

FOREIGN INVESTMENT REVIEW

A journal on
investment conditions in

CANADA

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Japanese investment in Canada

Canada's industrial relations

Capital markets in Canada

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Canada

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Cover: With the majestic Rocky Mountains in the background, this is a view of
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CONTENTS

VOLUME 3, NO. 1

AUTUMN 1979

2 News briefs

Articles

4 Japanese investment in Canada
by Joan Gherson

8 Canada's industrial relations in international perspective
by Alton Craig

11 Acquisitions by multinationals

14 Capital markets in Canada
by Gilles Gratton

17 Westinghouse Canada: beyond the branch plant
by Alan Darisse

19 Investment opportunities in energy conservation
by Edward R. Lauer

22 Capital investment projects in Canada

Incentives to industry

25 A summary of the major provincial incentive programs for industry

Statistical tables

30 Updated figures of FIRA cases including acquisitions and new
businesses by industry sector and investor's country of origin

32 Books

New ministers named



Robert René de Cotret, Minister responsible for the administration of the Foreign Investment Review Act.

Following the May 22, 1979 election victory of the Progressive Conservative Party of Canada, a new Cabinet was formed in June. Among the new ministers named by Prime Minister Clark are: Robert René de Cotret, Minister of Industry, Trade and Commerce and Minister of Economic Development and Trade; Michael Wilson, Minister of State for International Trade; and Ronald Huntington, Minister of State for Small Business and Industry.

The Honourable Robert de Cotret, 35, replaces the Honourable Jack H. Horner as Minister responsible for the administration of the Foreign Investment Review Act. Mr. de Cotret, an economist, is a former President of the Conference Board in Canada, an independent business research organization. He has also worked as an adviser on monetary questions in the federal Department of Finance and as a senior staff economist with the President's Council of Economic Advisors in Washington, D.C.

The Honourable Michael Wilson, 42, Minister of State for International Trade, is former Executive Vice-President and Director of Dominion Securities Limited, one of the largest investment dealers in Canada. Mr. Wilson also spent one year with the federal Department of Finance with responsibilities in the capital markets area.

The Honourable Ronald Huntington, 58, Minister of State for Small Business and Industry, is an experienced businessman who has successfully run several firms in British Columbia.

Easing the skilled-labour shortage

With the objective of solving Canada's chronic shortage of skilled labour, the Canada Employment and Immigration Commission has introduced the Critical

Trade Skills Training (CTST) program, which will involve cooperation among government, labour, industry and educators.

Assistance will be given to firms that undertake to initiate or expand training in skills for which there is either a shortage of workers or a heavy dependence on off-shore sources. Employers will be subsidized for about 45 percent of the wages paid to apprentices to a maximum of \$170 a week over a maximum period of 104 weeks. The federal government will also provide assistance to cover the costs of classroom training.

The following are the target occupational groups: mould and core makers; tool and die makers; machinists; sheet metal workers; boilermakers; electrical equipment installers; and industrial mechanics.

Canada and the OECD Declaration on International Investment and Multinational Enterprises

At the June 13, 1979 ministerial meeting of the Organization of Economic Cooperation and Development, the Honourable Flora MacDonald, Canada's Secretary of State for External Affairs, reaffirmed Canada's support of the principles embodied in the OECD's Declaration on International Investment and Multinational Enterprises. The Minister also assured other member countries that Canada intends to continue playing an active and constructive role in all OECD deliberations on international investment issues. She reiterated, however, that Canada retains its right to take measures which it considers necessary to strengthen domestic enterprises and ensure that foreign direct investment be of significant benefit to Canada.

Canada has maintained this position since 1976 when the OECD Declaration was adopted. At that time Canada voiced its support of the national treatment principle—that member countries accord foreign-controlled enterprises the same legislative, regulatory and administrative treatment they accord domestically-controlled enterprises—but stated that the extensive degree of foreign ownership and control in its economy made it necessary for Canada to be able to take appropriate measures to maintain effective control over its economic environment. To accomplish this and other economic objectives,

Canada has had recourse to various measures, the best known being the Foreign Investment Review Act.

The June 1979 ministerial meeting was the culminating point of a year-long review of the Declaration, the first since its adoption in 1976. Though member countries agreed that the Declaration was a useful point of reference on international investment, they indicated that more experience with it was necessary before any major conclusions could be drawn or recommendations made. They did, however, adopt a minor amendment to the guidelines on multinationals concerning the transfer of workers by multinationals in order to influence local labour disputes. They also recommended improved consultation procedures and a comprehensive medium-term study of the effects of competing government incentives and disincentives for the location of direct investment.

Planned capital investment up

Three organizations, two governmental and one non-governmental, all predicted last Spring that capital spending by government and business would rise significantly in Canada in 1979. Statistics Canada, the Government of Canada's official statistics agency, the federal Department of Industry, Trade and Commerce, and the Conference Board in Canada, an independent research organization, all based their conclusions on surveys which they carried out independently on capital investment plans and attitudes.

Statistics Canada expected business and government capital spending to be 9 percent greater in 1979 than in 1978. The private sector was expected to account for the greatest increase with capital investment intentions up 12 percent. Though government spending was also expected to increase, it would do so at only half its 1978 rate.

In its semi-annual survey in April, the federal Department of Industry, Trade and Commerce found that 300 major corporations in Canada planned to spend about \$20.7 billion on buildings and equipment in 1979, which was \$1 billion more than had been estimated only six months earlier. In manufacturing, the biggest increases were expected in transportation equipment, primary metals and food and beverages. In non-manufacturing, strong increases were anticipated in mining, transportation and storage, as well as finance and other commercial sectors.

Also of interest in the Department's survey was the fact that foreign-controlled firms showed a higher rate of increase in planned capital investment than Canadian-controlled firms. The 300 corporations represent two thirds of all non-agricultural investment in Canada. The Department estimated that, for the economy as a whole, the real increase, once inflation was taken into account, would be between 4 and 6 percent, which is substantially higher than the average annual increase of 1 percent recorded since 1975.

The April quarterly survey of the Conference Board in Canada also indicated an increase. Its purpose, however, was to identify attitudes rather than actual investment intentions. To this end, it surveyed the chief executive officers of 220 Canadian companies. Approximately 58 percent of the c.e.o.'s thought that it was a good time to invest in Canada. The corresponding figure a year earlier had been 30 percent. Higher market demand, corporate profits and capacity utilization rates were seen by the executives as the main reasons for increased planned investment.

Labour contract lengths increasing

Research carried out last Spring by IR Research Reports of Kingston (Ontario) showed that the average length of labour contracts, covering 500 or more workers, increased in 1978. This trend coincided with the May 1978 end of wage and price controls in Canada. The table below compares the average length of contracts by sector in 1977 to that of 1978.

