

FOREIGN INVESTMENT REVIEW

A quarterly journal on investment conditions in **CANADA** Autumn 1978 Vol. 2, No. 1

Investment Opportunities in the Atlantic Provinces

Industrial Research and Development in Canada

Corporate Concentration



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a quarterly journal on investment conditions in Canada

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News briefs

ECONOMY

New measures favoring recovery

Addressing business audiences during the summer, the Minister of Finance, Mr. Jean Chrétien, pointed to some areas where new government policy has helped create the setting for a vigorous and prolonged upsurge in the Canadian economy and urged businessmen to take early advantage of the new opportunities.

Among the measures that have been taken to stimulate growth, the Minister referred to recent corporation tax changes that were designed to increase business cash flows and to promote investment and employment. They comprise incentives to research and development, to manufacturing and processing, to energy exploration and development and to small business as well as inventory adjustment, new treatment of dividends, investment tax credit and employment tax credit. In developing incentives, said the Minister, the government is seeking to provide maximum freedom of action and decision-making for the entrepreneur.

Mr. Chrétien also noted that corporations in Canada pay less tax on average than their American counterparts. In Canada, corporation income tax as a percentage of book profits totalled 35.3% last year, whereas in the United States it was five points higher. Moreover, federal sales tax administration favours companies competing internationally, depreciation provisions are generous, the investment tax credit is applied very broadly and intercorporate dividends are treated more favourably than in the United States.

Although Canada has a level of private investment that is higher than in almost every other industrialized country, said the Minister, "Now is the time when that investment should be increasing rapidly, as a leading element in our economic recovery."

Capital spending plans

Of the nearly \$20 billion that will be invested in Canada this year by the 300 largest firms, as much as \$6.8 billion will be spent on building new plant, according to a study of capital spending intentions carried out by the **Department of Industry Trade and Commerce**. Enlargement of existing plant will take a further \$4.2 billion, while \$3 billion will be spent on plant modernization and replacement.

In the manufacturing industries the main thrust of the new investment will be on modernization and replacement of

existing plant, whereas in non-manufacturing the biggest spending will be for new installation, largely because of the needs of the energy sector.

Compared with last year, expenditure on modernization and replacement of existing plant shows the largest increase. It is up 38% for the manufacturing sector and 20.4% for non-manufacturing.

Improved competitive position of Canadian manufacturers

According to data published recently by the **U.S. Department of Labor**, the international competitive position of Canadian manufacturers has improved over the past ten years, largely as a result of the decline in the value of the Canadian dollar. Between 1967 and 1977 unit labor costs (wage costs per unit produced) expressed in U.S. dollars rose by only 84.1% in Canada, substantially less than in other industrialized countries except the United States. In Japan, for example, unit labor costs rose by 214.7% in U.S. dollars, while in W. Germany they rose by 193.4%. By contrast the United States showed an increase of only 67%.

During 1977 Canadian unit labor costs actually declined by 1.7% when converted to U.S. dollars, while those of all other countries increased. Again, the Canadian improvement was largely due to a lower exchange rate with the U.S. dollar. But it was also due in some measure to a rate of increase in output per hour that was higher than in most other countries. Canadian output per hour rose by 4% in 1977 (the highest increase since 1973) compared with a 2% increase in the United States. Only Japan (6.1%) and West Germany (4.2%) surpassed the Canadian rate and their productivity gains were more than offset by currency appreciation.

FOREIGN INVESTMENT

Proposed uranium mining legislation

The Canadian government has recently introduced legislation to ensure a high level of Canadian participation in uranium production. The *Uranium and Thorium Mining Review Bill* confirms a policy of limiting foreign ownership in the uranium industry that was first announced in 1970. The law would be administered by the Minister of Energy, Mines and Resources with the advice of the **Foreign Investment Review Agency**.

The proposed law would require a company wishing to produce uranium in Canada to apply for an extraction permit

issued by the Minister of Energy, Mines and Resources. Such an application would first be filed with the **Foreign Investment Review Agency** which would advise the Minister in determining whether the applicant is qualified. To be qualified, not more than 33% of a company's shares may be held by or for non-residents (with certain exceptions), three-quarters of its directors must be Canadian citizens, and the holding of working interests, royalty interests or managerial contracts by non-residents must not exceed limits to be prescribed by government regulations. However, in cases where the level of foreign equity participation exceeds 33%, but does not exceed 50%, the applicant may be deemed to be a qualified applicant if it can demonstrate that it is Canadian controlled.

These requirements do not apply to companies that were already producing uranium in Canada as of March 2, 1970, or to those that were exploring for uranium at that date and had demonstrated a commercially viable deposit by March 2, 1976. All such companies would be deemed to be qualified applicants.

An applicant that fails to meet the criteria for qualification will still be able to apply for a permit on the grounds that the proposed project would be of significant benefit to Canada, but the Act specifies that where the level of foreign ownership exceeds 50% the proposed project is deemed not be of significant benefit. If the level of foreign ownership does not exceed 50%, and the Minister concludes that the project is of significant benefit then the Governor-in-Council may authorize that an extraction permit be issued.

Extraction permits may be for a period of up to 10 years in the first instance and may be renewed, subject to the same requirement, for up to 5 years.

The proposed legislation, which applies only to uranium and thorium extraction, would not affect uranium exploration by foreigners.

INVESTMENT

The capital market

According to a survey carried out by the brokerage firm, **Wood Gundy Limited**, total debt financing for the first five months of this year was \$8.6 billion, compared with \$8.3 billion for the same period last year. The most active participant was the federal government, which increased sharply its borrowing to \$3.6 billion. The provincial governments, meanwhile, have borrowed

\$2.8 billion, about the same as in the first five months of last year. Corporate borrowing was \$1.7 billion, a reduction of a full \$1 billion from the same time period of 1977.

New offerings of common shares, up until the end of May, 1978, amounted to \$100 million, a slight increase over the 1977 figure. However, new offerings of preferred shares declined substantially from \$960 million for the first five months of 1977 to \$720 million for the first five months of 1978.

According to Mr. C. E. Medland, president of Wood Gundy Limited, capital requirements in 1979 will be similar to those being experienced this year. There will be continued substantial capital needs by the federal government but only light capital needs by the private sector. However, there should be an increase in the offering of both common and preferred shares by corporations. He added that capital spending will not pick up sharply until 1980, when construction begins on the gas pipeline from Alaska and several other large energy projects.

BUSINESS

Aid program to small businesses

Mr. Tony Abbott, Minister for Small Business, recently announced a series of federal government measures designed to improve the environment for small businesses. One of the most significant steps is a reduction in the tax burden placed upon small businesses. For example, the 11,000 manufacturers in Canada with sales of less than \$50,000 annually will now be exempt from federal sales tax. Also, the frequency of filing federal sales and excise tax returns has been reduced, lowering administrative costs for approximately one-half of Canada's small business manufacturers. Other changes include a tax free transfer of small business holdings between generations of a family and the deduction of capital losses against income from any source, rather than only against capital gains.

Mr. Abbott also announced several other incentives. In certain circumstances, the federal government will now pay 50% of the first year's wages of a recent university or college graduate hired by a small business. In the increasingly important area of research and development, small business will now have better access to government and industrial research centres. The federal government is also able to encourage small businesses through its purchasing of supplies and services. Small businesses will be obtaining more government contracts and large suppliers will be encouraged to sub-contract out to small firms.

In addition, Mr. Abbott made public a discussion paper on equity financing for small business in which it is recommended that a small business investment company mechanism be established. The role of these investment companies, licensed by the government, would be to provide equity and equity-related financing to small businesses. They would be supported by the government through, for example, tax incentives and guaranteed leverage. For instance, debt securities could be guaranteed up to 90% by the federal government. According to the discussion paper, any comprehensive approach adopted by the government to encourage small business equity financing must both involve the private sector and recognize the need for government support.

ENERGY

Development of renewable energy

The federal government will spend \$380 million over the next five years to develop renewable energy sources. Alastair Gillespie, Minister of Energy, Mines and Resources announced recently two separate packages — one involving solar energy and the other involving forest and other waste energy — which will encourage the substitution of renewable energy sources for non-renewable ones. It is hoped that, by the year 2000, as much as 10% of Canada's energy needs will be met by renewable sources.

Four separate programs make up the solar energy package. The largest, in dollar terms, is a program which will make available \$125 million in the next five years for the preferential purchase of Canadian-made solar space and water heating equipment for new federal buildings. The second program offers 25 grants of \$10,000 to firms to prepare solar equipment design proposals. After these proposals have been assessed, up to 10 further contributions will be made of \$200,000 to \$300,000 each for further design and development. The third program offers \$350,000 in prize money to winners of national competitions to encourage more energy-efficient design. Particular emphasis will be placed on use of passive solar techniques. The fourth program will provide substantial funding for solar research, development and demonstrations. For example, \$114 million has been allocated for the demonstration of novel technologies or applications to be administered under cost-sharing arrangements with the provincial governments or the private sector.

The forest and other waste energy package has three major components. First, the Canadian government will make available \$143 million to the forest producers to use wood wastes as a fuel

source instead of oil or gas. The second component involves the guaranteeing of loans, worth a total of \$150 million, to assist in establishing electrical generating facilities using biomass as the energy source. The third component involves the expansion of research, development and demonstrations. Approximately \$40 million will be available to help fund research projects and demonstrations in this area.

INDUSTRIES

Industrial restructuring and the establishment of a redeployment fund

In a report on relations between Canada and the developing countries, the Economic Council of Canada recommended the creation of an industrial adjustment and redeployment fund, totalling some \$4 billion, and the creation of a comprehensive joint regional development strategy. These actions would permit the restructuring of those industrial sectors which are threatened by the increased importation of goods from the developing countries. This restructuring would take place in response to a progressive reduction of tariff and non-tariff barriers, based on a fixed schedule, for products in which the third world countries possess an appreciable comparative advantage — textiles, clothing, leather goods, certain segments of the electrical and electronics industries, toys, and sporting goods. The redeployment fund would be used to assist these industries in need of help.

According to the Economic Council, the transfer of certain industrial activities to low-wage countries is a world-wide trend, impossible for Canada to ignore. Therefore, it is the responsibility of Canadian governments to adapt industrial production in line with the present international realities. The Council states that much of Canadian production is concentrated in those industries which will be experiencing high unemployment, increased costs and greater foreign competition, thus placing a substantial burden on the Canadian economy. The policy proposed by the Council is that the Canadian government assist these industries towards rationalization and consolidation so that they will be in a better position to compete in world markets. These changes, which could require a period of 15 years to complete, would be financed by the redeployment fund. A maximum of 250,000 workers, or about 15% of the industrial work force, could be affected.

Aware of the hardships that could occur by the elimination of tariff and non-tariff trade barriers in these industries, the Council recommends that no significant action be taken until the unemployment situation improves.

New incentives for industrial research and development

by John Coleman
and Frank Swedlove

A major new program of incentives for research and development was announced recently by the Canadian government — and comes on top of several new or improved incentives introduced in the past 12 months. The total package of current incentives makes Canada one of the most generous of all countries in its financial support for research and development.

The offering of R & D incentives is, to some extent, an expression of faith — faith that the business community will respond with enthusiasm and effectiveness. It is a greater gamble for Canada to offer R & D incentives than for almost any other industrial country, mainly because of the exceptionally high degree of foreign ownership in Canadian industry.

The nature of the R & D carried out by a foreign-owned subsidiary is determined to a large extent by its relationship with its parent. Different intracorporate R & D policies and relationships lead to great variations in types of R & D activities on the part of subsidiaries and in types of economic benefits and spinoffs in the host country. From the Canadian government's standpoint, the success of its R & D incentives will depend crucially on whether they foster the "right kinds" of corporate relationships and activities. This important question of the "right kinds" of parent-subsidiary R & D relationships is discussed below in detail.

The Canadian economy appears to need, with growing urgency, a stimulus to industrial change. Canada's low-skill, labour-intensive industries have been under increasing pressure from producers in other countries. The pressure is likely to continue to grow, especially if the trend towards freer world trade continues. It will become steadily more necessary and urgent for resources to shift out of low-skill, labour-intensive activities into technology-intensive, skill-intensive activities. This is particularly true if a sufficient number of suitable jobs are to be created for the country's growing and increasingly well-educated labour force. A substantial increase in industrial research and development could well be the much-needed stimulus to industrial change.

A study done recently in the United States shows that high-technology manufacturing industries in that country perform much better than low-technology manufacturing industries in virtually all respects, such as in terms of production, employment, and productivity growth and in terms of price stability. (Roger Brinner and Miriam Alexander, *The Role of High Technology Industries in Economic Growth*, a report prepared for the General Electric Corporation, March 1977.) For the period 1950-74, high-technology industries compared with low-technology

industries showed annual average production growth of 6.7% compared with 2.3%, employment growth of 2.6% compared with 0.3%, productivity growth of 4% compared with 2%, and price increases of 0.5% compared with 3%. Canada's Ministry of State for Science and Technology has been conducting a study comparing high-technology and low-technology industries in this country, and the findings are very similar to those in the U.S. study.

Canada ranks quite low in R & D spending by comparison with other industrial countries in the western world. While Canada spends about 1% of its gross domestic product on R & D, the United States spends 2.3%; Switzerland, 2.2%; West Germany, 2.1%; France and Sweden, 1.8%; and Japan, 1.7%. Not surprisingly, these high investors in R & D are the leading countries, economically, in the world. The Canadian government expects that R & D spending in Canada will rise to 1.5% of gross domestic product by 1983.

Another figure which concerns the government is that only 40% of all R & D spending in Canada is done through the business sector. In the previously mentioned other countries as a group, the business sectors account for over 60% of total R & D expenditures. Switzerland leads all countries at 77%. The Canadian government expects that, by 1983, business firms will account for a greatly increased proportion of all R & D expenditures in Canada.

If Canada succeeds in fostering the "right kinds" of corporate relationships and activities among foreign-owned firms, not only will more research be done in Canada, but so will a higher proportion of the innovation and other developments that generate production and jobs. A particularly important result would be an increased freedom and vigour in exporting by subsidiaries and a significant narrowing of Canada's trade deficit in high-technology products. A recent government study finds that Canada's trade deficit in high-technology products has been widening steadily and amounted in 1976 to \$2.6 billion. (*Canadian Trade in Technology-Intensive Manufactures 1964-1976*, an internal report by the Ministry of State for Science and Technology.)

Parent-subsidiary R & D relationships

Parent-subsidiary R & D relationships can be categorized into four types. In some cases, only one of the types of relationship exists between the parent and the subsidiary. But it is also possible for more than one type, and for all four, to occur simultaneously between a parent and a subsidiary. While each type offers

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some benefit to Canada, two of the four types clearly have more of the elements to make them the "right kinds" from the country's standpoint. Let us look at each type of relationship in some detail.

1) Adaptation for local market

In this situation, the subsidiary's R & D laboratory acts primarily as a centre to adapt products or production technology for the Canadian market. This is probably the most common kind of parent-subsidiary R & D relationship in Canada, as noted and discussed in H. Crookell and L. Wrigley's article concerning innovation and ownership. ("Canadian Response to Multinational Enterprise", *Business Quarterly*, University of Western Ontario, Spring 1975.) In the case of production technology, new processes or equipment are adapted to the specific needs of the Canadian operation. This is often quite significant, because the Canadian subsidiary often has much shorter production runs than its parent. Adapting of the process or equipment, sometimes in quite ingenious ways, may largely offset the disadvantages of short production runs.

