B.C. Central Credit Union Commercial-residential and office complex	1980	20	Vancouver
Dominion Construction Co. Ltd. New development, Phase 1	1979	9	Langley
Dominion Construction Co. Ltd. New development	1980	12-14	Kamloops
Ira Young & Associates New development	1979	50	Coquitlam
Parkwell Shopping Centre Ltd. Expansion	1978	20	Vancouver
Woodgrove Holdings Ltd. New development	1980	17	Nanaimo
<b>Railways</b>			
Canadian Pacific Ltd. Double tracking	1980	45	Mountains
<b>Sea ports</b>			
British Columbia Development Corp. Deepsea port	1979-80	10	Nanaimo
<b>Elevators</b>			
The Pioneer Grain Terminal Ltd. Grain elevator	1979	80	W. Vancouver
Saskatchewan Wheat Pool Grain elevator	1979	5	W. Vancouver

Company and project description	Completion date	Cost (\$ millions)	Location
<b>Alberta</b>			
<b>Shopping centres</b>			
Abacus Cities Ltd. & Hudson Bay Co. New development	1979	14	St. Alberts
Allasco Development Ltd. New development	1979	15	Fort McMurray
Canada Square Corp., Gulf Oil Canada Limited New development	1980	80	Calgary
Cascade Development Corporation Ltd. New development	1979	30	Calgary
Philby Investment Ltd. New development	1980	50	Edmonton
Westfield Development Corp. Ltd. New development	1979	20	Edmonton
<b>Hotels</b>			
Altacan-Oland Constructors Ltd. New hotel	1979	5	Calgary
Banff Park Lodge Ltd. New hotel	1979	3	Banff
Canadian Pacific Hotels Ltd. 300 Room hotel	1978	10	Calgary
Wayside Inns of Alberta Ltd. New hotel	1979	4	Lloydminster
<b>Railways</b>			
Canadian National Railway Co. Improved branch lines	1979	100	Prairies
<b>Manitoba and Saskatchewan</b>			
<b>Shopping centres</b>			
The Cadillac-Fairview Corp. Ltd. New development	1979	14	Moose Jaw, Sask.
T. Eaton Co. Ltd., E. P. Holdings Ltd. and Bredero Group of the Netherlands Retail development	1980	100	Winnipeg, Man.
Lakeview Properties Ltd. Commercial development	1979	22	Winnipeg, Man.
Trizec Corp. Ltd. Commercial and office development	1981	80	St. Vital, Man.
Trizec Corp. Ltd. New development	1979	14.7	St. Vital, Man.
<b>Ontario</b>			
<b>Commercial properties</b>			
Bramalea Ltd. Downtown core	1983	100	Brampton
Campeau Corporation Expansion	1978	15	Oshawa
Campeau Corporation Retail mall	N.A.	25	Ottawa
Canlea Ltd. and Restland Corp. Commercial and office	1979	30	Toronto
Fabasco Limited Retail mall	1979	30	Toronto
Fidinam Canada Ltd. Commercial and residential	1980	100	Toronto