Average contract length (in months and weighted by number of employees)

Sector	1977	1978
Mining	17.4	24.0
Manufacturing	21.5	23.7
Transportation	14.3	15.8
Trade	16.5	19.8
Services	14.5	17.8
Public administration	14.0	17.9

Other work has confirmed the 1978 trend. In May 1979, the federal Department of Labour published statistics showing that, in the first quarter of 1979, 76 percent of the 107 major agreements involving 500 or more workers were signed for two- or three-year periods. This was the largest percentage of such contracts recorded in any quarter since 1974.

Profits rise early in 1979

In a Spring quarterly financial report, Statistics Canada reported that after-tax profits of non-financial businesses were 58.3 percent higher in the first quarter of 1979 than they were in the corresponding period in 1978. The value of sales was also up 17.8 percent.

The first quarter profit surge was attributed to several factors. First and foremost was the lower value of the Canadian dollar, which made Canadian products more competitive abroad and at home. This in turn led to increased sales in the domestic and foreign markets. Wages were another important factor because they increased only 8 percent in 1978, a phenomenon which contributed both to the competitiveness and profitability of Canadian businesses. Part of the profit performance of Canadian enterprises resulted from their ability to increase prices without losing their competitiveness; again this was due to the lower value of the Canadian dollar. Also cited in the profit picture was the fact that Canadian businesses were able to increase plant utilization, resulting in lower costs per unit of output and thus greater profit per unit. Finally, resource companies with large inventories profited from the surge in metal prices.

Profits did not rise evenly across the board. Manufacturing headed the list with an increase of 68 percent, whereas mining profits were up 24.7 percent and other industries 60.4 percent. The food and beverage sector had a mixed performance with food processing profits down 4 percent and distillery profits up 35 percent.

Company reports to appear in segment form

A requirement by the Canadian Institute of Chartered Accountants, that segmented information be included in financial statements, became effective for reports on fiscal years starting June 1, 1979 or later. In so doing, Canada joined the United States as the only countries to require segmented information in companies' annual financial statements. As is the case in the United States, accounting standards in Canada now require that companies provide detailed information by line of business, geographic area and the split between export and domestic sales.

The new information requirements apply to companies whose securities are traded in a public market and who file

statements annually with a securities commission. The rule of thumb is that a segment, which accounts for 10 percent or more of a company's results, must be reported separately. Specifically, information must be provided if: the segment accounts for 10 percent or more of all industry segments, including inter-segment sales and transfers; if it accounts for 10 percent or more of the absolute amount of segment operating profits or losses; or, if its identifiable assets are 10 percent or more of the identifiable assets of all industry segments. A company that has most of its operations in one segment (say 90 percent), however, should report that industry as dominant and not as a reportable segment.

For industry segments, the company is required to provide a general description of the products and services from which each segment derives its revenues. For reportable industry segments, including the remainder of the business after identifiable segments are accounted for, a company must disclose: revenue derived from sales to customers outside the business; revenues from inter-segment sales or transfers and the basis of accounting for this revenue; operating profit or loss, depreciation, amortization and depletion expenses and any unusual items in the determination of results; and the total assets at the end of the period together with capital spending for the period.

For geographic segments, the location of each segment must be disclosed and the company must report: revenue to customers outside the company; revenue from sales or transfers between segments and the basis for accounting for such revenue; operating profit or loss or some other appropriate measure of profitability; and the total carrying amount of identifiable assets at the end of the year.

In both industry and geographic segments, the information must be reconciled with consolidated accounts. Furthermore, export sales from domestic operations must be reported separately when they account for 10 percent or more of sales.

Companies are also expected to report: accounting policies that are significant to a reportable segment; prior period information when there have been changes in industrial or geographic groupings; and the effect of any changes in accounting practice, including the method of allocating expenses among segments.

For more details on the new reporting requirements, contact the Canadian Institute of Chartered Accountants, 250 Bloor St. East, Toronto, Ontario, Canada M4W 3G5.

Japanese investment in Canada

by Joan Gherson

A significant development in recent years has been the growing importance of Japanese overseas investment. Although Japanese capital represents only a small fraction of all foreign investment in Canada, several features have made it unique and interesting, including a tendency toward loans rather than equity, a high incidence of minority holdings and joint ventures, and a marked orientation toward Western rather than Central Canada, which has been the usual target for foreign investment in this country.

From 1970 to 1978 nearly \$27 billion was authorized for overseas investment by Japanese companies. This represents an average annual investment exceeding the cumulative total of the previous two decades. Even though actual investment falls short of the licensed amount because some approved projects fail to materialize, the rate of growth has still been remarkable, raising Japan from a negligible foreign investor to one of the foremost in the course of a decade. If the current annual level of investment is maintained at over \$4 billion, Japan could become the world's second largest investor in the 1980's.

Japanese licensed investment in Canada also increased substantially and at a faster pace overall than that of most other investing countries. From a total of only \$113 million in 1969, accumulated investment grew to \$715 million by 1978-79.

Despite its considerable growth record, Japanese investment in this country has not kept pace with total Japanese investment overseas. From 1951 to 1970 the Canadian share of the total was nearly 6 percent of all licensed Japanese foreign investment. For 1970 alone, when investment for that year nearly equalled the total of the previous two decades, it accounted for a remarkable 10.8 percent of Japanese overseas investment. Since then, however, Canada has had a substantially smaller share. This country now accounts for only 3 percent of all outstanding Japanese foreign investment, ranking eighth in the scale of recipients. Changing Japanese priorities account for that decrease. During the 1970's worldwide Japanese investment in mining and forest products, the two most important targets for investment in Canada, grew more slowly than total Japanese investment. The manufacturing sector, on the other hand, increased its share of the total, but that investment was largely directed towards the developing countries.

Besides being a small proportion of total Japanese investment, the Canadian share represents a small proportion of total foreign investment in Canada. Though Japan ranked seventh among investing countries in 1975, it accounted for less than 1 percent of all foreign direct investment (based on actual, rather than autho-