Also, the end product may be adapted so as to better suit Canadian needs and tastes or to meet different Canadian legal standards. An example of the latter situation occurred in the early 1970s when Canada introduced legislation for environmental purposes requiring lower phosphate levels in laundry detergents. Lever Brothers Limited in Toronto, a subsidiary of Unilever Limited of the United Kingdom, needed to change the composition of the detergent so as to lower the phosphate level while maintaining the overall quality of the product. This research and recomposing were done entirely by the Canadian subsidiary.

While process and product adaptation can mean improved efficiency and more market-suited end products, this kind of research and development may not be as beneficial to Canada as some of the other types. First of all, Canadian personnel and facilities are used at only the end of the R & D process, rather than also at earlier stages. Secondly, the finished product will probably be for only the domestic market, because in these cases the possibilities of exporting are slim.

2) Integrated satellite laboratory

Here the control of the Canadian subsidiary's R & D program is located with the parent firm. The parent directs its international subsidiaries to perform types of R & D which can be integrated with that being performed in the central laboratories. Often the parcel of R & D assigned to each subsidiary is chosen to match certain of the skills held by that subsidiary.

In this relationship there is a very high degree of coordination between the subsidiary and the parent. Normally the results of the subsidiary's R & D are returned to the parent and so, as in the adaptation relationship, there is little or no opportunity for the subsidiary to increase its exports. However, the satellite-laboratory relationship generally involves a greater variety of Canadian technical people than does the "adaptation" relationship — and generally leads to a greater and more varied development of Canadian expertise.

The satellite-laboratory relationship can involve a substantial commitment by the parent company to the performance of R & D in Canada. For example, the IBM Canada laboratory has been in operation since 1967 and today employs over 300 people, more than 60% of them university graduates. The assignment of development projects to the IBM Canada laboratory is coordinated with the activities at the international head office and at other subsidiaries so as to avoid duplication of development effort. Assignments are based on the facilities and skills of each laboratory.

The contributions of IBM Canada's research and development to Canada

have been quite large. For example, the company has created software for the implementation of the on-line banking that links bank branches to central computers for updating customer's accounts. Other software developments include techniques for increasing the productivity of computer programs and for widening the usability of programming systems. The company has, as well, made several advances in hardware development, especially in such products as data entry devices, banking terminals, and special purpose processors. There have even been some Canadian production and exporting benefits resulting from the R & D in Canada. One example is the off-track betting system developed in the IBM Canada laboratory and manufactured in the Canadian plant for export to a number of customers in Australia.

3) Selected international product mandates

In this case, the parent company assigns to the subsidiary exclusive responsibility for all aspects of the research and development in one or more product lines. This type of arrangement offers substantial benefits to Canada. Expertise is developed in all stages of the R & D

Details of Incentives for R & D

On June 1, 1978, the Canadian government announced a new program to increase its expenditures by \$28.7 million in fiscal year 1978/79 to strengthen and encourage R & D in Canada. Most of this increase is earmarked for industrial R & D and adds to the broad range of existing incentives. The overall incentives package is described below.

- Tax measures to encourage R & D in Canadian industry include the already-established 100% write-off of business expenses, defined to encompass all current and capital expenditures for R & D. Since April 1, 1977, these R & D expenditures have also been eligible for a 5-10 percent investment tax credit. An additional measure, announced in the budget of April 10, 1978, allows companies to deduct from taxable income, over a ten-year period, a further 50% of those current and capital scientific expenditures for a given year that exceed the average R & D expenses incurred in the preceding three-year base period.
- Grant programs relating to industrial R & D include those of the Innovation Panel of the Enterprise Development Program, which provides assistance for innovative projects; the Industrial Research Assistance Program, which provides salary assistance for industrial research projects; the Program for Industry/Laboratory Projects, which funds

research projects transferred from government laboratories to industry; the Scientific and Technical Employment Program, which underwrites the salaries of scientists and technicians working on research projects for industry; the Defence Industry Productivity program; and others. These programs are part of the Canadian government's \$275 million support of industrial R & D in the current fiscal year. (A booklet describing most of these programs is available under the title *Canadian Federal Government Services to Business* from the Department of Industry, Trade and Commerce, 235 Queen Street, Ottawa, Ontario, K1A 0H5.)

- Other new measures to support industrial R & D include an extension to the National Research Council's Technical Information Service, which already provides technical advice to industry and will now provide engineering students for short periods of time to help solve technical problems; Canadian Patents and Developments Limited, which will be acting as a clearing house for the transfer of technology from government to industry; creation of several Industrial Research and Innovation Centres at universities; development of six Regional Centres of Excellence for research in projects that are of national concern; and others.

process. A great variety of challenging jobs are created for Canadian scientists, technicians, and engineers. Moreover, where economically feasible, the exclusive rights given to the subsidiary for carrying out R & D may be extended to include worldwide sales and production chartering rights. This can mean large increases in Canadian employment and exports and can generate wide secondary effects throughout the Canadian economy and society.

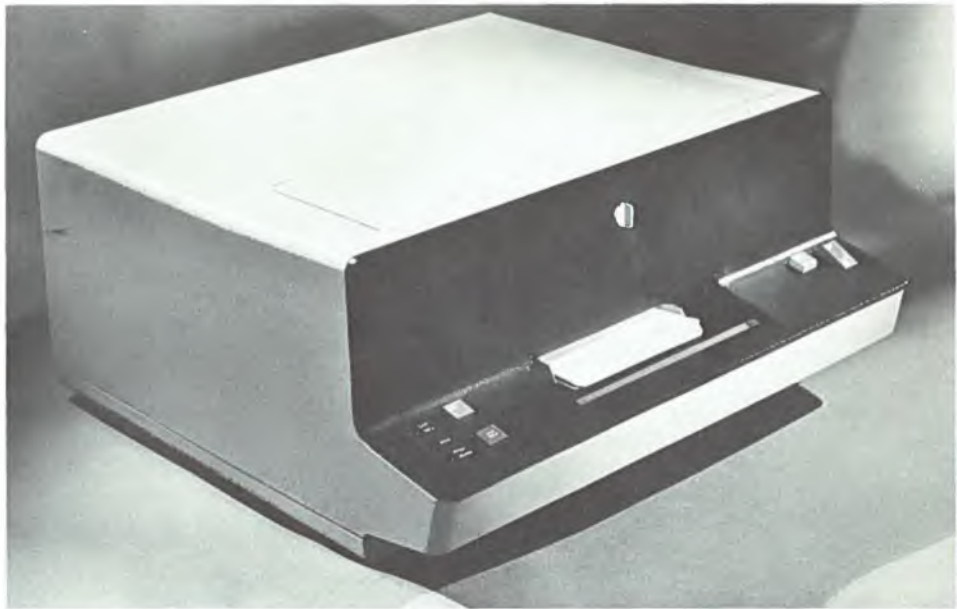
There are numerous examples of international product mandates in Canada. Worthington Canada Ltd. of Brantford developed, with government grant assistance, a new line of slurry pumps which they market exclusively worldwide. Pratt and Whitney Aircraft of Canada, a subsidiary of United Technologies Corporation, was given the entire corporate mandate for developing small gas turbine engines and the responsibility for marketing these engines internationally. Du Pont of Canada Ltd., a subsidiary of E.I. du Pont de Nemours of the United States, has been responsible for almost all of the development of the technology for polyethylene film and nylon film and for the manufacture and sale of these products in Canada and abroad.

4) Full autonomy

In this case, the subsidiary is free to carry out R & D as it sees fit. This type of relationship gives the subsidiary a great deal of opportunity to be truly innovative. Expertise is developed throughout the R & D process across a range of lines. The possibilities for worldwide production-chartering and exports are, of course, excellent. It is rare for the parent-subsidiary relationship to start in this form, but it sometimes evolves to this form as the subsidiary matures.

This is what occurred with Union Carbide Ltd., a subsidiary incorporated in 1922 by Union Carbide Corp. of the United States. In 1975 a major policy change was introduced. The Canadian subsidiary acquired the mandate to carry out research and development on any product as it wished and to produce and market it internationally.

Another good example of relatively autonomous R & D is the case of Ferranti-Packard Ltd. Of Toronto, a wholly owned subsidiary of Ferranti Ltd. of Britain. W.L. Hetherington, the president in Canada, states: "The Canadian company has its own research program. We research, develop, design, manufacture and market, worldwide, our own products. There is very little overlap of U.K. and Canadian products, but where there is — in medium-size power transformers, for example — we compete



IBM Canada's laboratories have perfected a new banking terminal which links bank branches to a central computer. Shown here is a passbook printer which updates customer accounts.

with each other. This competition takes place principally in the U.S. market."

From the discussion above, it is evident that the amount of benefit accruing to Canada depends a good deal on the type of R & D relationship between the foreign parent and its Canadian subsidiary. Generally, the full autonomy type of relationship offers the most benefit, allowing the subsidiary to pursue and demonstrate its creative potential, to gain experience at all levels of the R & D process, and to produce and export the fruits of its endeavours. The R & D relationship that gives to the subsidiary selected international mandates is the second most beneficial type. It allows for all the advantages of autonomy, except that it restricts the autonomy to a few specific products. This limits the creativity possible within the subsidiary. It also tends to limit the subsidiary's ability to pursue spinoff product opportunities and to diversify into other technology-intensive businesses.

Meanwhile, the integrated satellite laboratory approach may involve large expenditures on R & D in Canada, but offers limited benefits with respect to production and especially to exports. However, in some industries where product lines are not easily divisible and the need for coordination among the research units is substantial, this kind of approach may be the only realistic choice. The R & D relationship offering the least number of benefits is the "adaptation" type. While some efficiencies in production may occur, this type generally offers very few new production and no export opportunities, involves relatively small outlays of funds, and generates expertise in only a narrow phase of the R & D process.

The kinds of intra-corporate R & D policies that the Canadian government would most like to see are, of course, those in which the Canadian operation has a high degree of autonomy in its decision-making. Meanwhile, the granting of some or complete R & D autonomy by the parent company to the subsidiary is not necessarily a one-way street. The multinational corporation as a whole may benefit by allowing more R & D autonomy to its Canadian subsidiary. Autonomy encourages the subsidiary to be more creative and to show more initiative in the developing and marketing of any new product. This enthusiasm can mean increased profits for both the subsidiary and the multinational corporation, as well as benefits to Canada through growth of expertise, employment, production, and exports.

The conventional wisdom that argues for centralization of a multinational company's R & D function and its strategic planning for products and markets does not always apply. For example, while a desire for close interaction between a firm's R & D group and its policy planning body tends to foster a notion that a "research-push" strategy is generally appropriate, the reality is that in many industrial situations a "market-pull" approach to product innovation is more sensible. Or, in industrial situations in which advanced process — as distinct from advanced product — technologies are critical factors for achieving success, it is often more logical to place R & D in proximity to manufacturing centres than in proximity to corporate headquarters. In many circumstances of these kinds, there are sound reasons to diverge from tendencies to centralize R & D and the decision-making responsibility for products.

Foreign investment review process

When the Canadian government assesses an investment proposal that is reviewable under the Foreign Investment Review Act, one consideration (where it is relevant) is the investor's R & D plans for the Canadian business. Among the elements which the government looks for in the investor's R&D plan are that:

- research and development will be carried on in the Canadian company or possibly contracted out to other Canadian institutions;
- the Canadian company will be allowed to explore to the greatest possible extent any new high-technology product opportunities that might arise from its Canadian research and development;
- the Canadian company will be allowed to manufacture and market, on a worldwide basis instead of just in Canada; the technologically advanced products it initiates;
- the Canadian company will be assigned the exclusive corporate responsibility for research, development, manufacturing, and worldwide marketing of specific high-technology products or product lines;
- the Canadian company will be allowed to diversify into other technology-

intensive businesses in Canada;

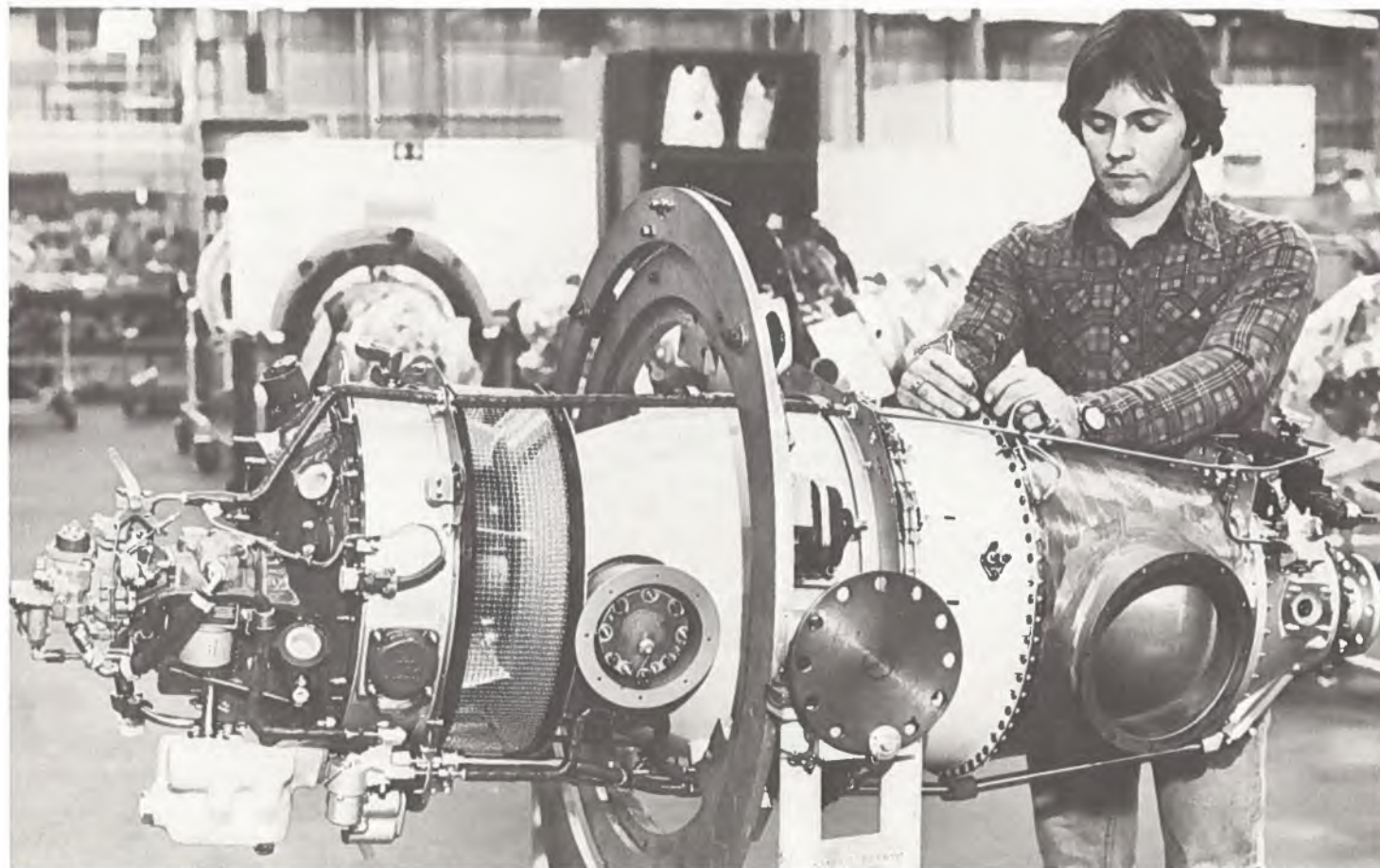
- technology-intensive Canadian service industries — such as computer services, geological consulting, aerial surveying, or ocean engineering — will be employed whenever possible.