Company and project description	Completion date	Cost (\$ millions)	Location
S. B. McLaughlin Associates Ltd. Commercial and office development	1979	9	Mississauga
Montroc Investments Inc. Expansion	1979	4.5	Hawkesbury
Windlass Holdings Ltd. and Friedel Construction Ltd. Commercial and residential	1978	40	Toronto
The Cadillac-Fairview Corp. Ltd. Eaton Centre	1979	65	Toronto
Northgate Square Ltd.	1979	21	North Bay
<b>Airports</b>			
Transport Canada Expansion	1980	100	Hamilton
Transport Canada Expansion	1978	25	Malton
<b>Railways</b>			
Canadian National Railway Co. New terminal	1979	20	Brampton
<b>Elevators</b>			
United Co-Operatives of Ontario Deep water grain elevator	1978	21	Windsor
<hr/>			
<b>Quebec</b>			
<b>Shopping centres</b>			
Caisses Populaires Desjardins	1978	3	Longueuil
Pierre Tardif Inc. Commercial and office development	1979	10	Quebec City
<b>Sea ports</b>			
National Harbours Board Port improvements	1983	60	Montreal
National Harbours Board Port improvements	1983	42	Quebec City
<b>Railways</b>			
Canadian National Railway Co. Improvements and expansion	1978	276	Quebec City
<hr/>			
<b>New Brunswick</b>			
<b>Commercial properties</b>			
Assumption Mutual Life Insurance Co. Expansion	1979	17	Moncton
Burnac Leaseholds Limited New development	1979	4.5	Chatham-Newcastle
Douglastown Shopping Mall	1978	6.5	Douglastown
L. Rocca Construction Co. Ltd. Expansion	1978	8	Saint John
L. Rocca Construction Co. Ltd. Commercial development	1979	10	Saint John
Market Square Development	1985	35	Saint John
<b>Sea ports</b>			
Saint John Drydock Co. Ltd. Drydock extension	1979	60	Saint John
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<b>Prince Edward Island</b>			
<b>Shopping centres</b>			
The Charlottetown Area Development Corporation New development	1980	25	Charlottetown
The Dale Corporation Expansion	1979	3.6	Charlottetown

Company and project description	Completion date	Cost (\$ millions)	Location
<b>Airports</b>			
Transport Canada Re-development	1978	21.5	Charlottetown
<b>Nova Scotia</b>			
<b>Shopping centres</b>			
Home Hardware Stores Ltd. New distribution centre	1979	13	Debert
Nova Scotia Housing Commission New development	1979	11	Cole Harbour
L. Rocca Construction Co. Ltd. New development	1978	10	Bedford
Trizec Equities Ltd. Expansion	1978	3.6	Halifax
Willowgate Development Corporation Ltd. New development	1979	4	Halifax
<b>Sea ports</b>			
National Harbours Board Expansion	1980-81	35.6	Halifax
National Harbours Board Expansion, dockyard	1989	100	Halifax
<b>Hotels</b>			
Durham Leaseholds Ltd. New development	1979	12	Halifax
<b>Newfoundland</b>			
<b>Shopping centres</b>			
Burnac Leaseholds Limited New development	1979	4.5	Carbonear
Leaseholds Construction Corp. New development	1979	6	Labrador
Les Galeries du St-Laurent New development	1979	25	St. John's
Wabush Enterprises Limited New development	1979	19	St. John's



Place La Chaudière, Hull, Quebec. Photo: Campeau Corporation

# 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.

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## PROVINCIAL GOVERNMENT INCENTIVES

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### ALBERTA

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#### 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 TOC 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.

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### BRITISH COLUMBIA

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#### 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 large 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 businesses 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.

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### MANITOBA

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#### 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.

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### NEW BRUNSWICK

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#### 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.

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### NEWFOUNDLAND

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#### 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.

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## NOVA SCOTIA

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### 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.* Also

*Industrial Development Manager, Industrial Estates Limited, Niederkasseler Kirchweg 95, 4000 Düsseldorf 11, Germany*

### 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 petrochemical industry and "bulk supership" shipments. **Contact:** *Nova Scotia Department of Development, 5151 George St., P.O. Box 519, Halifax, Nova Scotia, Canada B3J 2R7.*

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## ONTARIO

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### 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.*

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## PRINCE EDWARD ISLAND

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### 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.*

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## QUEBEC

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### 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.*

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## SASKATCHEWAN

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### 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.*

# Book list

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## International Business and Investment

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### **The Control of Foreign Direct Investment in a Federation: Canadian and Australian Experience. Research Monograph No. 3**

Stevenson, Garth  
Sydney: University of Sydney,  
Transnational Corporations Research  
Project, 1976

Examines the political responses to foreign direct investment at provincial, state and federal levels in the two countries and notes the effect of greater regional diversity on Canadian policy.

### **Multinational Manufacturing Enterprises and Imperfect Competition**

Parry, J. G.  
Kensington, N.S.W.: Centre for Applied  
Economics Research, University of New  
South Wales, Australia, 1977

A study of the effects in the host country of international direct investment under conditions of imperfect competition.