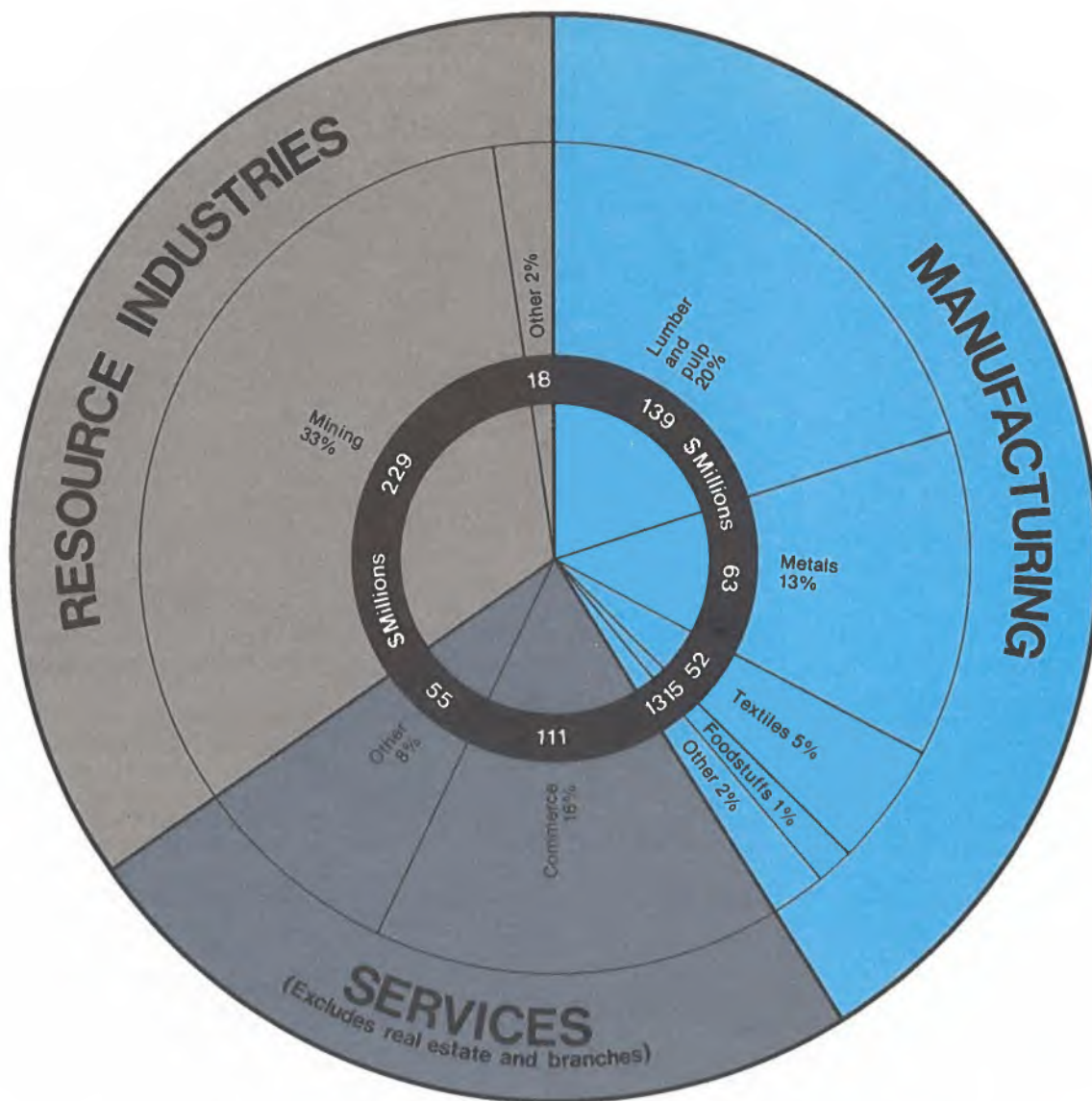
rized, investment and excluding portfolio investment). Later figures are not available, but applications under the Foreign Investment Review Act indicate a continuing low level of Japanese-controlled investment. From 1976 to 1978 only two percent of the applications were from Japan and allowed Japanese investments accounted for a mere 0.3 percent of the total value of investments allowed.

Characteristics of Japanese investment

Japanese investment is unlike traditional foreign investment in Canada. A high proportion of it is in the form of loans rather than equity, and the Japanese often take minority holdings or enter joint ventures. Another unique characteristic is the extensive participation of the large Japanese trading houses. In addition, while most foreign investment is destined for Central Canada, Japanese investment is earmarked mainly for Western Canada, particularly British Columbia and Alberta.

Just over half of Japanese investment in Canada is in equity. The rest is mainly in the form of loans, including corporate bonds and debentures, with a very small amount in real estate and branches. This distribution almost exactly parallels that of Japan's worldwide investment but differs markedly from its pattern in the United States where 70 percent is in equity. In forest products and metal fabricating, the chief focus of Japan's manufacturing investment in Canada, the ratio of loans to equity is higher than the average, whereas in the principal non-manufacturing sectors, mining and trade, it is lower. In the trade sector equity accounts for over 90 percent of the investment.

As mentioned above, the high incidence of joint ventures is a distinctive feature of Japanese investment. On a world-wide basis, only about 10 percent of subsidiaries are wholly Japanese owned and less than one-third are majority owned. Canadian experience confirms this general pattern, and it is one of the reasons why Canadian data on foreign direct investment, which does not include portfolio investment, show Japanese investment to be less than half the licensed investment.



**Cumulative Japanese investment in Canada by industry sector
December 1978**

Investment by sector

Resource development and resource-related industries account for more than half of Japan's accumulated investment in Canada. Of these, mining is the most important (33 percent), followed by forest industries (20 percent). Since Japan's investment in resources is mainly motivated by its industry's need for raw materials, its targets have changed over time from non-ferrous metals and forest products to coal, and then to oil and uranium. In the last decade, copper was particularly attractive to investors, who took a small minority interest in quite a number of developments in British Columbia, often providing debt financing and long-term sales contracts. Most Japanese investments in the forest

industry were made between 1967 and 1973. They include control of a lumber, pulp and plywood company, Crestbrook Forest Industries Ltd., by Mitsubishi Corporation and Honshu Paper Co. Ltd., control of several sawmill operations, a combined 50-percent interest in Cariboo Pulp and Paper Co. Ltd. for Daishowa Paper Manufacturing Co. Ltd. and Marubeni Corporation, and a substantial interest on the part of Jujo Paper Co. Ltd. and Sumintomo Shoji Kaisha in Finlay Forest Industries Ltd., a pulp and lumber company. These companies, all located in British Columbia, export most of their wood products to Japan.

By the early 1970's, investor interest focused on metallurgical coal in order to provide assured supplies for Japan's fast-

growing steel industry. The first major equity investment was in 1973 when a consortium led by Mitsubishi Corporation gained a 27-percent interest in Kaiser Resources Ltd., British Columbia's leading coal producer, whose output at that time was wholly exported to Japan. Kaiser, with Mitsubishi and Mitsui & Co. Ltd., have plans for another large mine development in British Columbia, but it, as well as two other giant metallurgical coal projects that include Mitsui participation, now awaits better prospects in the steel industry in order to secure long-term supply contracts and financing. If they materialize in the next decade, these three projects alone would involve Japanese investment exceeding the whole amount invested to date in mineral development. In

the meantime other joint ventures could occur in thermal coal, in which Japanese investors have shown increasing interest following Japan's decision to diversify its energy sources.