Of course, it is by no means always possible for the investor to offer the "ideal" intra-corporate R & D policy towards the proposed Canadian operation — and an acceptable case can often be made for one of the other relationships. Also, it should be remembered that benefits to Canada which stem from research and development are only one area of possible benefits and that other kinds of benefits too are important in the assessment.

In any event, the Canadian environment is in many respects a very suitable one for R & D activity. As mentioned earlier, the government's tax incentives and grant programs make the financial considerations for investors among the most attractive in the world. In addition, Canada has a well-developed infrastructure, including extensive contract laboratory facilities and related services. There are eight provincial research organizations, eight specialized

industrial research associations, nine centres of advanced technology, and ten industrial research institutes. As well, Canada has one of the world's most highly educated populations and an excellent communications network.

In short, the Canadian government sees the domestic environment as very conducive to R & D activity, sees its financial incentives for R & D as exceedingly generous, and expects that more of the "right kinds" of R & D relationships will be established in Canada. An R & D relationship that is compatible with the realities of the industry and, at the same time, allows as much autonomy as possible to the subsidiary is seen to offer maximum potential benefits to Canada. For its part, the subsidiary will develop more creativity and business initiative and be better able to exploit the increasingly numerous new technological opportunities. It should thus grow more rapidly and be more resistant to obsolescence. This, in the long run, is apt to mean higher profits for both the Canadian operation and the multinational corporation.



Research carried out by engineers within its Longueuil plant in Québec enabled Pratt and Whitney Aircraft of Canada to market this turboprop engine with a unique transmission.

Investment opportunities and prospects in the Atlantic provinces

by Lyndon Watkins

Many foreign investors, when they think about Canada, have in mind a country stretching from Montreal to Vancouver, dominated by the industrial might of Ontario and the oil wealth of Alberta, and all of it conveniently close to the big markets of the United States. This impression is a pity because not only does it deny geographical reality, it runs contrary to sound investment sense.

Canada has trading ties with many more countries than the United States. It is well positioned to serve them and has the transportation links to do so. Moreover, the country doesn't begin at Montreal and end at Vancouver. Still waiting to be discovered by many overseas investors is Atlantic Canada — the four provinces of Newfoundland, Nova Scotia, Prince Edward Island, and New Brunswick.

This region of rich natural resources covers 210,000 square miles, has a population of 2.2 million, produces a gross domestic product of \$11.2 billion, and generates \$4 billion of annual retail consumer demand.

With six major ports and two international airports, the region is the interface for nearly 40% of Canada's external trade. It's the country's chief source of fish. It's potentially a big producer of oil and gas. Fifteen percent of Canada's non-fuel mineral output and 12% of its forest products are produced there. It contains some of the world's largest hydro-electric developments. It's long been a centre of shipbuilding and of steel, coal, and iron ore production. It has a rapidly expanding manufacturing base nurtured by vigorous industrial research and development.

Atlantic Canada's human resources are equally well developed. The population is mostly old stock Canadian of both English and French language groups. By nature the people are conservative, but not overly cautious; enterprising, but not reckless. They form a mature, stable society with a distinctive, regional cultural identity. Atlantic Canada feels its time has come to take a larger part in national economic development. It is looking to an expansion of its resource industries, a strengthening of secondary manufacturing and service sectors, and further rapid increases in the use of high technology to foster industrial development.

Naturally the region is also out to maximize the advantage of its geographic location on the Great Circle shipping route, a location well placed both to export goods and to bring in commodities for further processing. Consideration is being given to the creation of free-port industrial parks for the assembly or further processing of export cargo.

The region has attracted such

multinational companies as Michelin and Volvo, who are taking advantage of its accessibility from overseas to bring in parts and materials for the North American production of their products. Smaller companies like Optyl Canada Ltd. the New Brunswick subsidiary of an Austrian spectacle manufacturer, are also finding they can effectively serve international markets from the region.

For some industries, such as petroleum refining, the region's principal attraction is its abundance of ice-free, deepwater ports. These ports are also why plans are now being made for strategic oil storage and for the import, processing, and pipeline distribution of liquified natural gas.

Ocean a bright hope

Three of the four provinces are collectively known as "The Maritimes". While some people regard the term as a misnomer, the ocean actually does have a very great influence over the entire economic life of the region. There is a renaissance of the fishery, a hope of renewed offshore oil and gas exploration, and a strong regional dedication to ocean science and engineering.

About 150 wells have been drilled off the coast. So far, oil and gas have been found in less than commercially exploitable quantities. But the search continues, funded mostly by Canadian, U.S., French, and British companies. A federal-provincial dispute about jurisdiction over the resource led to a cooling off in the pace of exploration. But with some of the doubts resolved, drilling is underway again off Nova Scotia and will resume off Newfoundland in 1979.

The Newfoundland waters appear to offer the best hope of success, along with the greatest technological challenge. When Shell Canada Resources begins its planned nine-hole program 175 miles northeast of St. John's next year, it will be drilling in water depths of about 5,000 feet — one of the greatest depths at which drilling has ever been attempted anywhere in the world. Here and in the Labrador Sea, there is the additional hazard of iceberg encroachment. But with both a considerable level of exploration activity and a brightening prospect of significant finds, the oil and gas industry offers both immediate opportunities for shoreboard support industries and a long-range prospect of large, integrated economic developments.

Both foreign and domestic industry have been involved. Hawker Siddeley Canada Ltd. built seven semi-submersible drilling rigs and a drill ship at its Halifax Shipyard. Plans are being considered for construction of concrete production platforms on the west coast of Newfoundland. The region is a major

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There will be a substantial increase in oil exploration on the Atlantic coast during the next few years.

cement producer and has the shore-based resources and suitable harbour facilities to make such construction attractive.

Traditional fishing industry has huge new potential

There is no doubt about the new opportunities offered by the fishing industry. Seriously weakened by years of over-exploitation, the industry is making a strong comeback. With international conservation measures and with the imposition, in January 1977, of Canada's 200-mile offshore economic zone, some fish stocks in the water have begun to recover. Corporate profitability has for the most part been restored after several years of losses and a need for federal price support.

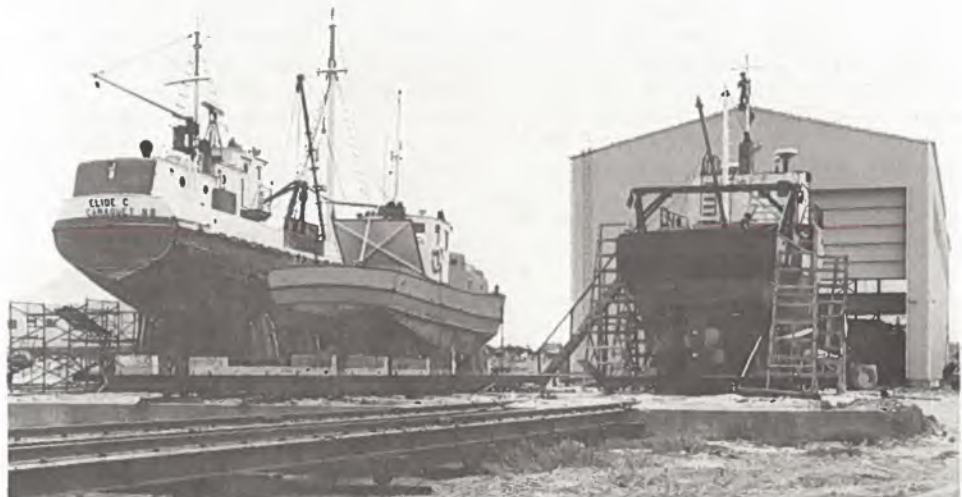
The industry, which employs about 39,000 fishermen and 16,000 plant workers, processed about \$700 million worth of fish last year. About 65% of production has traditionally gone to the United States. But with that country now re-establishing its own fishing industry, Canadian companies are actively developing new markets in Europe and Japan.

In 1977 the Canadian catch of Atlantic finfish species amounted to 785,000 tons out of a total catch by all nations of about 1.3 million tons. With increasing stocks, a potential catch of 1.7 million tons is forecast for 1985 and Canada can expect to harvest much of that potential.

Because of the ravaging effects of previous over-exploitation, the federal government is hesitant about allowing too early a major expansion of the domestic

fishing effort. But by the mid 1980s, annual landings should be close to the projected sustainable level.

The opportunity for expansion of the Canadian fleet will vary greatly depending on the species caught. While federal authorities judge that the existing fleet is adequate for the expected recovery of groundfish landings up to 1985, the volume of new species to be caught will call for some increase in the number of vessels and considerable improvement in technology. Furthermore, a large investment will be needed within the next few years for vessel replacement, since many units of the existing fleet will soon have reached the end of their useful life. The two biggest of the fishing provinces,



Replacement and renovation of the fishing trawlers will increase the capacity of the Canadian fleet.

Photo: DREE

Nova Scotia and Newfoundland, have proposed a \$910-million fleet expansion and replacement program. New Brunswick has proposed a somewhat smaller one.

The consensus within the government and the industry is that Canadians should retain effective control over the resource and its use. But there is a willingness, particularly on the part of the provinces, to entertain a limited degree of foreign participation. Because fishing joint ventures have not always been successful elsewhere, Canada is likely to look at such proposals closely and is unlikely to entertain proposals that would involve surrendering control over the harvesting or processing of the fish.

Other kinds of cooperation are possible, however, and to some extent they have already taken place. Several Canadian fishing companies have leased foreign freezer trawlers to gain technical experience and greater knowledge about the catching and processing of unfamiliar species of fish. Other kinds of cooperation have involved new market penetration, and this could extend into product and packaging innovation.

Both Atlantic provinces and the fishing industry see the need for some outside capital and technical and marketing input. The most appropriate vehicle for obtaining them is seen by some observers to be a limited degree of foreign equity participation. The federal government, meanwhile, is concerned to ensure a high degree of Canadian control in the industry.

Thus, for instance, controversy surrounded a recent proposal for Nordsee, the West German subsidiary of Unilever NV of Holland, to gain a 51% interest in Ocean Harvesters Ltd. of Newfoundland.

Industry feeling, as expressed by the president of one of the country's largest fish companies, is that a 25% foreign equity position in some companies might not be inappropriate. "But I think it would be unwise for overseas investors ever to expect to gain more than 50%," he said.

Even under constraints of the kind mentioned, the investment potential for foreign investors still seems quite considerable. The east coast fishing banks are among the most productive in the world. Once replenishment of fish stocks has taken place, some experts believe, there will be a need for some large new Canadian fishing vessels. This suggests opportunities not only in fishing, but also in shipbuilding.

While the shipbuilding industry has been experiencing a difficult time in eastern Canada as in the rest of the world, better days seem to lie ahead.

Among the region's other resource industries, mining is another that has a bright future. Although it has not, of course, escaped the chilling effects of reduced world demand and lower metal prices, the outlook in these respects appears to be brightening.

Mining and energy

Total non-fuel mineral output in the four provinces last year was about \$1.2 billion, the leading product being iron ore produced in northwestern Labrador. Within a decade, output could easily rise above the \$1.5-billion mark.

Foreign participation in the industry is considerable. Investors seem satisfied that provincial attitudes are reasonable in regard to taxes and royalties and in not being too insistent upon local processing.

Even with the weak international demand situation, all four provinces have been enjoying a considerable exploration boom, and two new mines have recently been committed for development. One is in New Brunswick, where Potash Co. of America has announced a \$106-million potash development. The other is in Nova Scotia, where Imperial Oil Ltd., Exxon Corporation's Canadian subsidiary, is planning a \$26-million, 1,500-ton-a-day zinc-lead mine. In addition in Nova Scotia, the Yava lead deposit is attracting the interest of Barymin Explorations, to the extent that a milling plant has been purchased and further financing is being sought.

With several other potash prospects under evaluation in New Brunswick, the province could emerge as an important new Canadian source of the mineral and, in time, account for up to 20% of total domestic output, currently above 6 million tons annually.



Coal extraction has increased considerably within the last few months.

The New Brunswick finds are important commercially not only because they are the first economically exploitable reserves of the mineral in the region, but also because they are only a short rail haul from the deep-sea port of Saint John.

Uranium too is widely prevalent through the region and is attracting a lot of international investment interest.

Among other energy-related projects which offer large and varied opportunities for foreign participation, the most important is probably the massive hydro-power potential in the rivers of Labrador and in the enormous tidal fluctuations of the Bay of Fundy which lies between Nova Scotia and New Brunswick. London merchant bankers N.M. Rothschild and Sons financed the \$960-million, 5,255-megawatt Churchill Falls power project opened in 1973 and subsequently bought by the Newfoundland government from its original owners, Brinco Ltd., controlled by Rio Tinto-Zinc Corp. Ltd.

Newfoundland and Labrador Hydro Corporation, a provincial utility, has been keen to develop two additional hydro sites downstream from Churchill Falls. These would provide 2,400 megawatts of additional power, and cost \$3 billion to develop. Long-standing differences over contracted prices between Newfoundland and its sole customer for the existing power, Hydro Quebec, have prevented a start being made on further development. But these differences may soon be resolved.

This could renew Newfoundland's ambition to have another large, power-intensive industry on the island portion of the province, providing base-load justification for an undersea transmission line from Labrador. The present big user of Newfoundland power is a phosphorous plant owned by U.S. interests which now uses power generated within the island. Aluminum producers, both Canadian and foreign, have expressed interest in establishing a smelter in the province.

The high cost of imported oil has given added momentum to a joint government investigation of the technical and economic practicality of harnessing the tidal energy of the Bay of Fundy for electric power production.

Out on a limb of high cost oil-derived energy, Nova Scotia has particularly cherished the idea of getting almost limitless, relatively cheap, clean, and stable-price power from the tides — which are the highest tides in the world. The idea is to build a dam across one or more of the many inner basins of the bay. One site alone is thought capable of producing 2,000 megawatts of energy, equivalent to almost twice that now produced by conventional means in the province. And a series of plants might ultimately turn out 8,000 megawatts, more than enough to meet the whole region's needs well into the 21st century, as well as to provide a lucrative source of export earnings.

Preliminary studies suggest that

Fundy-tide power could be produced for between 18 and 29 mills a kilowatt. This is in line with present oil-produced power costs and competitive with prevailing rates for power in parts of the U.S. northeast.

The region is augmenting and diversifying its power sources by constructing a 600-megawatt Candu nuclear power station at Point Lepreau, N.B., by greatly expanding its coal-fired output, and by pursuing solar and wind-power alternatives.

Again, foreign investors are playing a significant part in much of this. George Wimpey Canada Ltd., the Canadian subsidiary of the big British civil engineering and construction company, has contracted to develop the first of what will be several coal strip-mines in Nova Scotia. Under the arrangement, Wimpey receives a fee for service while the province retains the mineral rights and has exclusive call on what is produced. Nova Scotia has about 40 million tons of coal lying within 200 feet of the surface and at least 2 billion tons of accessible deeper coal.

Secondary manufacturing finds new attractions

While the resource industries have traditionally attracted much of the region's foreign investment, trends to greater industrialization in the 1960s and 1970s have now tipped the balance of investor interest towards secondary manufacturing.

Investors in manufacturing locate in the Atlantic region for one of two reasons: to displace imported products in the regional markets or to use local resources and the advantages of seaboard location to bring in parts and materials for the creation of products for the North American or world markets.