### **Continental Corporate Power: Economic Elite Linkages Between Canada and the United States**

Clement, Wallace  
Toronto: McClelland and Stewart Limited,  
1977

A sociological study of a continental corporate elite — tabulates American and Canadian corporations and those who control them.

### **The European Multinationals: A Renewed Challenge to American and British Big Business**

Franko, Lawrence G.  
Stamford, Conn.: Greylock Publishers,  
1976

Describes the origins, growth and present organizations of the largest continental European multinationals. Part of the Harvard Business School project on multinational enterprise.

### **The Japanese are Coming: A Multinational Interaction of Firms and Politics**

Tsurumi, Yoshi  
Cambridge, Mass.: Ballinger, 1977

As part of the Harvard Business School project on multinational enterprise, this book examines the dimensions and characteristics of the recent surge in Japanese overseas private investment, including the migration of industries to neighbouring "export platforms".

## **The Ethics of Corporate Conduct**

Walton, Clarence (editor)  
Englewood Cliffs, N.J.: Prentice-Hall, Inc.  
for The American Assembly, Columbia  
University, 1977

Eight essays, prepared for the fifty-second American assembly in 1977 by eminent American authors, discuss business conduct and the moral environment with separate reference to ethical issues faced by the corporation lawyer, accountant and public relations manager.

## **Transnational Control of Multinationals**

Hellman, Rainer  
New York: Praeger Publications, 1977

This study of the efforts being made to exercise controls over multinationals examines both public controls — at state, regional, inter-regional and international levels — and non-governmental controls by workers and consumers, concluding that a system of regional groupings of states may offer the best conditions for transnational control.

## **International Experience in Managing Inflation**

Greene, James  
New York: The Conference Board, Inc.,  
1977. Report No. 729

Results of a study to determine how managers of major national companies assess the threat of inflation and what steps they have found effective in counteracting the threat. Based on a survey of over 100 companies, the study focuses on Europe, United States, Australia, Phillipines, Mexico, Brazil and Argentina.

## **The International Taxation of Multinational Enterprises**

Adams, J. D. R., and Whalley, J.  
Westport, Conn.: Greenwood Press, 1977

An outline of the basic features of the tax treatment of multinational enterprises in Europe and the United States, and an evaluation of both present and alternative tax arrangements.

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## **Canada: Business, Investment, Government Policy**

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### **Canadian Securities Regulation**

Johnston, David L.  
Toronto: Butterworth & Co. (Canada)  
Ltd., 1977

A broad description and analysis of the principal features of securities regulation in Canada, including regulation of dealers, distribution, insider trading and take-over bids.

## **Regional Economic Policy: The Canadian Experience**

Lithwick, N.H.  
Scarborough, Ont.: McGraw-Hill Ryerson,  
1978

This book of readings attempts to establish a theoretical rationale for regional policy, to indicate the policies that have been pursued in Canada and to assess the overall efficiency of those strategies.

## **Policy Review and Outlook for 1978. A Time for Realism**

Maxwell, Judith, editor  
Montreal: C. D. Howe Research Institute,  
1978

The fifth annual policy review focuses on the impact of international developments on Canada and on regional economic disparities and current challenges to Canadian federalism.

## **Industrial Assistance Programs in Canada: Interpretation, Law and Regulations**

Toronto: CCH Canadian, 1977

New edition of a practical guide to industrial assistance programs that are available to Canadian industry generally, to specific industries or for specific purposes.

## **The Role and Function of Government Laboratories and The Transfer of Technology to the Manufacturing Sector**

Cordell, Arthur J. and James Gilmour  
Ottawa: Science Council of Canada 1976

Deals with transfer of technology from federal laboratories to the manufacturing sector in Canada, and suggests that the industrial attitude to government research institutions may often lead to a failure to exploit research.

## **What is Happening to Canada**

Gordon, Walter L.  
Toronto: McClelland and Stewart Ltd.,  
1978

Based on recent lectures by the author, this short book examines current economic and political issues in Canada, including the status of Quebec, foreign control of Canadian industry, and energy problems.