High-priced oil and diminishing reserves of conventional oil have sparked great Canadian and foreign interest in non-conventional oil resources in Alberta. Two Japanese companies, both controlled by the Japan National Oil Company, are now involved in important projects for developing *in situ* technology for oil recovery from these resources. One, a joint venture between Japan Oil Sands Co. Ltd. and Norcen Energy Resources of Canada, is concluding a pilot program using steam injection for heavy oil recovery; a decision about commercial production has not yet been made. In another joint venture with Petro Canada and other partners, Japan Oil Sands Alberta Ltd. will invest at least \$75 million over the next 15 years to develop new technology for recovering oil from oil sands by electrical induction.

Reflecting their substantial commitment to nuclear energy for generating electricity, the Japanese are also engaging in exploration for uranium. PNC Explorations (Canada) Co., a newly-formed subsidiary of the Japanese Government agency, Power Reactor and Nuclear Fuel Development Corp., has several projects in Canada, including a partnership with Eldorado Nuclear Ltd. and Saskatchewan Mineral Development Co. (SMDC) at Beaverlodge, Saskatchewan and a 45-percent interest, also in partnership with SMDC, at Wollaston Lake. With an annual budget of only \$2.5 million, however, PNC's expenditure is but a very small part of the nearly

Japanese applications to the Foreign Investment Review Agency*

	Acquisitions	New businesses
Number of applications		
Allowed	13	15
Disallowed	2	1
Withdrawn	3	5
Allowed applications by sector		
Resources	2	1
Manufacturing	2	4
Services	9	10
Allowed applications by region		
British Columbia	5	7
Prairie Provinces	1	-
Ontario	5	6
Quebec	2	1
Atlantic Provinces	-	1

* To March 31, 1979

\$70 million spent last year on uranium exploration in Canada.

Except in pulp and paper, Canada has not been as successful as Europe or the United States in attracting Japanese capital in manufacturing. The few Japanese companies that are in Canada, however, produce a wide range of products, from Japanese milk products to plastic products and color televisions. Many of them are joint ventures, combining Japanese technology and financing with Canadian market access. Titan Steel and Wire Co. Ltd., a large cable manufacturing company, is

one such Japanese-Canadian venture, in which Kobe Steel Ltd. and Mitsui Corporation are the Japanese partners. Another is Sekine Canada Ltd., which makes bicycles for the Canadian market using Japanese Sekine Industries Ltd. technology. There are also a number of joint ventures in textiles, mainly in Quebec, the largest being Fuji Dyeing and Printing Limited, engaged in dyeing, printing and finishing textiles. The Japanese partners in this venture are C. Itoh & Co. Ltd., Seiren Co. Ltd. and Teijin Ltd. An important manufacturer of ball and roller bearings with substantial

Japanese licensed investment in Canada (million dollars)

By period or year	Year	Cumulative
	1951-1969	113
98	1970	211
14	1971	225
51	1972	276
113	1973	389
52	1974	441
59	1975	499
86	1976	585
48	1977	633
82	1978	715

Source: Japanese Ministry of Finance

world exports is NTN Bearing Mfg. Canada Ltd. Beginning as a joint venture with Canadian-owned CAE Industries Ltd., the firm is now Japanese controlled.

There are also substantial Japanese investments in some food processing activities, mainly oilseeds and fish products. The several minority interests and joint ventures in Western Canadian oilseed processing plants all date from 1973-76. Interest in fisheries began much earlier. Marubeni Corp.'s 50-percent holding in Cassiar Packing Company Ltd. dates from 1962, while Taiyo Fishery Co. Ltd. has been established on the east coast since 1966. Recently, Japanese investors have shown renewed interest in this resource.

One investment intention which could dwarf all previous investment in manufacturing is the \$225-million Petrochemicals Alberta Project (Petalta), a world-scale benzene plant, in which Mitsubishi Corp. is a partner.

In terms of the number of investments, the service sector, which covers trade, warehousing, banking and other activities, is by far the largest. Nearly 40 percent of licensed investments have been in this sector. Moreover, since they more often involve Japanese control, these investments represent an even higher proportion of cases reviewed under the Foreign Investment Review Act. Of the 23 Japanese investment proposals allowed under the Act between 1974 and 1978, 19 were attributed to service industries. Their average value, however, is small and consequently services account for only about a quarter of the value of licensed investment. This sector includes the captive distributors of Japanese manufacturers and the Canadian subsidiaries of major Japanese trading companies who play a major part in servicing the \$1.7-billion import and \$2.5-billion export trade with Japan. Annual revenues of the three largest of these companies, Mitsubishi Canada, Mitsui & Co. (Canada) and Marubeni Canada, place them in the top 100 firms in Canada, according to the Canadian Business Magazine listing. Nissan Automobile Co. Canada, which imports Datsun cars and trucks, Canadian Honda Motors Limited and Canadian Motor Holdings Ltd. (Toyota), are in the top 200 companies. Most of the other well-known Japanese manufacturers such as Sony, Panasonic, Hitachi, Yashica, Noritake, as well as some lesser known firms, also have substantial distributing companies in Canada. This trading group includes most of the wholly-owned Japanese companies in Canada, although some have Canadian partners. It also represents the oldest Japanese investments in Canada, many dating from the early 1950's when Japanese trading companies began to establish themselves around the world.

Increasing travel between Canada and Japan has encouraged investment in tourism. C. Itoh & Co., for example, has a

minority interest in a company selling package tours between the two countries and Prince Hotels Inc. owns a hotel in Toronto. In the financial sector, several Japanese banks have established representative offices in Canada.

Outlook for Japanese investment

The slower growth rate of the past several years and the decreases in 1974 and 1977 have deflated previous Japanese investment forecasts which were based on annual increases of 20 percent or more. Nevertheless, many factors point to continued high levels of Japanese foreign investment over the next several years. Foreign investment by Japanese companies is being encouraged by the Japanese government to help reduce the large accumulation of foreign exchange reserves and to offset protectionist measures against Japanese exports. At the same time, the relatively high exchange value of the yen makes foreign investments increasingly attractive to Japanese firms. In addition, rising Japanese labour and electricity costs have made manufacturing more competitive in some foreign locations and growing environmental concern in Japan may limit further industrialization at home. Finally, Japanese fiscal policy and the establishment of the EXIM bank favour new investment in resource projects. The increase in overseas investment in 1978 has also encouraged expectations for a period of renewed growth.

The outlook for Japanese investment in Canada is also quite favourable. One hopeful sign was the slight rise in Canada's share of total Japanese foreign investment in 1978 after several years of steady decline. That decline was largely attributed to the slower growth of Japanese investment in the resource sector. World-wide Japanese investment in re-

sources is not expected to accelerate, but there are a number of reasons why a larger proportion could be directed to Canada. First, Japanese investments in this country's resources have been increasingly directed to energy resources. The outlook for this sector, and for fisheries, in which there is increasing Japanese interest, is more favourable than for other raw materials, though much will depend on Canadian investment and export policies in these sensitive areas. Another factor that favours Canada for resource investment is its reputation as a stable and reliable source of supply. In a recent survey, Japanese investors ranked Canada higher than any other resource area in terms of investment climate.