Typical of the latter category are Michelin Tires, Crossley Karastan Carpet Mills, and Volvo Canada. They are based in Nova Scotia, and all three have achieved more than they originally expected when they located in the province.

Michelin and Volvo each imports parts and materials for assembly or processing and each makes considerable use of the big Halifax container terminal, which has direct service links to Europe, the United States, the Middle East, and the Far East.

Sea transportation ceased to be a major locational factor for Crossley Karastan after it replaced natural imported wool with synthetics in its carpet production. At present its raw material comes from North American suppliers, but company president Donald A. McLeod notes that being by the sea gives the company the flexibility to buy elsewhere should

circumstances change.

The firm does not reveal sales or production figures, but its success can be measured by the extent to which employment has grown. When the original plant opened, it had 40 workers; now, after several major expansions, it has 600. McLeod recently stated that the company has found, in Nova Scotia, a stable work force, a pleasant environment, and people oriented to problem solving, not problem making.

McLeod has even been able to deflate the myth that an Atlantic area location automatically means high costs of land transportation. With an eastward preponderance in freight movements through the Atlantic region, he pointed out, truckers are anxious to find backhaul loads to central parts of the continent and have shown themselves willing to negotiate very favourable rates.

Power costs are also only a marginal factor for Crossley Karastan, but McLeod admits that if the company's operations were highly power-intensive, it might be at a competitive disadvantage being based in Nova Scotia.

A new impetus for research and development is paying off

One illustration of the region's methods of attracting new industry is Industrial Estates Ltd., the first industrial development agency of its kind in Canada. The aim is to find companies whose goods and services production can be importantly related to the local resource base and preferably, as well, who have technology transfer to offer.

All four provinces want to increase the sophistication of their manufactures and, to do so, have invested considerably in applied research.

With strong federal support, Nova Scotia and Newfoundland concentrate on marine engineering and cold ocean science; New Brunswick and Prince Edward Island are involved in agricultural and forest endeavours; and Prince Edward Island is gaining a growing reputation as a national centre for alternative-energy research. It has established a centre served by solar and wind energy and known, appropriately, as "the Ark".

The impetus for much of this research and development activity comes from organizations such as the Bedford Institute of Oceanography, the second largest centre of its kind in the western world; provincial research foundations in both Nova Scotia and New Brunswick; the Newfoundland Oceans Research and Development Corporation; and the graduate and research departments of the region's leading universities.

There has been considerable development of known technology and products. A Dartmouth (Nova Scotia) firm recently devised a modified complete deep-diving system. It consists of a pressurized, environmentally controlled surface habitat, a diving bell, and a 2,000-foot umbilical which carries power, air, heat, and communication.

The Nova Scotia Research Foundation played an essential role in the development by devising electrical-slip-ring and rotary-gas-valve mechanisms which allow supplies to be transmitted through the umbilical without



Volvo is one of the first international companies to take advantage of Nova Scotia's proximity to North America's principal markets.

Photo: DREE

interruption while the diving bell is being lowered or winched to the surface. These relatively inexpensive units are among a number of advanced engineering products that stem from the Foundation's applied research and are available for commercial production in the province under license. The list includes such items as a deep-towed sub-bottom profiler which has been used successfully in North Sea oil exploration, a hyperbaric pump used in diving life-support systems, a deep-ocean acoustic positioning system, and a gamma-scanning system used in the province's heavy water production industry to detect corrosion.

Both the Nova Scotia body and the New Brunswick Research and Productivity Council offer technical information and marketing support for industry and, because of the sense of proximity and community, are able to work on a very personal basis of cooperation.

According to Dean Salsman, President of Industrial Estates Ltd., the front-end research effort is even greater than the middle-ground application. "There has to be a greater amount of support-industry activity before we can expect to see in this region the kind of science-based activity they have in a centre like Boston. But it's on its way."

The involvements are by no means restricted to ocean engineering. Companies like Nautical Electronics Laboratories Ltd. at Hacketts Cove, Nova Scotia, and Hermes Electronics Ltd. at

Dartmouth are selling defence electronics and commercial communications equipment throughout the world. And through such regional firms as Enamel and Heating Co. Ltd. and IMP Ltd., there's a considerable involvement in aerospace production.

All these areas of development would seem to hold many opportunities for further investment.

Prince Edward Island and Newfoundland, although they have the least developed secondary manufacturing base, are nevertheless finding interesting ways to attract domestic and foreign investors to their very real manufacturing opportunities.

Prince Edward Island is Canada's smallest province. The garden-like setting of its agricultural and tourist-based economy makes it extremely attractive for small-scale light manufacturing industry. The provincial government, through its Industrial Enterprises Ltd. organization and with financial support from the federal government, has established a number of industrial malls. These provide space on a graduated rental basis to a variety of different industries grouped within single buildings. Each industry occupies between 2,500 and 4,000 square feet and employs four to 20 employees. For each group of industries common telex, cafeteria, and administrative arrangements are available, and the idea is to encourage individual enterprises to outgrow the "incubator" and move into larger premises on the industrial estate.

The process has had a good deal of success. Several firms have moved into new, larger premises of their own, and the range of products has steadily expanded. The proximity of other small businesses results in a lot of business interaction and greatly reduces the need to rely on manufacturing support from outside the province.

Foreign investment has been attracted from such countries as Sweden, Britain, Italy, and the United States, and Industry Minister John Maloney thinks a new push that is now being made by the province to contact investors throughout the EEC will add substantially to the list. The degree of technological sophistication is already quite high, and Dr. Maloney is confident it will continue to rise. He thinks the alternative-energy field, including the possible production of solar heating systems and windmills, should provide manufacturing opportunities suitable to Prince Edward Island. As well, he says, there are many obvious investment opportunities for the upgrading of present fish and vegetable processing activities.

Newfoundland's approach to small business investment has been to look at sectors where products are now brought into the province for local distribution. John Tibbitts, a director of business development for the Newfoundland and Labrador Development Corporation, says his organization has identified a considerable list of product opportunities ranging from canned cream to building supplies.

On the heavy industrial side, Newfoundland is looking for new operators for two major industries which ran into operating and financial problems within a year or two of being established. These are the 100,000 barrel a day Come-By-Chance oil refinery and a 350,000-ton linerboard mill.

Foreign investors have often, in the past, been quick to notice opportunities overlooked by domestic investors. Jiffy Products Ltd. of Shippegan, New Brunswick, came about as a result of astute Norwegian investigation of the peat deposits in the province's northeast region. It considers the peat to be among the best in the world and has developed international markets for its products.

Another Scandinavian manufacturer, noting the absence of a regionally based glass industry, established Ahlstrom Canada Ltd., which now employs 300 people at Moncton, New Brunswick. The company now makes most of the region's beer and pop bottles.

New Brunswick's Deputy Development Minister, J.P. Blanchard, is confident that the process can be repeated and that other investors, both foreign and domestic, will discover the advantages of locating in that part of the country.

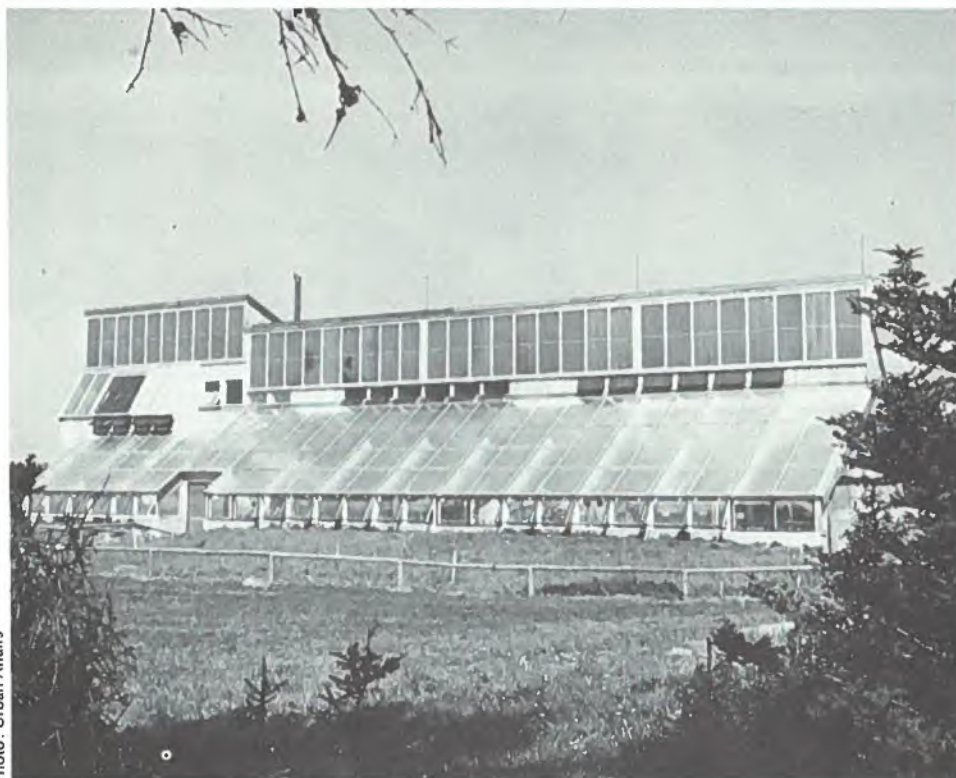


Photo: Urban Affairs

Prince Edward Island has made a concentrated effort to conserve energy or to utilize alternative sources. Seen here is the Arc, a solar and aeolian energy research centre.

FIRA procedures: clarifying some legal issues

by Charles Simon

From the time of its beginnings in April 1974, the Foreign Investment Review Agency has welcomed investors and their legal representatives to contact the Agency for informal consultations on any of the various questions on which the Agency might provide helpful discussion and opinion. And increasingly, investors and their counsel have been approaching the Agency at a fairly early stage for such consultations.

On the Agency's part, most of these consultations are provided by officers of the Rulings Division. To illustrate briefly how the Rulings Division fits into the structure of the Agency, one might first note that the Agency is organized into three branches: the Assessment Branch, the Compliance Branch, and the Research and Analysis Branch. One of several divisions of the Compliance Branch is the Rulings Division. It is staffed by an assistant director and a number of rulings officers, all of whom are lawyers who are members of a provincial bar.

The primary function of the Rulings Division is to examine notices filed with the Agency pursuant to section 8 of the Foreign Investment Review Act. In order to constitute a "notice" for the purposes of the Act, the information filed by the applicant must include everything required by the Act and by the regulations. Every application submitted to the Agency is examined to make certain it is complete. If any information is missing, a deficiency letter is sent to the applicant (or his solicitor) describing the information which is required. As soon as a notice is complete, a receipt is prepared and sent to the applicant as required by subsection 8(4) of the Act, and the 60-day time limits referred to in Sections 11, 12, and 13 start to run.

The Act also provides, in subsection 4(1), that any person may ask the Minister for his opinion on whether he is a non-eligible person for the purposes of the Act or whether any particular business activity is related to any other business activity carried on by that person. It is one of the functions of the Rulings Division to identify for anyone seeking such an opinion the nature of the information required to enable the Minister to give his opinion and to prepare summaries of such information to accompany it when it is forwarded to the Minister.

In addition to the activities outlined above, the Rulings Division has another important function. Until a body of case law is developed interpreting the Act, it is important for the Agency to have a staff available to answer questions about the possible application of the Act to a particular transaction. Because these questions are essentially legal ones, it falls to the Rulings Division to provide this assistance. Rulings officers are always available to discuss the application of the

Act and the regulations. They will do so, if requested, verbally on a no-names basis. It is also possible to obtain a written opinion from the Agency as to whether an investment is reviewable under the Act. There is no statutory authority for the issuance of such opinions so they are not binding on the Minister, but such informal Agency opinions can be of practical comfort to investors.

In rendering advice on the reviewability of transactions, the Agency does not act the way a court does: that is, it does not form its opinion on the basis of a "balance of probabilities" test. The purpose of providing such a service is to give the benefit of the Agency's experience in administering and interpreting the Act. In cases where the Agency is satisfied that the Act does not apply, it will issue an opinion to that effect; but if there are valid arguments which can be made to support reviewability, the Agency will not issue a non-reviewability opinion, even though the arguments for non-reviewability are strong. In any event, regardless of whether or not a non-reviewability opinion is ultimately issued, rulings officers are quite candid in their explanation of the arguments as to the potential application of the Act to an investment, and the discussion can be most helpful.

Eligibility questions

With certain exceptions, the general rule of the Act is that the acquisition of control of a Canadian business enterprise and the establishment of a new business in Canada by a non-eligible person, or by a group of persons any member of which is a non-eligible person, requires approval of the Governor-in-Council. The Act defines what "non-eligible person" means [subsection 3(1)] and sets out presumptions as to when incorporated companies are non-eligible persons [subsection 3(2)]. But the Act gives almost no guidance on the meaning of the word "group" which is such an important element of the question.

Subsection 3(7)(a) provides that the reference to "group of persons" in the definition of "non-eligible person" does not include the aggregation of persons who own all the shares (or all the shares of a particular class) of the corporation, except where "those persons act in concert with one another in any matter or transaction affecting the corporation or its management, ownership or financial affairs". The quoted language is so broad that it could include almost any agreement or understanding between shareholders. Because of the nature of the relationship between the shareholders of a closely held private company, there will almost always be some sort of agreement, either written or verbal, to which they are all

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parties. Does this mean that any closely held company is a non-eligible person simply because it has one minority shareholder who is non-eligible?

The Minister has considered this question and has apparently decided that the Act was not intended to be so broadly interpreted. There have been several opinions issued by the Minister pursuant to subsection 4(1) of the Act that a particular company with two or three shareholders (one of whom was a non-eligible person) is not a non-eligible person despite the existence of a formal shareholders' agreement, presumably because control of the company was with

wants to retire, the easiest way to complete the transaction may, in some cases, be for the company to purchase or redeem his shares. The Agency takes the position that such a purchase or redemption is an "acquisition of shares" (by the company) and that the minority shareholder has acquired control of the business carried on by the company by an "acquisition of shares".

It is likewise not necessary that the shares (or assets) of the Canadian business enterprise be *directly* acquired in order for the Act to apply. A large number of foreign-based corporations which carry on business in Canada do so, of course,

whereby he obtains substantial control over the business carried on by the company, it is probable that a reviewable transaction has occurred.

In dealing with asset acquisitions, the Act does not set out any threshold levels to aid in determining whether control of a business has been acquired. It simply says that control of a Canadian business enterprise is acquired "by the acquisition of all or substantially all of the property used in carrying on the business in Canada" [subsection 3(3)(a)(i)(B) and (ii)].

The Agency has not adopted any rigid criteria as to what constitutes "substantially all" the property of a Canadian business enterprise. Each case is considered on its own facts. Clearly, the "substantially all" test can be the quantitative one which involves comparing the dollar value of the assets being purchased with the dollar value of all the assets of the business in question. But the Agency takes the view that the test is also a qualitative one. That is, if the business has two or three key assets (such as a machine, a secret process, and a trade mark) and these assets are sold to a non-eligible person, the transaction may be reviewable even though the consideration paid for them is only a fraction of the value of the total assets of the business because of large values placed on other assets, such as land, buildings, and accounts receivable.