# Statistical tables

## QUARTERLY FIGURES

TABLE I — SUMMARY

### REVIEWABLE ACQUISITION CASES

	1977				1978
	first quarter	second quarter	third quarter	fourth quarter	first quarter
Total Industry	41	60	80	80	79
Primary	3	2	11	4	5
Manufacturing	16	27	29	36	33
Construction and services	22	31	40	40	41
Country of control					
United States	25	39	55	52	62
United Kingdom	10	10	9	11	8
Other Europe	6	5	16	14	7
All other	—	6	—	3	2

### REVIEWABLE NEW BUSINESS CASES

	1977				1978
	first quarter	second quarter	third quarter	fourth quarter	first quarter
Total Industry	62	93	86	87	67
Primary	3	6	8	5	8
Manufacturing	17	24	29	24	25
Construction and services	42	63	49	58	34
Country of control					
United States	35	48	50	51	43
United Kingdom	5	11	6	8	4
Other Europe	15	24	23	23	16
All other	7	10	7	5	4

## ANNUAL FIGURES

TABLE 2 — OUTCOME OR STATUS

### REVIEWABLE ACQUISITION CASES

	1974†	1975	1976	1977 †
Reviewable new cases	102	166	171	261
Carryover from previous period	—	52	54	65
Total of above	102	218	225	326
Total resolved	50	164	160	253
Allowed	33	116	124	231
Disallowed	8	21	19	12
Withdrawn	9	27	17	10
Carried over to next period	52	54	65	73
Allowed cases as percent of resolved	66%	71%	78%	91%

### REVIEWABLE NEW BUSINESS CASES

	1975*	1976	1977 †
Reviewable new cases	6	196	328
Carryover from previous period	—	6	58
Total of above	6	202	386
Total resolved	—	144	334
Allowed	—	115	297
Disallowed	—	9	12
Withdrawn	—	20	25
Carried over to next period	6	58	52
Allowed cases as percent of resolved	—	80%	89%

† revised

† 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	1977
Total	102	166	171	261
United States	61	116	109	171
United Kingdom	21	15	23	40
Other Europe	15	27	34	41
Belgium	1	2	1	2
Denmark	—	—	—	2
France	3	6	6	6
Germany, West	5	2	10	15
Italy	—	2	1	3
Liechtenstein	2	2	—	—
Luxembourg	—	—	3	—
Netherlands	—	5	—	4
Norway	—	1	—	—
Sweden	—	2	9	2
Switzerland	4	5	4	7
All other	5	8	5	9
Australia	2	1	—	1
Bermuda	—	2	1	—
Japan	2	2	3	3
Others	1	3	1	5
Allowed cases as percent of resolved	%	%	%	%
United States	65	77	73	91
United Kingdom	70	79	82	95
Other Europe	71	50	86	90
All other	50	30	100	80

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

**REVIEWABLE NEW BUSINESS CASES**

	1975*	1976	1977
Total	6	196	328
United States	4	90	184
United Kingdom	—	22	30
Other Europe	1	63	85
Belgium	—	1	—
Denmark	—	5	6
Finland	—	1	1
France	—	9	17
Germany, West	—	22	26
Greece	—	—	1
Italy	1	9	10
Liechtenstein	—	2	—
Monaco	—	—	1
Netherlands	—	2	3
Norway	—	—	3
Spain	—	1	—
Sweden	—	3	9
Switzerland	—	8	8
All other	1	21	29
Australia	—	2	3
Hong Kong	—	3	3
India	—	3	1
Japan	—	4	10
Others	1	9	12
Allowed cases as percent of resolved	%	%	%
United States	—	73	88
United Kingdom	—	93	82
Other Europe	—	80	95
All other	—	91	81