While investment in Canadian resources should grow despite a general slowing of Japanese resource investment growth, the manufacturing sector could benefit from the trend towards establishing new plants, particularly for consumer durables, in developed countries. Thus far, the United States and Europe have been the chief beneficiaries of that investment, but the recent improvement in Canada's competitive position, a result of the lower exchange level of the dollar and increased industrial productivity, could spark new interest. Specific measures, such as the remission of duty on certain imported manufactures in return for purchases of Canadian components, could also encourage the production in Canada of parts for export. For manufacturing generally, Canada's resource base and its relative advantages in energy will be important factors in future development. Greatly increased contact between Japan and Canada, not only of officials, both federal and provincial, but also of businessmen, through trade and investment missions and the Canada-Japan Business Cooperation Committee, are fostering a greater awareness of the mutual benefits of investment.

Some Japanese trading companies* and their Canadian investments

Mitsui & Co. Ltd. - trading, minerals, warehousing, wire manufacturing, venture capital

Marubeni Corporation - trading, fish processing, construction, wire products, minerals, oil and gas

Mitsubishi Corp. - trading, oilseed processing, minerals, pulp, lumber, beef processing, venture capital

C. Itoh & Co., Ltd. - trading, oilseed processing

Nissho-Iwai Co., Ltd. - trading, oilseed processing

Sumitomo Shoji Kaisha Ltd. - trading, lumber, minerals

Kunematsu-Gosho Ltd. - trading

Toyo Menka Kaisha Ltd. - trading

Itoman & Co. Ltd. - trading

* Includes subsidiaries

Canada's industrial relations in international perspective

by Alton Craig

Some significant differences exist between the industrial-relations systems of Europe and Canada, principally in the extent of unionization, the legal framework and collective bargaining. Canada has placed more emphasis on collective bargaining legislation, whereas European countries have generally concentrated on labour standards legislation. This accounts in great part for the differences between Canadian and European collective bargaining in particular, and their industrial-relations systems in general.

Any comparison of industrial-relations systems is subject to problems because different countries use different concepts and have different data gathering and reporting methods. It is only by considering the nature of the systems that one can find a meaningful comparison. Thus, time-loss due to work stoppages is a meaningful statistic only when it is placed in the context of the legal framework and the collective bargaining system and when other factors, such as the length of individual work stoppages, are taken into account.

Unionization and union movements

Canada has neither the most nor the least unionized labour force in the world. At about 31 percent of the civilian labour force, its degree of unionization is lower than that of Sweden (75 percent), Belgium (66 percent), Denmark (65 percent), and Italy (about 45 percent), but is higher than that of France (25 percent), Switzerland and the United States (22 percent). The extent of unionization in Canada's labour force is expected to increase, however, with more and more public and parapublic employees being allowed to unionize and engage in collective bargaining. Continued union efforts in traditionally non-union sectors, such as financial institutions, will also contribute to this growth.

It has been observed that, in general, organized labour in Europe exercises greater political influence than its Canadian counterpart. The degree and nature of that influence, however, varies from country to country; this is clear when one compares the situation in the United Kingdom, where organized labour is closely tied to a party which is regularly in power, to that of France, where organized labour is closely tied to the country's two major opposition parties which have not been in power for a very long time. Nevertheless, the intimate relationship between major political forces and organized labour in Europe has only a relatively weak parallel in Canada where the Canadian Labour Congress, Canada's largest labour federation, has maintained a fairly close relationship with the country's third most important federal party, the New Demo-

cratic Party, which has never been in power. Canada's other labour federations are not affiliated to any political party. To underline the influence of European organized labour, it should be noted that the heads of the largest unions in the United Kingdom are members of the Labour Party's executive and that in Italy, West Germany, Austria and Sweden, major union heads are regularly consulted before any major social or economic legislation is passed. In Canada, neither tradition nor law oblige the government to consult organized labour; in other words, the degree of consultation, indeed whether or not there is consultation, is at the discretion of the government. Another factor that gives European organized labour a much stronger political voice than its Canadian counterpart is that it is easier for European labour executives or representatives to speak as the voice of labour than Canadian labour representatives, who must consult their membership before taking any definite stand or committing labour to any policy.

The industrial-relations systems of Europe and Canada differ also in terms of union-employer relations. In Europe, there is a fairly close working relationship between the trade-union federations and the federations of employers, whereas in Canada such a relationship does not exist, partly because of the loosely-knit nature of the employer associations. Consultation between workers and employers was formerly set out as an objective in Europe many years ago when the signatory governments to the Social Charter of Europe, adopted in 1961, undertook to promote that kind of consultation. No such charter exists in Canada. This is not to say that there has not been consultation between representatives of business and labour in this country. A good example of such consultation was the tripartite sector task force committees, which were organized by the federal government in 1978 for the purpose of analysing Canada's industrial sectors and making recommendations for strengthening them. Though business and labour did disagree in a number of areas, a fairly effective dialogue was achieved.

Union-employer relations at the company level are also much more structured and extensive in Europe than in Canada.

Alton Craig is a professor with the Faculty of Administration of the University of Ottawa.

In a number of European countries, notably Sweden and West Germany, worker participation on company policy boards has been in practice for a relatively long time, whereas in Canada it is a concept which has not advanced beyond debate. Worker participation or industrial democracy has not been universally accepted in union circles themselves and union federations have placed greater emphasis on tripartite (government-business-labour) consultation on questions such as a national industrial policy. Claims for worker participation have tended to reflect the views of the avant-garde in the labour movement rather than those of the average union member.

Collective bargaining and dispute settlement

Canada has the most decentralized bargaining structure of all its major trading partners. This is due in large measure to the fact that the federal government's jurisdiction over labour relations is limited to only about 10 percent of the labour force. European governments, even those in federal systems, play a much greater role. Canadian employers and unions, who operate on a national scale, may have to deal with labour laws in up to 10 different jurisdictions. This is further complicated by the fact that Canadian collective bargaining law is considerably detailed on such items as "appropriate" bargaining-unit determination, bargaining agency certification, a wide range of unfair labour practices by both employers and unions and, to some extent, the contents of collective agreements. Furthermore, most Canadian jurisdictions have a fairly elaborate system for compulsory third-party intervention before a strike or lock-out occurs. The European approach to collective bargaining law is very different. It has been observed that, in general, European collective bargaining law is more concerned with establishing a legal framework in which the bargaining process can take place than with a detailed blueprint for the process itself. Thus, there is no European equivalent to the certification procedure, the statutory bargaining unit and the majority-representation characteristics of Canadian and U.S. collective bargaining law.