There is another provision of the Act which must be kept in mind in considering the question of whether "substantially all" the property used in a business has been acquired. The Act says that a part of a business that is capable of being carried on as a separate business is itself a Canadian business enterprise if the business of which it is a part is a Canadian business enterprise [subsection 3(6)(g)]. There are many instances where some of the assets of a Canadian business enterprise are acquired and where it can readily be determined that these assets do not, on either a qualitative or quantitative basis, constitute substantially all of the property used in carrying on the whole of the business of the Canadian business enterprise. It may be, however, that they make up substantially all of the property of a *separable* business — and therefore that the acquisition of these assets by a non-eligible person may be reviewable.

The question of whether a part of a business is separable is one that is often difficult to answer. Item V of the *Guidelines Concerning Real Estate Businesses* comments on this issue, stating that in order for there to be a separable business, there should already be in existence a separable business prior to the acquisition, not merely property that could or would be used as an asset of a separate business. It should also be

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the eligible shareholder(s). In these cases, the minority non-eligible shareholder only had a veto power over major changes in the company's operations, such as a change in the nature of the company's business or amendments to its charter, and such rights were presumably not deemed sufficient, in the Minister's opinion, to render the company non-eligible for the purposes of the Act.

Unfortunately, there is no authority to apply this reasoning to the provisions of section 8, which contains the substantive requirement to file a notice if a group of persons, any member of which is a non-eligible person, proposes to acquire a Canadian business or establish a new business in Canada. The result is that if an *unincorporated* group of persons proposes to make an investment to which section 8 applies, a notice is required if any member of the group is non-eligible, regardless of the size of that member's interest or the degree of control he has over the decisions made by the group.

Acquisition of a Canadian business enterprise

For the purposes of the Act, a reviewable acquisition of control of a Canadian business enterprise can occur only through an acquisition of shares or assets. It is important to realize, however, that a reviewable transaction can sometimes result even if the person acquiring the shares in question is not the person acquiring control. If, for example, two shareholders own 80% and 20% of a company, and the majority shareholder

through subsidiaries incorporated here, and the Act says that a parent corporation is deemed to be carrying on the business of its subsidiary [subsection 3(6)(h)]. Therefore the Agency has always taken the position that if control of the foreign parent is acquired by a non-eligible person through the purchase of its shares, the Act deems that control of the Canadian subsidiary is also acquired and that a notice must be filed with the Agency.

The Act sets out levels of share acquisitions beyond which it is presumed that control of a company has been acquired unless the contrary is established [subsection 3(3)(c)] (and also provides [subsection 3(3)(d)] that the acquisition of shares to which are attached more than 50% of the voting rights shall be deemed to be the acquisition of control unless the acquirer already controlled the company). But in considering the question of whether control of a company has been acquired, the Agency looks not only at the number of voting shares which have been acquired, but also at any ancillary agreements or understandings which may be entered into in conjunction with the purchase of the shares. Thus, although the Act says that the acquisition of less than 5% of the voting shares of a public company or less than 20% of the voting shares of a private company does not of itself constitute the acquisition of control of the company [subsection 3(3)(b)(i)], nevertheless if a non-eligible person acquires shares below these thresholds but also enters into an agreement with some or all of the other shareholders

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noted, however, that the existing "separable" business does not actually have to be carried on separately; it just needs to be capable of being carried on separately.

The Act requires that every non-eligible person, and every group of persons any member of which is a non-eligible person, that proposes to establish a new business in Canada must give notice to the Agency in the prescribed form unless the person or group had been carrying on a business, immediately before the proposed establishment of the new business, which would not be unrelated to the new business [subsection 8(2)]. As might be expected, this rather convoluted provision has created some difficulties in interpretation.

The first point to note is that the Act distinguishes between "establishing" a business and "carrying on" a business. For the purposes of the Act, a business is established only if there is an establishment in Canada to which employees report for work in connection with the business, and the business is established when the first of the employees reports to the establishment [subsection 3(4)]. But a business can be "carried on" in Canada without being established in Canada, since there is no requirement that there be an establishment in Canada to which employees report for work in order for a business to be carried on. For example, a foreign company could periodically send its sales representatives to Canada to visit customers and take orders; the orders would be filled from outside Canada; and thus the business might be "carried on" in Canada without being "established" here for the purposes of the Act.

Furthermore, if such activities have been carried on since before October 15, 1975 (the date on which the requirement to file notice in respect of a new business came into force), there are arguments that can be made to support the position that the business being carried on can subsequently be established in Canada without review. Notice is apparently only required in respect of the establishment of a business not previously carried on; so it might be argued that, if it can be shown that the business in question was carried on in Canada since before the notice requirement became law, no notice should be required to establish that business.

The Act does not provide any criteria for determining whether a business has been "carried on" in Canada and each case must be considered on its own facts — but Canadian courts have examined the question in connection with other statutes. Some of the factors they have focused on include the place in which the sales contract is made, the authority of the person who visits Canada to conduct the activities, and whether or not a stock of goods is maintained in Canada from which orders are filled.

Another nuance of interpretation is illustrated by the following example. Suppose that several non-eligible persons have each been carrying on business in Canada for many years (or have each established a business in Canada) and now propose to carry on the same business or a related business as a group. It may not be necessary for the several persons to have carried on the business as a group in order to avoid the notice requirement of subsection 8(2). It is probably sufficient if the proposed new business is "not unrelated" to (i.e., is the same as, or related to) the business carried on in Canada by each non-eligible member of the group.

As pointed out above, one of the essentials of a business being established in Canada is that at least one employee of the person or group of persons establishing the business report to work at an establishment in Canada in connection with the business. There are two other

aspects of this provision which deserve comment. First, one might wonder what qualifies as an "establishment" for the purposes of this requirement. It seems probable that, in addition to a business office or manufacturing plant, a construction site, oil well, or mining site would also suffice as an "establishment" under the Act.

Many businesses are proposed to be carried on in Canada as joint ventures between a Canadian and a foreign participant. In some cases the persons who will be conducting the business activities are to be employees of the Canadian partner and will report to premises owned or leased in the name of the Canadian partner — and the argument is made that the investment is not reviewable since the non-eligible joint venturer does not have any employees reporting for work in Canada in connection with the business. In most cases of this sort, however, the Agency is likely to take the view that the persons establishing the business are a group, the persons conducting the business are employees of the group, and the investment is reviewable. This view is adopted on the grounds that the non-eligible member of the group will almost always make some contribution to the salaries of the employees and to the costs of the premises — either directly or, indirectly, through a reduced share of the profits — so that there is a sound basis for saying that the employees are working for both participants and that the reviewability requirements of the Act are satisfied.

The preceding comments are not intended to give a comprehensive explanation of all the issues raised by the first eight sections of the Foreign Investment Review Act. There are numerous other subtleties of language which may have relevance to particular investments, and suggestions on possible new interpretations of various provisions of the Act are constantly being brought to the Agency's attention by investors and their advisors. And, indeed, in connection with potential investments in Canada, the Agency encourages investors to discuss the interpretation and possible application of the Act at an early stage, so that if reviewability under the Act is an issue, it can be dealt with so as to cause a minimum of delay.

 CANADA	
OFFICE CONSOLIDATION	CODIFICATION ADMINISTRATIVE
Foreign Investment Review Act	Loi sur l'examen de l'investissement étranger
S.C. 1973-24, c. 16 amended by 1976-77, c. 52 and Foreign Investment Review Regulations P.R. 1977-406 amended by P.R. 1978-2309 and A Consolidation of Guidelines made under The Foreign Investment Review Act	S.C. 1973-24, c. 16 modifiée par 1976-77, c. 52 et Règlement sur l'examen de l'investissement étranger C.P. 1977-406 modifiée par C.P. 1978-2309 et Une codification des principes directeurs établie en vertu de La loi sur l'examen de l'investissement étranger
1978	

Banking in Canada; the chartered banks

by Alexander Bruchovsky

Organized banking began in Canada early in the 19th Century. Previously, most goods and services had been exchanged by barter: the farmer or trapper exchanged his produce or furs for hardware, dry goods, and other necessities he couldn't produce himself. Business transactions that required cash or credit were handled with whatever foreign coins happened to be in circulation, with limited supplies of paper money of questionable value, and with credit extended through the mercantile system.

Somewhat later, merchants conducted simple banking business themselves, accepting deposits and making payments on order. Some issued notes and coins unofficially.

The first steps to form an actual bank in Canada came in 1772. But the proposed bank did not get off the ground at that time. The first successful operation of a bank began in 1817 when a group of Montreal merchants opened "The Montreal Bank" in a rented house. The new institution (now the Bank of Montreal) was a bank in that it carried on what were considered to be the essential functions of a bank: it accepted deposits, made loans, and issued banknotes, tokens, and coins.

Once started, the system grew quickly. By the time "British North America" became "Canada" in 1867, there were 35 chartered banks in operation. Today, after mergers, amalgamations, the appearance of new banks, and some failures (the last in 1923), there are 11 chartered banks in Canada (see the adjoining list of head offices). They provide one of the most efficient and stable banking systems in the world. They have played a vital role in the commercial development of a nation that is so dependent on international trade.

They must, for instance, be able to finance large-scale exports of basic products, assemble financing packages for capital projects of massive size, and provide trade information and foreign exchange services in major markets.

The Canadian system of branch banking now comprises more than 7,300 branches in 2,000 communities across the country and almost 300 offices overseas. Where Canadian banks are not directly represented, they maintain functional correspondent relationships with more than 5,000 institutions around the world and have sizable staffs of travelling business development representatives constantly making calls.

Chartered bank assets exceed \$150 billion, with about one-third of this in foreign currencies. Growth of foreign currency operations has outstripped that of domestic business for more than ten years.

Ownership of the banks is very substantially in the hands of Canadians. Bank shares are traded on major stock exchanges and about 95% are held by shareholders resident in Canada. The existing federal Bank Act governing the operation of the chartered banks prevents concentration of ownership. Thus no single interest may own more than 10% of the shares of a bank, and the total foreign ownership of a bank may not exceed 25%.

By law the federal Bank Act governing the chartered banks' operations in Canada is revised every ten years. The powers granted to the banks under the existing Bank Act were due to expire June 30, 1977, but have been extended to April 1, 1979, to permit consideration of a re-drafted Bank Act containing important changes.

Despite the close economic ties with the United States, the Canadian banking system has evolved along its own distinctive lines.

Different from U.S. system

The United States has about 14,000 commercial banks, many with no branches and servicing only a single local market. In addition, of course, there are the extremely large U.S. banks which are active internationally — but these are not typical of the American system as a whole.

The relatively small number of Canadian banks serve communities through thousands of branches of all sizes and are frequently the only financial contact between small centres and the larger world. As such they bring to businesses in even the smallest community access to the full resources of institutions with worldwide capacity. Often, the local manager is called upon for information about business opportunities at home and abroad. He in turn is supported by the expertise of specialists in the regional and head offices of the banks.

In recent years, among the five largest banks, decentralization of decision-making has given increasing authority to the local branches and regional offices, so that today, as a rule, only applications for loans of more than \$1 million are referred to head offices.

The chartered banks obviously are by far the largest source of credit of all kinds in Canada, and they provide an enormous variety of loans for practically every purpose. At one end of the spectrum, they participate in large-scale financing for major industrial and commercial projects; at the other, they provide economical personal loans in relatively small amounts for a multitude of individual needs.

Loans are by far the largest category of Canadian dollar assets, accounting for about 70% of these assets. Canadian dollar loans reached a record \$72.3 billion

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outstanding in December 1977, an increase of 372% from ten years earlier.

The banks also invest a substantial proportion of their funds in securities, including Government of Canada, provincial, municipal, and corporate securities.

At present, the Canadian banks (unlike their American counterparts) are not permitted to engage directly in leasing and factoring. But these services are available through affiliates of several banks, and all banks are able to direct clients to the appropriate sources, as necessary. (The proposed new Bank Act would allow Canadian banks to engage directly in leasing and factoring, but formal legislative approval is needed before this becomes a reality.)

The banks are not empowered to engage in trust and fiduciary activities, unlike in most other countries where the two operations can be combined.

The size and national character of the Canadian banks has given Canada, considering its vast geographical territory, one of the most efficient payments systems in the world, handling about 3.5 million cheques a day.

International operations

In international operations, the Canadian banks' pre-eminence is a natural outcome of Canada's historical reliance on foreign trade, which today accounts for more than 25% of gross national product. The extensive branch system of the Canadian banks and their long history of security have been strong supports in their overseas operations, where they have developed a reputation for strength and stability that is far more than in proportion to the size of Canada's population or economy.

The Canadian banks historically have followed the country's trade patterns all over the world — to the Caribbean, Europe, South America, and more recently the Pacific Rim — establishing branches, agencies, representative offices, and affiliates. Now, practically all direct Canadian transactions with other countries — and an increasing amount of offshore trade between third countries — are handled on behalf of their customers directly by offices of the Canadian chartered banks.

They have developed substantial and highly efficient international organizations, providing comprehensive networks of facilities and services relating to foreign trade and financial transactions, deposit-gathering and lending, and the development of new business for Canada through on-the-spot contacts. They also handle a host of complex and specialized

services, including financing and investment facilities and advice on market conditions and plant locations. In particular, the emergence of the multinational corporation as a phenomenon in international business has highlighted the need for large, expertly staffed banks with representation in many parts of the world.

Individual and corporate customers at home and abroad have benefitted from the rapid expansion and increasing sophistication of Canadian bank services, from the stretching of the system's geographic ties, and from the broader capital resource base created by the banks' involvement in Euro-dollar activities and consortia arrangements. The interests of Canadian corporate customers have also been served by the banks' role in facilitating a two-way flow of capital resources.

Among the services provided by the banks for transactions with other countries are:

For exporters

- to appraise and advise and to provide surveys and reports on market conditions, sales prospects, and import and exchange regulations in Canada and abroad;
- to prepare reports and advise on the credit status of buyers and potential buyers in foreign countries;
- to provide liaison between foreign financial assistance corporations;
- to handle commercial letters of credit and give guidance;
- to pay or negotiate drafts drawn under letters of credit on foreign or Canadian banks;

- to collect time and sight drafts drawn by exporters on foreign importers;
- to advance money against drafts for collections, or against drafts drawn under letters of credit in favour of exporters;
- to fulfill orders of exporters in their foreign exchange transactions in the principal foreign currencies both for immediate and future delivery;
- to handle foreign remittances and transfers;
- to provide liaison between federal and provincial government organizations in their various assistance programs for exporters;
- to assist Canadian companies in entering the export business.

For importers

- to counsel and submit reports on market conditions and export and exchange regulations abroad;
- to prepare reports on the reliability and credit standing of sellers abroad;
- to open commercial letters of credit to finance the importation of goods and commodities;
- to sell foreign exchange necessary for payment of imported goods;
- to finance importers' costs for goods between the times of payment and delivery and for storage, processing, sale, and collection of accounts receivable.

For business travellers

- to purchase and sell foreign exchange, and provide travellers' cheques and similar items;
- to supply letters of introduction to banks and other parties at home and abroad.

Table 1

Assets of the Canadian Chartered Banks (millions of dollars)

Dec. 31	Canadian dollar assets	Foreign currency assets	Total assets
1967	25,199	6,470	31,669
1968	28,940	7,806	36,746
1969	31,000	11,632	42,632
1970	33,616	13,691	47,307
1971	39,958	14,469	54,428
1972	46,650	16,572	63,222
1973	56,455	23,298	79,754
1974	68,481	28,534	97,015
1975	77,169	31,209	108,378
1976	88,790	37,614	126,403
1977	102,819	47,658	150,477
1978 (March 31)	106,286	52,928	159,214
Increase 1967-77	308%	637%	375%

Source: Bank of Canada Review

The short-term money market in Canada

by James H. Claydon

A fast-growing and very sophisticated short-term money market has evolved in Canada, featuring a wide range of highly liquid instruments. The market centres itself in Toronto, with regional activity in Montreal, Edmonton, and Vancouver.