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

TABLE 4 — INDUSTRIAL SECTOR

## REVIEWABLE ACQUISITION CASES

	1974†	1975	1976	1977
Total	102	166	171	261
Primary	15	18	15	20
Agriculture	2	—	2	3
Forestry	3	1	—	1
Fishing and trapping	—	1	—	1
Mines, quarries, oil wells	10	16	13	15
Manufacturing	47	82	93	108
Food and beverage	5	10	9	15
Tobacco products	1	1	—	—
Rubber and plastic products	2	2	3	6
Leather	1	1	1	—
Textiles	2	—	2	4
Knitting mills	1	1	—	1
Clothing	—	2	1	—
Wood	5	6	2	5
Furniture and fixture	—	2	4	2
Paper and allied	1	2	1	5
Printing, publishing, and allied	—	3	1	2
Primary metal	—	3	7	2
Metal fabrication	2	6	12	10
Machinery	5	11	4	9
Transportation equipment	8	6	3	5
Electrical products	1	9	11	12
Non metallic mineral products	8	3	9	5
Petroleum and coal products	—	—	2	1
Chemical	3	11	15	10
Miscellaneous	2	3	6	14
Construction and services	40	66	63	133
Construction	2	2	2	3
Transportation, communication, utilities	6	6	9	10
Trade	18	37	38	72
Finance, insurance, real estate	10	14	8	15
Community, business, personal services	4	7	6	33

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

## REVIEWABLE NEW BUSINESS CASES

	1975*	1976	1977
Total	6	196	328
Primary	—	12	22
Agriculture	—	2	5
Forestry	—	—	2
Fishing and trapping	—	—	1
Mines, quarries, oil wells	—	10	14
Manufacturing	2	67	94
Food and beverage	—	3	7
Tobacco products	—	—	—
Rubber and plastic products	—	4	4
Leather	—	—	1
Textiles	—	2	4
Knitting mills	—	—	2
Clothing	—	2	3
Wood	—	2	2
Furniture and fixture	1	2	1
Paper and allied	—	1	2
Printing, publishing, and allied	—	—	—
Primary metal	—	5	6
Metal fabrication	1	10	13
Machinery	—	5	13
Transportation equipment	—	1	6
Electrical products	—	7	5
Non metallic mineral products	—	3	5
Petroleum and coal products	—	—	—
Chemical	—	6	3
Miscellaneous	—	14	17
Construction and services	4	117	212
Construction	—	4	4
Transportation, communication, utilities	1	10	5
Trade	1	68	133
Finance, insurance, real estate	1	10	16
Community, business, personal services	1	25	54

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

### Foreign Investment Review Agency Publications\*

- Foreign Investment REVIEW
  - a quarterly journal on investment conditions in Canada
- L'investisseur étranger
  - French language edition of Foreign Investment REVIEW
- Annual Report 1974/75
- Annual Report 1975/76
- Annual Report 1976/77
  
- Foreign Investment Review Agency Information Kit (Red) — of particular interest to lawyers and consultants.
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    - Businessman's Guide to the Foreign Investment Review Act
    - A Guide to Filing Notice with the Foreign Investment Review Agency
    - Forms for use in giving notice pursuant to the Foreign Investment Review Act
    - The Foreign Investment Review Act (S.C. 1973, c46)
    - The Foreign Investment Review Regulations (SOR/77-226)
    - Guidelines
      - Venture Capital
      - Real Estate
      - Corporate Reorganizations
      - Related Business
      - Oil and Gas
      - Organization Chart
  
- Foreign Investment Review Agency Information Kit (Blue) — of particular interest to investors.
  - Contains:
    - Businessman's Guide to the Foreign Investment Review Act
    - Guide to Filing Notice with the Foreign Investment Review Agency
    - Forms for use in giving notice pursuant to the Foreign Investment Review Act
  
- FIRA Paper series
  - Published in 1977
    - No. 1: Foreign Acquisition Activity in Canada: A Long-Term Perspective by G. A. Edwards (temporarily out of print)
    - No. 2: Selected Readings in Canadian Legislation Affecting Foreign Investment in Canada (Part I)
  - Published in 1978
    - No. 3: Indicators of Foreign Control of Non-financial Industries by Province
    - No. 4: Compendium of Statistics on Foreign Investment
  
- Weekly news releases on FIRA activities

\* All the above publications are available free of charge and are published in English and French.  
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