Given the nature of European law, employer associations and union federations often negotiate collective agreements on an industry or, at least, sector basis. This more centralized form of bargaining allows both employers and union leaders to take a much more comprehensive view of their industry and country's competitive position and to act accordingly. In some European countries, settlements at this level establish a minimum which may be increased at the sector or company level, a phenomenon known as *wage drift*. In Canada, the decentralized bargaining

structure makes it difficult for employers and union leaders to perceive the impact of their settlements on the industry or country as a whole. In recent years, however, there has been a growing trend in some parts of the country, notably in Quebec and British Columbia, toward a more comprehensive bargaining system. In addition, a recent federal government task force recommended that broader-based bargaining units be used in industries under federal jurisdiction. As a result, collective bargaining in Canada may be slowly becoming more comprehensive.

Labour standards and collective bargaining

Though Canada has a substantial amount of social welfare legislation, ranging from unemployment insurance to a medicare plan available across the country, its labour standards legislation—in various countries this may include minimum wages, hours of work, health and safety, and "social security" issues or fringe benefits—is not as extensive as in Europe, where broad items affecting workers' daily lives are covered in that kind of legislation rather than in collective agreements. This tends to limit the contents of collective agreements in Europe and, in cases where the workers seek change, to result in court cases rather than in the negotiation of contract terms or even strikes. The obvious implication is that the negotiation of collective agreements in Europe is less far-reaching and complicated than it is in Canada.

A case in point is the different approach used by Europeans and North Americans in coping with technological change, a problem which has caused several disputes in Canada. Most European countries have attempted to solve the problem by means of legislation. In some European countries, employers are required to make payments into government-administered "redundancy schemes" to cushion the impact of technological and other changes. No such legislation exists in Canada. There are other examples. In some European countries, such as the United Kingdom, medical payments come out of general revenue rather than employer-employee contributions. In Canada, social security plans or fringe benefits have placed a heavy burden on collective bargaining, particularly when employers have been hostile in principle to dealing with such issues in collective bargaining.

Canada's strike record in perspective

Close to 90 percent of all industrial negotiations in Canada are settled without work stoppages. The lengthy duration of some work stoppages, however, has hurt

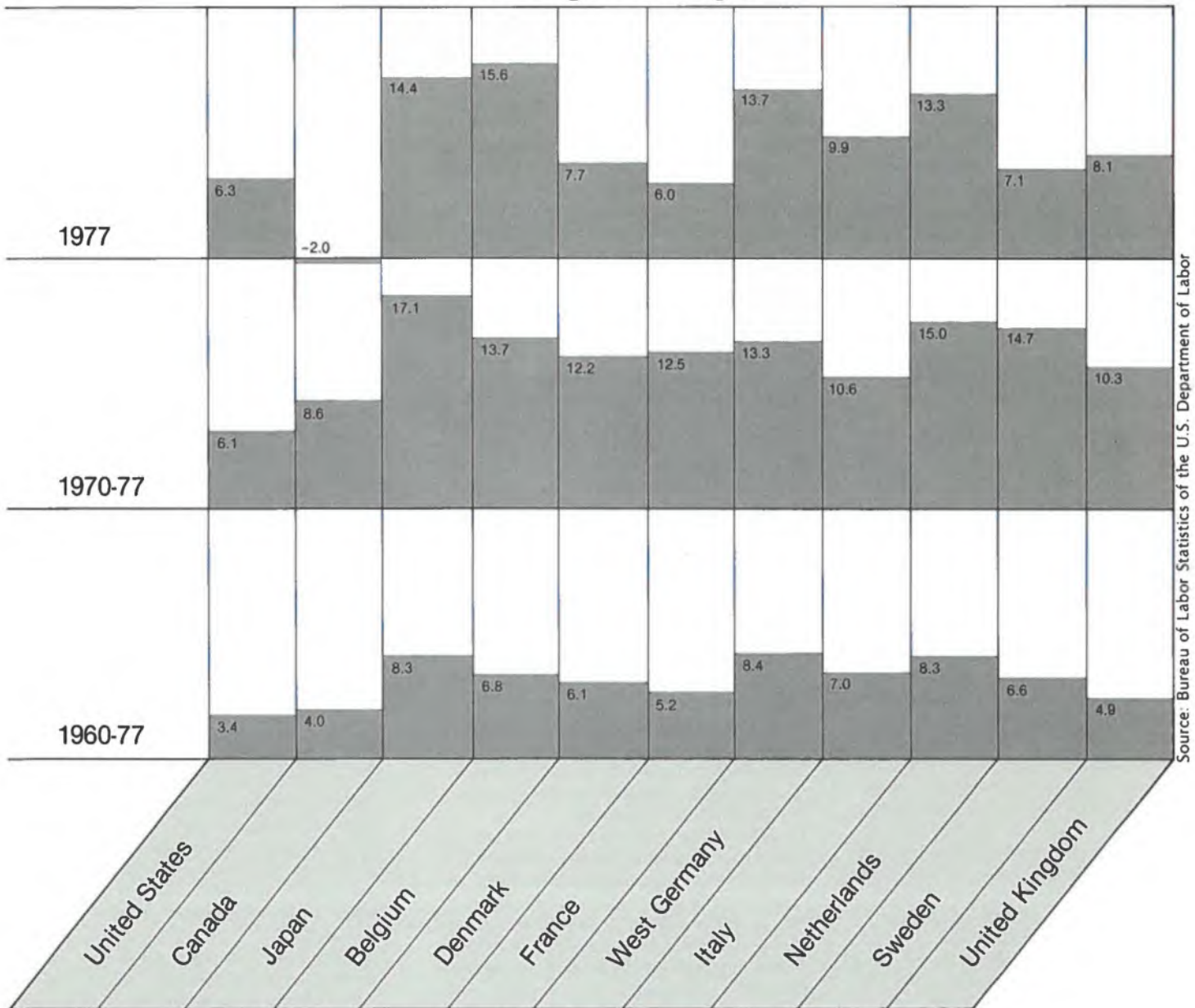
Canada's image in terms of man-days lost per thousand employees. From 1960 to 1976, the percentage of strikes in Canada which lasted over 25 days increased from 19 percent to 40 percent. In 1977, Canada experienced 100 strikes, 10 percent of which lasted between 50 and 99 days and accounted for 30 percent of all time lost that year. In addition, about 4 percent of the strikes lasted from 100 to 199 days and accounted for 17 percent of the time lost. Thus, 14 percent of the strikes in 1977 accounted for approximately 47 percent of the time lost, a fact which confirms the view that Canada's problem is not the number of strikes, but rather their duration.