A considerable and diverse group of high-quality borrowers ensures a broad choice of vehicles. Major borrowers include federal, provincial, and municipal governments, financial corporations, industrial corporations, and chartered banks. It is generally accepted that money market instruments trade in multiples of \$100,000 in maturities that range from 3 days to 365 days. Most activity is in the 30-90 day range.

The market makers

Investment dealers perform a key market-making function in Canada. They deal both for their own account and on behalf of issuers and investors. Their role is to seek out both, quote rates, and execute transactions that range from \$100,000 to \$50 million. Settlement is negotiable and flexible, but 95% of all transactions are made for same-day delivery. Daily sales volume handled in aggregate by investment dealers averages \$1,500 million. Dealers maintain large inventories of money-market instruments, typically carrying between \$2.5 billion and \$3.5 billion.

This inventory is banked daily in the call-loan and day-loan markets at rates which approximate those for 7-15 day paper. The suppliers of funds to the call-loan market are frequently the same institutions that invest for term in money-market instruments. They include banks, governments, insurance companies, pension funds, industrial corporations, and financial institutions. In fact, the call-loan market represents the entree into the money market and is an integral part of the whole mechanism. Typical money-market investors will have some funds committed to term and some to call loan, depending to a large extent on their internal cash-flow forecast and their assessment of the trend in interest rates over the near term. Collateral for call loans is held with the lender or moninee, but seldom moves outside the money-market centres.

Dealers are very active in the foreign exchange market, arranging hedged U.S.-dollar investments for Canadian investors and hedged Canadian-dollar investments for non-residents. In addition, dealers stand ready to take in U.S. dollars on a fully hedged basis to finance their money-market call-loan operations.

The chartered banks

The Canadian chartered banks, with a

worldwide network of branches and representative offices, accept non-resident short-term deposit liabilities in major foreign currencies as well as in Canadian dollars. The bulk of these foreign deposit liabilities (close to \$8,000 million in recent months) are denominated in U.S. dollars and booked at the head offices of individual banks, frequently with the assistance of the international representative network. In total, the Canadian chartered banks have foreign currency deposit liabilities with foreign banks and other non-residents amounting to the equivalent of Can. \$20 billion. These deposits are re-employed in the worldwide lending and investing activities of the banks. Since Canadian banks are universally considered to be in the top-quality class of international banks, the rates they can attain on their U.S.-Eurodollar term deposits tend to mirror this fact.

The Bank of Canada

The money market in Canada is greatly influenced by the Bank of Canada. The central bank is responsible for monetary policy and for day-to-day activities associated with this mandate. These activities include open-market security operations, transfers of government deposits, and transactions in foreign currency swapped deposits — activities all designed to influence the level of excess reserves in the banking system and the general direction of growth and velocity of money supply.

In addition, the Bank of Canada acts as fiscal agent for the Government of Canada and as manager of the public debt which consists of treasury bills, marketable bonds, and Canada Savings Bonds. The central bank is also instrumental in arranging foreign currency standby credit facilities, an activity which complements its role as agent for the official Exchange Fund Account, for which it buys and sells U.S. dollars to maintain orderly conditions in the currency market.

All this activity is reflected in the weekly financial statistics released by the Bank of Canada. Market participants follow these data closely in an effort to detect shifts in monetary policy, credit conditions, and the trend in interest rates.

The instruments

Virtually all the generally recognized forms of money-market instrument are utilized in the Canadian market, including government treasury bills, municipal tax-anticipation notes, bankers' acceptances, chartered bank bearer term notes (similar to certificates of deposit), and commercial paper. The latter is a

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generic term referring to paper issued by diversified financial corporations, manufacturer-owned auto-finance companies, foreign bank subsidiaries in Canada, industrial corporations, utilities, and grain companies. Approximately 55% of the commercial paper outstanding is accounted for by the first three categories, with the remaining 45% shared between a large number of industrial, utility, and grain-company borrowers.

In terms of quality, *Government of Canada treasury bills* rank as the supreme vehicle. Tendered weekly at auction, the \$11.6 billion outstanding, in maturities from a week to a year, make it the single most actively used money-market instrument. Thirteen investment dealers have been designated as money-market jobbers by the Bank of Canada and have access to the central bank as a lender of last resort against Canada treasury bill collateral. Chartered banks must maintain their secondary liquid reserves in the form of treasury bills or in the form of loans to the jobbers against treasury bill collateral. The treasury bill function is the very core of the money market in Canada, and from treasury bill rates all other rates are determined.

Bankers' acceptances and chartered bank BDNs (bearer deposit notes — which are similar to certificates of deposit) are generally considered to be of equal quality and trade very close to the yield obtainable on Canada treasury bills. Both vehicles are broadly held and actively traded between issue and maturity, usually turning over many times during their relatively brief lifespan. Both bankers' acceptances and chartered bank BDNs carry the names of Canada's major banks, known and respected the world over.

Provincial treasury bills trade in the same yield range as bankers' acceptances. They, like their federal counterparts, are not subject, in the interest they pay to non-residents, to the Canadian withholding tax that applies to corporate short-term paper. The provinces in Canada have a great deal of tax autonomy and are regarded very favourably in world capital markets, where they and their utilities are regular borrowers. The two major U.S. rating agencies assign BAA1 to AAA to the provincial securities, and provincial treasury bills rank equally with longer-term provincial securities.

Major municipalities too offer short-term promissory notes exempt from withholding tax. In most instances these notes are sold in anticipation of real property tax revenue and therefore are seasonal features of the market. The borrowers in this market tend to have U.S. ratings ranging from A to AAA and are generally considered very good short-term investments that offer slightly

higher yields balanced by slightly less liquidity.

By far the most diverse area of the Canadian money market is that represented by the issuers of *commercial and finance paper*. These companies number close to 200, of which approximately 150 will be active borrowers at any one time. As might be expected, the size and quality ranges are more pronounced for this group, although issuers are generally among the largest and strongest corporations.

Every borrower in the commercial paper market either files an annual prospectus with the Ontario and Quebec securities commissions or prepares a detailed information memorandum containing annual reports, borrowing by-laws, resolutions, legal opinions and, where necessary, guarantees. These documents form the basis for dealer-participation sponsorship and solicitation. The dealer role is to act as the market-making intermediary in creating the demand for such paper through trading desks and to arrange physical movements of both securities and funds at maturity as well as at initiation.

The role of the rating agencies

Two bond rating agencies have, over the past two years, developed in addition as commercial paper rating agencies and between them rate all the major corporate borrowers using the money market. Their assessments are thorough, unbiased, and widely accepted for their objectivity by North American institutional investors who closely follow the Canadian money market. Both agencies — Dominion Bond Rating Service and Canadian Bond Rating Service — pattern their activities along the lines of Moody's and Standard and Poor's in the United States, applying recognized Canadian accounting principles and techniques in their analysis. A noticeable trend is evolving towards acceptance by a growing number of major institutions of rating classification as the criterion for investment.

The non-resident investor in the Canadian Money Market

Non-resident holdings in the Canadian money market have grown over the past five years from \$200 million in 1972 to \$2.9 billion at the end of 1977 and now account for approximately 10% of the total paper outstanding. In 1977, sales of money-market instruments to non-residents exceeded Can. \$14 billion.

The great bulk of this inflow is on a fully hedged basis. A rather sophisticated and rate-sensitive arbitrage network has

developed to express net yields to investors in their own currency equivalents. The forward premium or discount for U.S. dollars in Canada invariably adjusts the net return on Canadian short-term investments to about 10-30 basis points above those on comparable U.S. short-term investments. This is after making allowance for the 365-day true-yield basis used in Canada compared with the 360-day discount basis used in the United States. Thus, the Canadian paper market is set at the margin of attractiveness for non-resident investors in comparison with U.S. investment alternatives.

The mechanics for participation in the Canadian money market by non-resident investors are quite straightforward. All major money-market jobbers maintain offices abroad, especially in New York and London, and are able to reflect market conditions accurately. The Reuters monitor network is widely used by Canadian jobbers, and this facility enables non-residents all around the world to keep continuously abreast of Canadian money-market rates and special situations.

The foreign-owned company borrowing in the Canadian money market

A growing number of foreign-owned subsidiaries in Canada are turning to the money market as a means of financing inventories and receivables and augmenting working capital. Many foreign-based corporations with high corporate visibility guarantee the commercial paper issued by their Canadian subsidiaries. A much larger number of subsidiaries, including privately owned corporations, utilize the bankers' acceptance market in Canada as a low-cost, convenient source of short-term funds. The present Bank of Canada Act stipulates that bankers' acceptances can be issued only by companies which produce and market goods — and this means, in effect, only companies in manufacturing and resource sectors. Proposed revisions to the Bank of Canada Act would remove this impediment, making companies in any industry eligible to seek funds via bankers' acceptances, subject only to the approval-by-stamping of an accepting bank. If this proposed revision becomes law, the new Bank of Canada Act will allow all forms of corporate enterprise, including wholly owned subsidiaries of foreign companies, to utilize this alternative method of short-term financing at rates which are usually attractive. This will have special appeal to companies operating in the service sectors.

Corporate concentration and performance: recommendations of the Royal Commission

After three years of research, background studies, and public hearings, Canada's Royal Commission on Corporate Concentration recently published its final report. Its recommendations tend to favour policies and measures that would encourage savings, investment, and industrial growth and efficiency. Two of the more interesting recommendations call for the elimination of both the capital gains tax and the corporate income tax. Other recommendations are for changes in such areas as competition policy, banking, boards of directors, disclosure of corporate information, and the social obligations of firms.

The Royal Commission on Corporate Concentration was established in April 1975 by the federal government to consider the nature and role of major concentrations of corporate power in Canada, the social and economic implications of such concentrations, and whether their existence required further safeguards to protect the public interest. The purpose of the Commission, as with all Royal Commissions, is to make recommendations which can be considered by the federal government in future legislation. The recommendations, however, do not necessarily become a part of government policy.

The report is organized into several specific topic areas. This enables the reader to obtain a good overview of the Canadian economy. The following is a brief discussion of some of these topic areas and the conclusions and recommendations made about them.

Corporate size and concentration

The Commission finds that those corporations considered large in Canada are, in general, small in comparison with large corporations elsewhere in the world. It also finds that both aggregate concentration (the proportion of a country's total economic activity accounted for by the largest firms) and industrial concentration (the proportion of the activity in a particular industry accounted for by the largest firms in that industry) are higher in Canada than in other industrial countries. However, aggregate concentration appears to have declined since the beginning of the century.

Canadian plants are not, in general, very

much smaller than elsewhere. But these plants produce a full line of products. Consequently, the plants employ less specialized equipment, have a higher proportion of set-up and down time, and must face high retooling costs. Therefore, concludes the Commission, firms should be encouraged to grow, so that greater rationalization of product lines can occur within their plants. In this way, economies of large-scale production can be realized.

Competition and oligopoly

As a countervailing force to this need for larger firms, Canada requires a competition law that will preserve the advantages of market competition in an oligopolistic economy.

In the Commission's view, some of the merger and monopolization provisions of Canada's proposed competition legislation reach too far. The Commission would prefer a law that deals with anticompetitive actions if and when they occur, rather than a law which operates on the basis of predictions about future actions — that is, on the basis of presuming that certain industrial structures are likely to lead to anticompetitive practices. The report urges that measures be considered to reduce artificial barriers to entry and encourage new competitors — such as measures to improve the availability of debt and equity capital and to facilitate licensing of products and technologies.

The Commission further recommends that frequent reviews of competition policy be carried out to ensure that it matches the industrial policy of the day.

Conglomerates

Canada's first large diversified company was the Canadian Pacific Railway Company which, in the late 1800s, started to expand from its base in railroads to ventures in related industries. However, it was not until after the second World War that other firms began diversification programs, creating what we know today as conglomerates.

The Commission believes that acquisitions by conglomerates have not increased concentration within industries and have not in general decreased competition. Most diversifications by conglomerate firms have been into industries so unconnected to their present operations that they have not been able to take advantage of economies of scale and to realize substantial savings. On the other hand, diversification into unrelated sectors has helped allocate resources from old static industries to

newer, more dynamic ones.

Furthermore, says the Commission, there is no need for any general prohibition against conglomerate mergers. The proposed competition laws in Canada would be able to deal effectively with any competition questions that might arise. However, if there should be other overriding concerns in the public mind, it should be left up to Parliament to decide in the light of the circumstances at the time whether or not a conglomerate merger was against the public interest. No general legislative criteria can be established in advance by which all such mergers can be assessed.

Foreign direct investment

The report notes that the percentage of Canadian industry controlled by foreign interests has levelled off since the early 1970s. Meanwhile, there is evidence to show that foreign firms continue to invest in Canadian industries characterized by both high concentration and high barriers to entry.

The Commission concludes that (1) on the whole, the benefits of foreign direct investment outweigh the costs; (2) the existing mechanisms to deal with foreign direct investment are adequate and need not be changed; and (3) "those administering the Foreign Investment Review Act are conscious of the benefits of foreign investment to Canada and give them adequate consideration."

Taxation

Over the next seven years, the Canadian economy will require an estimated \$460 to \$520 billion to finance projected capital investment requirements. But, notes the report, domestic savings will not be adequate to finance this amount of business investment. As a solution, the report urges that two changes in the basic structure of taxation be considered. The first would be to eliminate the capital gains tax. As a source of revenue it has not been significant, and meanwhile it has acted as a disincentive to business investment and has been a complicated and costly addition to the tax system.

The second change in the tax structure would be in the corporation tax. The Commission suggests that, instead of being taxed as it is earned, corporate income should remain exempt so long as it is employed in the business and should become taxable only after it is paid out in the form of dividends.

By changing these two tax provisions, the Commission contends, funds which would not normally be available for investment purposes will be channelled to meet Canada's future requirements.

Corporate disclosure

The Commission believes that better disclosure of business information is necessary so that the public can make more informed judgments about what business does. It therefore recommends that the kinds of information available to the public be expanded. It recommends also that the confidentiality rules on information filed by very large corporations with governments should be relaxed but that, at the same time, an effort should be made to reduce and simplify requirements for corporate reporting of information to governments and to eliminate duplication of reporting demands.

Corporate influence and the role of business in society

The Commission also looked into the question of the extent to which large corporations can or do manipulate public opinion and public policy. It concluded that representatives of major corporations have ready access to government, but that the extent to which they have influenced government is unclear. The commission does recommend, however, that corporations should disclose the total of their political contributions in their annual reports.

Some public concern had been expressed about conglomerates that have interests in both the print and broadcast media. The Commission recommends that the Canadian Radio-Television and Telecommunications Commission be given the power to prevent broadcast media from acquiring or controlling major print media (the CRTC already has the power to prevent print media from acquiring broadcast media).

As far as social responsibilities of corporations are concerned, the Commission feels that "business should resist both the pressure and temptation to be drawn into assuming responsibility for matters connected only tenuously, if at all, with its prime economic function." However, in the future, "the law will have to act positively to influence decision-making within corporations to ensure that corporate decisions are made in accordance with the desires of society."