A number of factors have been identified to explain this phenomenon. One major consideration is the size and complexity of the collective agreements. As was pointed out above, collective agreements in Canada and the United States are very complex documents which are difficult to negotiate in the short negotiation periods available. The adversary nature of the negotiations, with labour and management taking extreme initial positions, complicates the process further because the initial demands and counter-offers take a long time to narrow down to positions acceptable to both parties. Since membership ratification of agreements is traditionally used in Canada, large opening demands by unions can raise membership expectations to the point where it becomes difficult to obtain ratification because the settlement terms may very well fall short of those expectations. Furthermore, there have been cases of employers who were not willing to accept unions and collective bargaining; this attitude has frustrated employees and has prolonged what might otherwise have been minor conflicts.

Lengthy strikes are not new to Canada and the United States. In 1946, it took a six-month strike between the Ford Motor Company and the United Automobile Workers Union in Canada to resolve the question of a particular type of union security clause. In 1947, the United States experienced a very long strike when unions attempted to force employers to negotiate pension plans. In addition, there was a 116-day strike in the U.S. steel industry in 1959 over the employers' unsuccessful attempts to change local work rules. Despite the length of the 1959 strike, little damage was done to either the U.S. economy or the steel industry.

Similar conclusions can and have been drawn in relation to strikes in Canada. It has been shown that work stoppages in Canada's goods producing industries have had an insignificant effect on the economy. Furthermore, given the nature of Canada's dispute settlement procedures, employers and workers can hedge against strikes by extra work and stockpiling or replenish inventories after strikes.

Percentage change



Source: Bureau of Labor Statistics of the U.S. Department of Labor

Annual percentage change in manufacturing unit labour costs, 11 countries 1960-1977 (based on U.S. dollars)

Labour costs per unit of output

Three major factors must be taken into account when comparing Canada's labour costs with those of its major trading partners. They are hourly compensation, productivity and exchange rates. A special problem arises when comparing compensation because it includes not only direct wages but also other forms of supplementary income. In some countries parts of social security programs are financed out of general revenue from taxes, whereas in other countries either employer or employee-employer contributions finance these social security benefits. Nevertheless, a comparison of labour costs is possible.

Canada's labour costs compare favourably to those of its major trading partners. In fact, on a U.S. dollar basis, Canada was second only to the United States in terms of its unit labour cost performance between 1960 and 1977. As the graph indicates, Canada's annual percentage increase in manufacturing labour costs was significantly lower than that of all its trading partners, except the United States. Canada's increase was about half that of Japan and about two-thirds less than that of most of its European trading partners.

Conclusion

Canada's industrial-relations system is significantly different from that of most

European countries. Canada has placed more emphasis on collective bargaining legislation than European countries have and much less on labour standards legislation. This has had a direct bearing on Canada and Europe's experience with collective bargaining. Much of what is covered in European legislation is left to collective bargaining in Canada, making the process much more complicated in this country. The complicated nature of collective bargaining in Canada in turn partly accounts for the greater length of strikes in this country. And, as was shown above, it is the length and not the number of strikes which accounts for much of the time-loss due to work stoppages in Canada.

Acquisitions by multinationals

A recent study by the Foreign Investment Review Agency showed that multinational enterprises (MNEs) accounted for the majority of acquisition cases it had reviewed. Most of the MNEs had operations in several countries including Canada at the time of their initial application, and sought to acquire businesses whose activities were related to those of their existing Canadian interests.

In this study an MNE was defined as a company that had operations in one or more countries other than its home country and Canada. Though less rigorous than those used in some MNE studies, this definition excluded most small trans-border operations without unduly limiting the size of the sample.

The study covered those acquisition cases that were decided between April 1974, when the Foreign Investment Review Act came into force, and March 31, 1979. In all, there were 953 such cases. However, in those cases which involved a joint application by two or more companies, each applicant was considered to have made a separate application, bringing the total number of applications to 986.

MNEs accounted for 71 percent of all acquisition applications. However, only 27 percent of those came directly from the MNEs themselves. In the majority of cases an existing or newly-formed subsidiary, either Canadian (55 percent) or foreign (18 percent), was the company named in the application. The number of MNEs identified as ultimate controllers, however, was smaller than the number of MNE-related applications because many MNEs were involved in two or more applications, often through different subsidiary companies. In fact, 33 percent of the MNEs identified as ultimate controllers were involved in more than one acquisition application. This is over five times greater than the rate for non-MNEs. Although most of the "repeat" MNEs were involved in only two applications, a significant number were involved in several, including one which was identified in 12 applications. In some cases second applications involved the re-submission of an application previously disallowed, but in most instances they were for the acquisition of another Canadian business. Where an MNE was involved in more than one application, the direct applicant was not always, or even often, the same for each application. More than two-thirds of these MNEs did

not use the same applicant for all acquisitions. In all, 265 of the 697 MNE applications were repeat applications and, in consequence, the number of separate MNEs studied was only 432.

Characteristics of MNE applicants

A majority of the MNEs involved in the study were corporations with world-wide operations. More than half (56 percent) operate in 10 or more countries and almost 75 percent in five or more (Table 1). The United States accounted for both the largest number of MNEs (59 percent) and the largest number of world-scale applicants. For example, 135 of the 241 MNEs operating in 10 or more countries were American. Nevertheless, the proportion of all U.S. applications that were from MNEs, as well as the proportion of large-scale MNEs in the U.S. total, is smaller than corresponding proportions for many countries, notably several European countries.

As well as having operations in a number of countries, most of the MNE applicants already had one or more Canadian subsidiaries or associates at the time of their initial application: nearly 75 percent had at least two such subsidiaries, while a further 10 percent had one. Fourteen percent had more than 10 Canadian subsidiaries.

A comparison of the MNEs involved in acquisition applications with those listed in the Fortune 500 largest corporations gives further evidence of the large size of MNE applicants. Of the 253 U.S. applicants, over half (143 applicants) are among the top 500 corporations on the Fortune list and a further 25 are among the next largest 500. Sixty-nine of the 179 applicants from other countries are listed among the largest 500 corporations outside the United States. Moreover, both U.S. and other applicants represented a

Table 1
Multinational enterprises by home country and host countries

Home country	Number of host countries (other than Canada)										Total
	1	2	3	4	5	6	7	8	9	10 plus	
U.S.	18	21	15	21	10	11	11	5	6	135	253
U.K.	1	3	3	4	3	3	1	2		48	68
W. Germany	4	2	2	1	3		1		1	20	34
Holland				1	2			2		8	13
France	1	2			1	2	1	1		4	12
Switzerland		1		1		1		1		6	10
Japan				2		1		2		4	9
Sweden	1	1					1			5	8
Italy				1						3	4
Australia	1		1	1						1	4
South Africa				1						2	3
Belgium										2	2
Neth. Antilles				1						1	2
Other countries			5	1			1		1	2	10
Total	26	30	26	35	19	18	16	13	8	241	432
Percent of total	6.0	6.9	6.0	8.1	4.4	4.2	3.7	3.0	1.9	55.8	100

very high proportion of the very largest companies - 27 of the 50 largest U.S. corporations and 20 of the 50 largest corporations outside the United States were included.