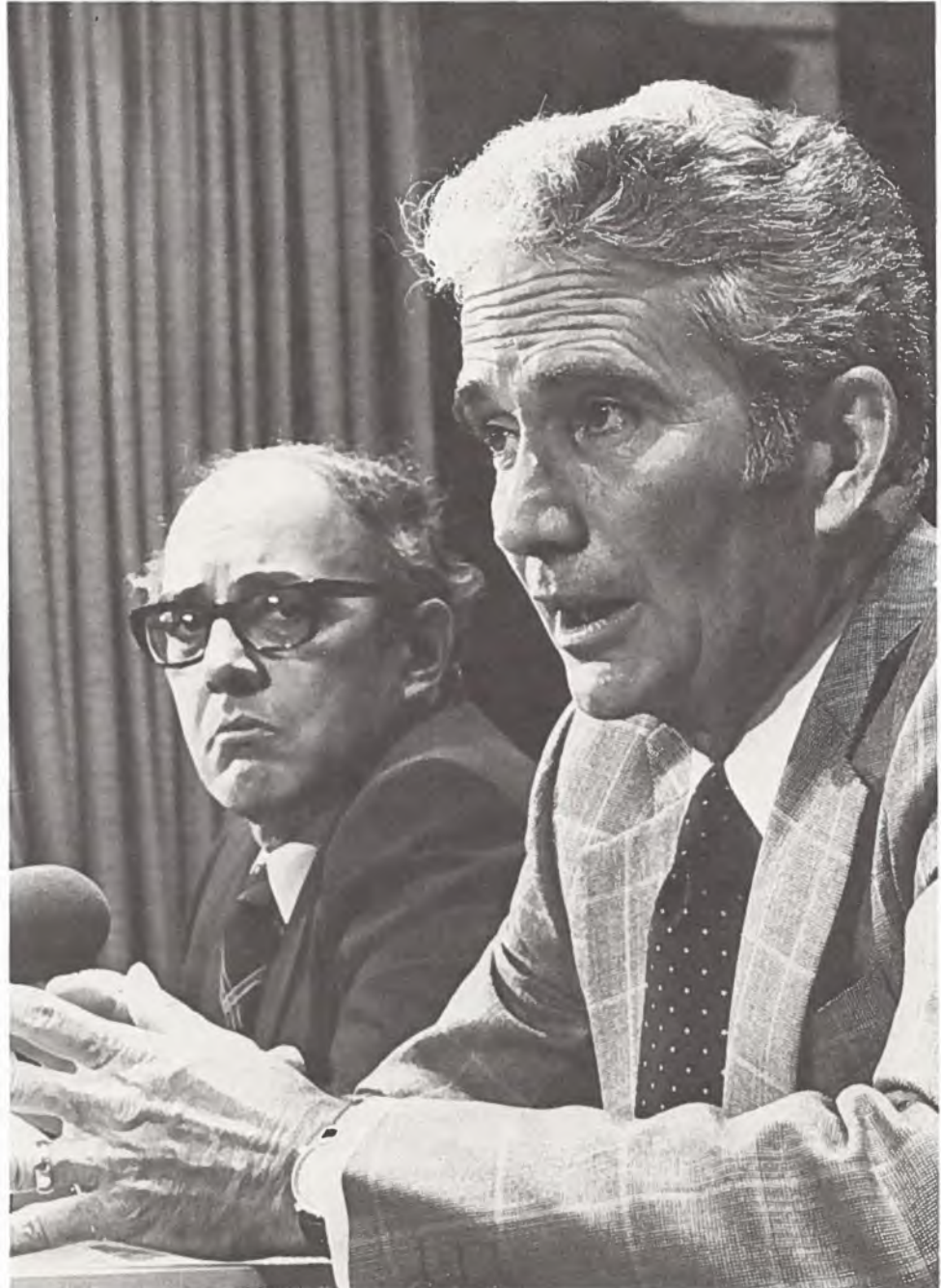
At the end of its report, the Commission notes that Canada can expect increased concentration to occur, chiefly because of international competitive influences. The public must realize that vigilance and the effective use of appropriate instruments of public policy are the best ways of maximizing benefits. The Commission concludes that "no radical changes in the laws governing corporate activity are necessary at this time to protect the public interest."

The concentration of foreign investment in Canada

Since many of the highly concentrated industries in Canada have a high degree of foreign ownership, the Royal Commission on Corporate Concentration devoted a chapter of its final report to the subject of foreign investment.

According to the Commission, the ownership structure of foreign direct investment in Canada has changed significantly in the past generation. For instance, in 1954 non-American

investment represented only 4% of the book value of all foreign investment, but by 1973 this figure had increased to 9%, and all signs indicate that the percentage has continued to rise. The degree of control by American companies appears to have reached its peak during the late 1960s. The subsequent downtrend is expected by the Commission to continue, with the proportion of non-American foreign-controlled investment increasing. This is a trend that appears to be occurring internationally and is, according to the Commission, mainly due to the recent erosion of the comparative advantage inherent in the greater size of American firms and to the rising number of divestitures by American firms.



Robert Dyckerson and Pierre Nadeau, the two members of the Royal Commission on Corporate Concentration at the press conference following the publication of their report.

Photo: CP

The Commission notes that, up until the mid-1960s, American firms benefitted from important economies of scale related partly to their larger size. But the size difference and the related advantages have been eroding in the past ten years to such a point that the sales of the world's 100 largest American corporations are now barely higher than the sales of the 100 largest non-American corporations — the average sales of the former being \$5.6 billion and those of the latter \$4.9 billion. The Commission cites several American studies which conclude that the growth of multinational corporations is linked to the growth of their national market base. This, of course, would favour the European multinationals, who have seen substantial growth occur in their home markets. The Commission also refers to the increase in competitive pressure placed upon American subsidiaries by European firms. The Commission's views are in accord with those of other studies concerning the relative size of American companies, which show that the rate of expansion of foreign investment by European companies is greater than that by American companies.

The second important factor which, according to the Commission, favours the relative growth of other-than-American investments in many countries is the number of divestitures by American corporations. One study shows that, around the world, the divestitures of foreign subsidiaries by American corporations was four times as high between 1971 and 1975 as between 1961 and 1965. Meanwhile, a relatively small and declining number of subsidiaries were created between 1971 and 1975. Whereas in 1971 there were 3.3 new investments for each disinvestment, by 1975 the ratio had declined to only 1.4. The Commission reports that most of the divestitures were due to inadequate earnings, rather than to any pressures from host countries.

The patterns of international investment and disinvestment had several repercussions for Canadian industries. According to studies prepared for the Commission, a relatively high proportion of the disinvestments of recent years have occurred in unconcentrated industries and few have taken place in concentrated sectors. This is consistent with another finding of numerous Canadian studies, which show that foreign firms are more likely to invest in concentrated industries. In fact, researchers have identified a "strong direct correlation" between the degree of foreign ownership, the degree of concentration, and the presence of large firms. The degree of foreign ownership is much greater in those industries in which an oligopoly of three or four firms controls a large percentage of total sales. By contrast, the degree of foreign ownership is relatively small in

those sectors where there are many small firms and where no single firm has a significant share of the market.

According to the Commission, changes in recent years in the degrees to which various industries are foreign owned have by no means been haphazard, but rather have been related to the advantages that investments have in oligopolistic industries and the advantage of possessing certain core skills. The Commission notes that "the difficulties new firms face in acquiring these core skills contributed to the high concentration in these industries and the high level of foreign investment." The Commission also observes that foreign subsidiaries in Canada can often be more productive than Canadian-owned companies because of their access to the core skills of the foreign parent. Further along in the discussion of concentration in Canadian industries, the report observes that many of the oligopolistic structures in

Canada had first been developed abroad and then brought to Canada by the direct investments of the firms involved in the oligopoly abroad. The dominant firm in the oligopoly is apt to be the first to invest in Canada — and is soon followed by the others who wish to protect their market share.

Despite the presence in Canada of many oligopolistic industries that have a high percentage of foreign firms, the Commission rejects the inference that foreign direct investment has *increased* the concentration in Canadian industries. For example, no relation was observed between the rate of foreign direct investment and changes in the level of concentration, and meanwhile it can be observed that Canadian industries with a high degree of foreign ownership are no more concentrated than the same industries in other countries where those industries have a lower degree of foreign ownership.

Industrial concentration 1975

Major industries	Percentage of industry controlled by largest firms		Rank of largest Canadian-owned firm in the industry
	Top 4	Top 8	
Tobacco products	88.1	98.9	13
Petroleum and coal products	75.4	88.0	7
Communication (utilities)	72.4	79.6	1
Transport equipment	70.1	75.1	6
Rubber products	63.1	81.0	10
Primary metals	58.3	74.2	1
Storage	56.1	70.6	1
Metal mining	47.4	65.0	1
Public utilities	46.3	61.1	1
Mineral fuels	44.5	64.5	7
Beverages	44.4	65.8	1
Transportation (utilities)	41.4	48.3	1
Electrical products	39.3	51.7	1
Textile mills	36.1	44.3	2
Paper and allied industries	35.0	49.0	1
Machinery	28.8	37.5	2
Other mining	27.4	35.8	5
Non-metallic mineral products	27.2	39.5	3
Chemicals and chemical products	25.5	36.3	6
Wood industries	22.0	27.8	1
Printing, publishing and allied industries	21.9	31.6	1
Food	19.9	29.9	1
Leather products	17.3	28.5	1
Knitting mills	16.2	26.1	2
Metal fabricating	14.2	20.5	1
Miscellaneous manufacturing	13.9	20.3	3
Retail trade	12.9	22.4	1
Furniture industries	12.3	19.3	2
Finance	11.6	21.8	1
Wholesale trade	9.0	13.1	1
Services	8.2	11.2	4
Clothing industries	6.1	9.4	4
Construction	5.9	8.2	3
Agriculture, forestry and fishing	5.2	8.3	1

Source: Statistics Canada

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, 235 Queen St., Ottawa, Ontario, Canada K1A 0H5.

Small Businesses Loans Act

Guarantees loans up to \$75,000 from approved lenders to proposed or existing businesses whose actual (or estimated) gross revenue is up to \$1 million. **Contact:** Small Business Loans Administration, Department of Industry, Trade and Commerce, 235 Queen 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, 235 Queen 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, 235 Queen 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, 235 Queen 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.

PROVINCIAL GOVERNMENTS INCENTIVES

ALBERTA

Alberta Opportunity Company

Provides financing for Alberta manufacturing and service businesses through direct loans or guarantees of loans for fixed assets or working capital when funding is not available from conventional lending institutions. **Contact:** Alberta Opportunity Company, Box 1860, Ponoka, Alberta, Canada T0C 2H0.

Canada-Alberta Subsidiary Agreement on Nutritive Processing Assistance

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

BRITISH-COLUMBIA

British Columbia Development Corporation

The corporation provides financing in the form of term loans, loan guarantees, performance bonds, deficiency guarantees, leasing of buildings and machinery, and in special cases, equity. While there is no limit on the amount of funds the corporation may provide, in 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.

MANITOBA

Manitoba Research Council

Industrial Development Assistance provides shared costs and technical assistance for research and development of new or improved products and processes. The Council's Canadian Food Products Development Centre and Canadian Health Industry Development Centre provide advice, in-plant assistance and laboratory prototype work for food and feed industries and for products and devices in health care respectively. **Contact:** Manitoba Research Council, 155 Carlton St., 5th floor, Winnipeg, Manitoba, Canada R3C 3H8.

Manitoba Department of Industry and Commerce

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

NEW-BRUNSWICK

New Brunswick Industrial Development Board

Provides financial assistance to manufacturers or processors, normally in the form of a loan guarantee or direct loan. Administers a joint federal-provincial interest-free forgivable loan

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

New Brunswick Provincial Holdings Limited

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

Research and Productivity Council

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

NEWFOUNDLAND

Newfoundland and Labrador Development Corporation

This joint federal-provincial corporation provides equity and loan financing up to \$2.5 million for establishing or expanding small and medium-sized businesses. **Contact:** Newfoundland and Labrador Development Corporation, P.O. Box 9548, 44 Torbay Road, St. John's, Newfoundland, Canada A1A 2Y4.

NOVA SCOTIA

Industrial Estates Ltd.

Industrial Estates Ltd. is a crown corporation for the development of secondary industry in Nova Scotia. 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., 7th floor, Halifax, Nova Scotia, Canada B3J 1M5. Also

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

Nova Scotia Department of Development

The Nova Scotia Department of Development is responsible for the development of businesses and industries. It offers loans to primary industries, tourism, and fishing through

the Nova Scotia Resources Development Board. The department also has programs of assistance specific to marketing, management development, product design and development and opportunity identification; as well as a rural industry program offering capital grants to businesses wishing to expand, establish or modernize outside Halifax-Dartmouth. An industrial malls program encourages new small businesses and industries with rental and other assistance in the first year of their existence. There are other programs offered by departments of agriculture, lands and forests, tourism, labour, fisheries and education which may be relevant to businesses and industries.

Contact: Nova Scotia Department of Development 5151 George Street, Halifax, Nova Scotia B3J 1M5.

ONTARIO

Ontario Development Corporation

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

Ontario Industrial Training Program

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

Retail sales tax exemption for production machinery and equipment

A retail sales tax exemption is granted to a manufacturer or producer who purchases machinery and equipment which alters the goods in process as well as a wide variety of mining, logging, waste removal and pollution control equipment and other types of machinery. **Contact:** Ministry of Revenue, Retail Sales Tax Branch, Queen's Park, Toronto, Ontario, Canada M7A 1X9.

PRINCE EDWARD ISLAND

Industrial Enterprises Incorporated

Provides assistance for capital expenditures in the form of first mortgage loans on real estate and/or equipment. Also provides serviced lands and facilities

in industrial parks at attractive rates and flexible terms. **Contact:** Industrial Enterprises Incorporated, West Royalty Industrial Park, Charlottetown, Prince Edward Island, Canada C1E 1B0.

P.E.I. Department of Industry and Commerce

The Industrial Assistance Program provides assistance in the form of forgivable performance loans to manufacturing and processing businesses. Where the maximum capital expenditure is \$25,000, eligible businesses may receive a maximum forgivable performance loan of \$12,500 or 25% of the total capital cost and up to \$2,000 for each new job created. The Service Sector Assistance Program provides assistance to primary resource industries and/or secondary manufacturers and processors to purchase new, used, or reconditioned equipment and machinery. It also assists in the financing of construction or renovation of production facilities. For a maximum capital expenditure of \$60,000, the amount of forgivable performance loan would be 25% of the approved capital costs to a maximum of \$30,000 and up to \$2,000 for each new full-time job created. Financing for these programs is on a joint federal-provincial basis. **Contact:** Department of Industry and Commerce, P.O. Box 2000, 180 Kent St., Charlottetown, Prince Edward Island, Canada C1A 7N8.

QUEBEC

Quebec Industrial Development Corporation (QIDC)

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

Quebec Ministry of Industry and Commerce

An industrial financing fund to encourage the development of small plants through fiscal abatement at the accrued rate of 25% annually and a tax rebate to encourage regional industrial development for the general industrial sector is available in addition to QIDC development assistance programs. (See listing above.) The costs of exporting Quebec-manufactured

products are supported by interim financing. The ministry also contributes financially to the organization of trade missions, feasibility studies and market surveys, promotes manufacturing under foreign licenses, conducts regional labour surveys, and studies problems related to industrial productivity, at the request of potential investors. The ministry maintains permanent economic delegations in New York, Boston, Chicago, Dallas, Los Angeles, Toronto, Brussels, Dusseldorf, London, Milan, Paris, and Tokyo. **Contact:** Quebec Ministry of Industry and Commerce, Industrial Promotion Directorate, Place Ville-Marie, Suite 2300, Montreal, Quebec, Canada H3B 3M6.

SOQUEM, SOQUIM, SOQUIP, SOQUIA, REXFOR

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

SASKATCHEWAN

Saskatchewan Economic Development Corporation (SEDCO)

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

Department of Industry and Commerce

The department of Industry and Commerce offers a multitude of development programs to assist manufacturers and processors located in the province. These include: the Aid to Trade Program for manufacturers who wish to extend their market areas through promotion; the Product Development Program to help develop new products and special processes, to improve products and to finance tests; the Management Development Program; the Small Business Interest Abatement Program and the Small Industry Development Program. These programs provide assistance up to 50 per cent of approved costs, except for the latter who provide forgivable loans, according to region and population, and abatement grants. **Contact:** Saskatchewan Department of Industry and Commerce, Power Building, 7th floor, Regina Saskatchewan S4P 3V7

Capital investment projects in Canada

I. Minerals

This list shows major capital spending projects now in progress or proposed. Part I covers the minerals industry and is limited to projects costing over \$5 million. Other industries will be covered in future issues of *Foreign Investment REVIEW*. Information on projects is 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.

Canada has an established place in the world as a major producer and exporter of minerals, ranking third as a producer and first as an exporter. Among the more than 60 minerals that Canada produces, it ranks first in the production of asbestos, nickel and zinc; second in molybdenum, potash, silver and uranium; third in gold and fourth in copper and lead.

In 1977, the production value of non-fuel minerals and coal reached \$8.8 billion — an increase of 11% over 1976. Of this amount over half was exported.

The major areas showing notable increases in capital expenditures for 1978 are coal, uranium, asbestos and potash.

A Canada-wide search for uranium is having a substantial impact on the mining scene. There have been several rich uranium discoveries in both Saskatchewan and British Columbia and there are plans for mine expansion and new refineries in Ontario. The outlook for coal is excellent: as many as 10 mines could be opened to produce either metallurgical or thermal coal, with seven projects receiving serious study in British Columbia and three in Alberta. The Ontario government has granted a lease to develop the province's first coal mine, while in Nova Scotia, a new coal mine is being developed and another is being rehabilitated. A new lead-zinc mine is also being developed in that province. In New Brunswick, construction will start this year on a new potash mine and negotiations are underway on a second mine in the same area. In Quebec, several of the asbestos mining companies are undertaking investments for expansion and environmental improvement.

Company and project description	Completion date	Cost (\$ million)	Location
British Columbia			
B.P. Canada Ltd. and B.P. Canadian Holdings New coal mine	1980	400.0	Sukunka area
Cominco Ltd. Expansion and modernization program	1980 and 1985	425.0	Trail and Kimberley
Equity Mining Corporation New silver-copper mine (proposed)	n/a	60.0	Houston area
Kaiser Resources Ltd. Expansion of hydraulic coal mine	1979	40.0	Sparwood
Denison Mines Ltd. Quintette Coal Mine (proposed) Saxon Coal Mine (proposed)	n/a	800.0	Northeast
Shell Canada Resources Ltd. New coal mine	1980	100.0	Lime Creek area
Weldwood of Canada Ltd. and Luscar Ltd. New thermal coal mine	1981	50.0	Campbell River area
Alberta			
Calgary Power Ltd. Extended Highvale Coal Mine-Phase I	1980	50.0	Lake Wabamun
Consolidation Coal Co. of Canada Ltd. Open pit coal mine (proposed) New open pit mine (proposed)	n/a n/a	120.0 11.0	Nordegg Blairmore
E.S.I. Resources Ltd. Uranium recovery plant	n/a	8.5	Calgary
Gregg River Resources Ltd. New open pit coal mine (proposed)	n/a	75.0	Hinton area

Company and project description	Completion date	Cost (\$ million)	Location
Imperial Oil Ltd. New coal mine (proposed)	n/a	80.0	Swan Hills
McIntyre Mines Ltd. Surface and underground coal development (proposed)	n/a	150.0	Smoky River area
Saskatchewan			
Amok Ltd. Uranium mine and mill	1980	133.0	Cluff Lake
Eldorado Nuclear Ltd. Rehabilitation of nuclear refinery	1978	45.0	Radium City
Housing program and mill renovations	1978	17.0	Beaverlodge
Uranerz Canada Ltd. and Saskatchewan Mining Development Co. New uranium mine	1979	100.0	Key Lake
Manitoba & Saskatchewan Coal Company Ltd. Upgrading of coal mine and refinery	1978	50.0	Saskatoon area
Potash Corp. of Saskatchewan Ltd. Cory Mine, expansion	1979	12.2	Saskatoon area
Rocanville Mine, expansion	1979	7.9	
Lanigan Mine, modernization	1981	40.0	
Manitoba			
Hudson Bay Mining & Smelting Co. Ltd. New ore concentrator	1979	26.0	Snow Lake
Sherritt Gordon Mines Ltd. New copper-zinc mine — Ruttan Mine	1978	30.0	Leaf Rapids
Ontario			
Algoma Steel Corporation Ltd. MacLeod iron mine development, Stage IV	1979	39.0	Algoma District
Denison Mines Ltd. Expansion, uranium mine and mill	1979	n/a	Elliot Lake
Eldorado Nuclear Ltd. Uranium refinery improvements	1979	21.0	Port Hope
New uranium refinery (proposed)	1980	100.0	Location under study
Falconbridge Nickel Mines Ltd. New mine development, Craig Mine	1983	n/a	Sudbury Area
Lateral development, Fraser Mine	1979	n/a	
Smelter environmental improvement project, including new sulphuric acid plant	1979	95.0	
Inco Ltd. Major mining development projects:			Sudbury area
Machine repair complex	1979	29.0	
Development, Creighton Mine, including new ventilation shaft	1980	27.0	
Development of Levack East Mine	1983	56.0	
Onakawana Development Ltd. New coal mine	1978	100.0	Moosonee area
Rio Algom Ltd. Expansion of Quirke uranium mine and mill	1978	76.0	Elliot Lake
Reactivation and expansion, Panel mine and mill	1980	100.0	
Texasgulf Canada Ltd. Mine and mill expansion, Kidd Creek copper-zinc-silver mine	1979	139.0	Timmins area
New copper smelter and refinery	1980	280.0	

Company and project description	Completion date	Cost (\$million)	Location
Quebec			
Alcan Aluminium Ltd. New aluminum smelter	1981	200.0	La Baie
Asbestos Corporation Ltd. Environmental equipment	1978	30.0	Thetford Mines
Bell Asbestos Mines Ltd. Expansion	1978-82	14.0	Thetford Mines
Canadian Johns-Manville Company Ltd. Expansion, asbestos mine and mill	1978	77.0	Asbestos
Carey-Canadian Mines, Ltd. Environmental improvement, asbestos mine	1978	11.0	Broughton Township
Falconbridge Copper Ltd. Corbet Mine development	1979	22.0	Noranda
Orchan Mines Ltd. Development of zinc-copper deposit	1978	10.0	Matagami area
SOQUEM New salt mine development (proposed)	n/a	45.0	Magdalen Islands
Atlantic provinces			
Brunswick Mining & Smelting Corp. Ltd. Zinc-lead mine development (proposed)	1980	53.0	Belledune Point, N.B.
Brunswick Tin Mines Ltd. New tin mine	1979-80	35.0	Mount Pleasant, N.B.
Cape Breton Development Corporation New coal mine	1978	100.0	Donkin, N.S.
Rehabilitation, No. 26 Colliery (proposed)	1983	100.0	Glace Bay, N.S.
Coal transport, shipping, storage (proposed)	1984	65.0	Cape Breton, N.S.
Imperial Oil Ltd. New lead-zinc mine	1979	27.0	Gay's River, N.S.
International Minerals & Chemical Corporation (Canada) Ltd. New potash mine (proposed)	1982	n/a	Sussex, N.B.
Potash Company of America Potash mine and processing plant	1981	106.0	Sussex, N.B.
Northwest Territories			
Canada Tungsten Mining Corp. Ltd. Mill expansion	1979	10.0	Tungsten

Book list

International business

The Complete Book of International Investing: How to Buy Foreign Securities and Who's Who on the International Scene

Esslen, Rainer
New York: McGraw-Hill Book Company, 1977

A description of the stock and bond markets in 23 countries outside the United States, and of the gold and gold shares markets, the Eurobond market and offshore tax havens. Market information includes the operations of stock exchanges, bond and new issues markets; banks, brokers and investment funds; tax policies; and the special characteristics of each market.

Fair Trading in Europe

Hermann, A.H. and Colin Jones
London: Kluwer-Harrap Handbooks, 1977

A handbook on the anti-trust and consumer protection laws of the European Economic Community, the nine EEC member states and the other major West European nations.

Tracing the Multinationals: A sourcebook on U.S.-based Enterprises

Curhan, Joan P., William H. Davidson and Rahan Suri
Cambridge, Mass.: Ballinger Publishing Company, 1978

A book of statistical data that can be used to trace the growth and spread overseas of several hundred U.S. multinationals. Includes data on employment, sales, assets, exports and other activities of the companies' foreign affiliates. Part of the Multinational Enterprise Project of Harvard Graduate School of Business.

Worker Self-Management in Industry: the Western European Experience

Garson, G. David, editor
New York: Praeger Publishers, 1977

Political science specialists examine the current state of industrial democracy, or worker participation in management, in West Germany, Sweden, Britain, France and Italy with a view to determining whether it represents a transition or an alternative to full worker self-management.

International Business — 1977: A Selection of Current Readings

Henley, Donald S., Zahir Ahmed Quraeshi and Mushtaq Luqmani, editors

East Lansing, Michigan: Michigan State University, 1977

A compendium of articles published in 1975-76 that are of interest to business. Topics include world markets and resources, trade and investment policy, international finance and accounting and multinational operations and environment.

Project Feasibility Analysis: A Guide to Profitable New Ventures

Clifton, David S., Jr. and David E. Fyffe
New York: Wiley-Interscience, 1977

A manual for executives on the preparation of a new venture feasibility study and investment proposal, including market, technical and financial analysis.

Canada: Business, Investment, Government Policy

Foreign Investment in Canadian Real Estate

North, Lincoln W.
Winnipeg: Appraisal Institute of Canada, 1977

A description of tax considerations and legislation — federal, provincial and municipal — affecting investments in real estate by aliens and non-residents.

Problems in Canadian Marketing

Thompson, Donald W., editor
Chicago: American Marketing Association, 1977

Papers, presented at the second Triennial Canadian Marketing Workshop in 1975, describe how cultural, demographic and political factors make the Canadian market different from the American.

Steering a Course to Excellence: A Study of the Canadian Offshore Oil and Gas Service Industries

Pallister Resource Management Limited
Ottawa: National Research Council of Canada, 1977

Reports on opportunities for development of the Canadian marine services industry and identifies the need for new technology if the industry is to be viable.

The Canadian-United States Tariff and Canadian Industry: A Multi-Sectoral Analysis

Williams, James R.
Toronto: University of Toronto Press, 1978

An examination of the effect of the Canadian and U.S. tariffs on Canadian industry and a theoretical and empirical analysis of the adjustment process that would occur in free trade.

The Money Market in Canada How it works . . . the Arrangements, Practices and Instruments

Sarpkaya, S.
Toronto: S. Sarpkaya, 23 Addison Crescent, Don Mills, Ontario, 1977

A monograph about the short-term money market, intended for businessmen and students. It describes market operations and instruments in Canada (including a comparison with U.S. and U.K. markets), the market participants and tax aspects of money market transactions.

Review of the North American Automotive Industry Automotive Task Force

Ottawa: Department of Industry, Trade and Commerce, 1977

The Canadian part of a Canada-United States study of the impact of changing economic conditions and new technological requirements on the North American automotive industry. It covers the motor vehicle manufacturing industry in North America, the automotive parts industry in Canada and prospects of offshore motor vehicle manufacturers in North America.

Canadian Directorship Practices: A Critical Self-Examination

Peterson, Susan assisted by Morris Heath
Ottawa: The Conference Board in Canada, 1977
Canadian Studies No. 48

An examination of the views of 50 'outside' directors of large public companies about the composition, selection and role of corporate boards of directors in Canada, including a section specifically concerned with the effectiveness of boards of foreign-controlled subsidiaries.

Market Research Handbook, 1977-78 Statistics Canada

Ottawa: Statistics Canada, 1978
Catalogue No. 62-224

This handbook contains a broad range of Canadian marketing data. It includes economic indicators; federal, provincial and municipal revenue, expenditure and employment; merchandising and services data; population characteristics, personal income and expenditure; housing, motor vehicles, household facilities and equipment.

All these publications are available from the publisher or authorized agents. Please do not order them from the Foreign Investment Review Agency.

Statistical tables

QUARTERLY FIGURES

TABLE 1 — SUMMARY

	REVIEWABLE ACQUISITION CASES					
	1977				1978	
	first quarter	second quarter	third quarter	fourth quarter	first quarter	second quarter
Total	41	60	80	80	79	97
Industry						
Primary	3	2	11	4	5	10
Manufacturing	16	27	29	36	33	52
Construction and services	22	31	40	40	41	35
Country of control						
United States	25	39	55	52	62	65
United Kingdom	10	10	9	11	8	13
Other Europe	6	5	16	14	7	14
All other	—	6	—	3	2	5
Value of assets (\$000,000)	115.8	118.1	460.9	384.7	480.1	1,122.2

REVIEWABLE NEW BUSINESS CASES

	REVIEWABLE NEW BUSINESS CASES					
	1977				1978	
	first quarter	second quarter	third quarter	fourth quarter	first quarter	second quarter
Total	62	93	86	87	67	78
Industry						
Primary	3	6	8	5	8	5
Manufacturing	17	24	29	24	25	23
Construction and services	42	63	49	58	34	50
Country of control						
United States	35	48	50	51	43	49
United Kingdom	5	11	6	8	4	6
Other Europe	15	24	23	23	16	17
All other	7	10	7	5	4	6
Planned investment (\$000,000)	43.2	51.7	28.6	678.9	37.9	90.6

ANNUAL FIGURES

TABLE 2 — OUTCOME OR STATUS

	REVIEWABLE ACQUISITION CASES					
	1974†	1975	1976	1977	1977	1978
					six months	six months
Reviewable new cases	102	166	171	261	101	176
Carryover from previous period	—	52	54	65	65	73
Total of above	102	218	225	326	166	249
Total resolved	50	164	160	253	134	177
Allowed	33	116	124	231	121	153
Disallowed	8	21	19	12	7	11
Withdrawn	9	27	17	10	6	13
Carried over to next period	52	54	65	73	32	72
Allowed cases as percent of resolved	66%	71%	78%	91%	90%	86%
Value of assets (\$000,000)	479	1,069.8	1,069	1,144.7	299	1,602.3

REVIEWABLE NEW BUSINESS CASES

	1975*	1976	1977	1977	1978
				six months	six months
Reviewable new cases	6	196	328	155	145
Carryover from previous period	—	6	58	58	52
Total of above	6	202	386	213	197
Total resolved	—	144	334	178	145
Allowed	—	115	297	154	118
Disallowed	—	9	12	12	14
Withdrawn	—	20	25	12	13
Carried over to next period	6	58	52	35	52
Allowed cases as percent of resolved	—	80%	89%	87%	81%
Planned investment (\$000,000)	4.7	324.3	802.5	95	128.6

† 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.

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