In the sample of MNE applicants there were 369 publicly-owned and 63 privately-owned corporations; six of the privately-owned corporations are in fact controlled by foreign governments. The sample, which covered nearly every industry, showed wide variation in the value of gross revenues and assets and in employment.

Links between MNE applicants and companies sought

One of the purposes of the study was to examine the links between the operations of the MNE, particularly its existing Cana-

Table 2
Operations of MNE in Canada prior to application

Type of operation	Number	Percent
No operations	74	17
Distribution of MNE's products	25	6
Branch-plant production	162	37
Resource development and exploitation	21	5
Full-scale operations	82	19
Trade (other than parent's products)	7	2
Finance	33	8
Other services	28	6
Total	432	100

Table 3
Observed link between MNE and company sought

	Number	Percent
Horizontal integration with Canadian operations	530	76
- Distribution of MNE products	132	19
- Branch-plant production	216	31
- Resource development and exploitation	54	8
- Full-scale operations	5	1
- Trade	21	3
- Finance	35	5
- Other services	67	10
Vertical integration with Canadian operations	30	4
- backward	24	3
- forward	6	1
Vertical integration with parent operations	12	2
- backward	7	1
- forward	5	1
Horizontal integration with parent	83	12
- Distribution of MNE products	32	5
- Branch-plant production	43	6
- Resource development and exploitation	4	1
- Other	4	
Diversification by parent	42	6
Total	697	100

dian operations, and those of the company being acquired. Evidence of links, such as vertically or horizontally related operations, does not imply, however, that the link was the reason for the application. In some cases, such as indirect acquisitions, where a company seeks to acquire the Canadian subsidiary of an already-acquired foreign parent, any link between the company being acquired and other Canadian operations of the applicant could be quite fortuitous. However, the links will show the kind of expansion that could result from the acquisition.

Where an applicant already had Canadian operations at the time of the application, possible links between those subsidiaries and the company being acquired were examined first. In order that the nature of those links could be determined more precisely, the operations of MNE

applicants in Canada were first classified according to a number of defined activities or groups of activities. Seventy-four MNEs had no operations in Canada at the time of their application, although several of these had newly-formed subsidiaries that were not operating. For the remainder, major operations of subsidiaries were classified in one of the following seven groups: distribution of MNE (and related) products only; branch-plant production, involving production of one or more of the parent company's products; resource development and exploitation (including mineral mining and refining, agriculture, forestry and fishing); full-scale operations, defined as the capability of performing all functions of the parent company for most of its product lines, generally including product development, production and distribution; trade, which covered the mer-

chandising of products not produced by the parent company or its affiliates, usually general retail trade; financial services; and other services (Table 2).

For the vast majority of the 697 applications studied, some link was found between an existing Canadian subsidiary and the company being acquired. Horizontal links, where the operations of the acquired company were the same as one or more of the applicant's subsidiaries, occurred most frequently (530 cases). This high proportion with horizontal linkage is partly explained by the fact that a large number of existing Canadian operations already combined several activities so that expansion in any one of those activities would be described as horizontal integration. For example, of the 132 cases of horizontal integration in the distribution of MNE products, only 21 were in fact undertaken by MNEs whose major activity was in that category. The rest were initiated by the MNEs whose major activity in Canada was branch-plant production (40 cases), full-scale operations (65 cases) and other activities (6 cases), but who had some distribution activity that led to the acquisition being classified as horizontal integration. There was correspondingly less evidence of vertical linkage, either forward (for example, where the subsidiary company was a manufacturer and the acquired company a distributor) or backward (where the acquired company might be a supplier). Only 11 applications indicated possible forward integration between the acquired company and either a Canadian subsidiary or the parent, while 31 gave evidence of backward integration.

If the MNE applicant had no existing Canadian operations, or if no links were found between the acquired company and existing Canadian subsidiaries, then linkage was sought with the operations of the ultimate controller. In 83 cases the MNE was found to have operations in some other country that were similar to those of the acquired company (horizontal integration with the parent company), leaving only 42 cases where the acquisition was considered to be real diversification on the part of an MNE with no related operations in Canada or elsewhere.

Conclusion

The study of MNE applications showed that a very high proportion of applications to acquire Canadian businesses emanate from MNEs either directly or through a subsidiary company, and a fairly large amount of these are from MNEs with world-wide activities. Furthermore, a fairly high proportion of MNEs are involved in more than one application. At the time of the application, most of the MNEs already had operations in Canada such that the acquisition could generally be viewed in terms of horizontal integration.

Capital markets in Canada

by Gilles Gratton

Canadian corporations, whether foreign- or Canadian-controlled, can look to a sophisticated and diversified domestic capital market to raise funds for new investments or acquisitions. Over the years, the Canadian market has matured to the point of being one of the most efficient in the world, trailing only New York and London in prestige. This status is due to Canada's high rate of saving—exceeded only by Japan and West Germany—and the development of institutions and mechanisms which ensure an efficient allocation of savings through the capital market.

In 1978 net new financing by Canadian governments and business through securities markets in Canada and abroad reached a record figure of \$28.3 billion, which is over four times greater than it was only five years earlier. Although government issues predominate in the total of new borrowing, Canadian corporate issues amounted to over \$10 billion, \$9 billion of which were placed on the Canadian market. Corporate borrowers include a wide range of organizations from finance companies, real estate firms, service enterprises, exploration and development companies to large and small manufacturers. The size of new corporate issues reflects this variety, ranging from a low of \$1 million to a high of \$250 million.

For several years bond issues represented an increasing share of long-term corporate financing on capital markets, reaching 76 percent of the total in 1976. Although the value of new bond issues continued to rise in 1977, their share of the total began to decline as preferred share issues increased. In 1978 only 40 percent of new long-term financing by corporations on capital markets was in the form of bonds and in that year the value of new bond issues fell for the first time in five years, to \$4.2 billion.

The proportion of bond financing carried out on Canadian markets has fluctuated according to the availability and price advantage of foreign financing. While only a few large Canadian firms had access to the U.S. markets in the late 1960's and early 1970's, several Canadian firms issued bonds on the New York and European markets in 1975 and 1976. Removal of the Canadian withholding tax on interest payable to foreigners on new corporate loans with a term of five years or more made Canadian company securities more attractive for foreign investors after June 1975. Furthermore, the substantial difference in interest rates in 1976 between issues payable in Canadian dollars and eurodollars favored recourse to European markets. Increased borrowing in Europe substantially reduced the value of corporate bonds issued in Canada from \$2 billion in 1975 to \$1 billion in 1976, while

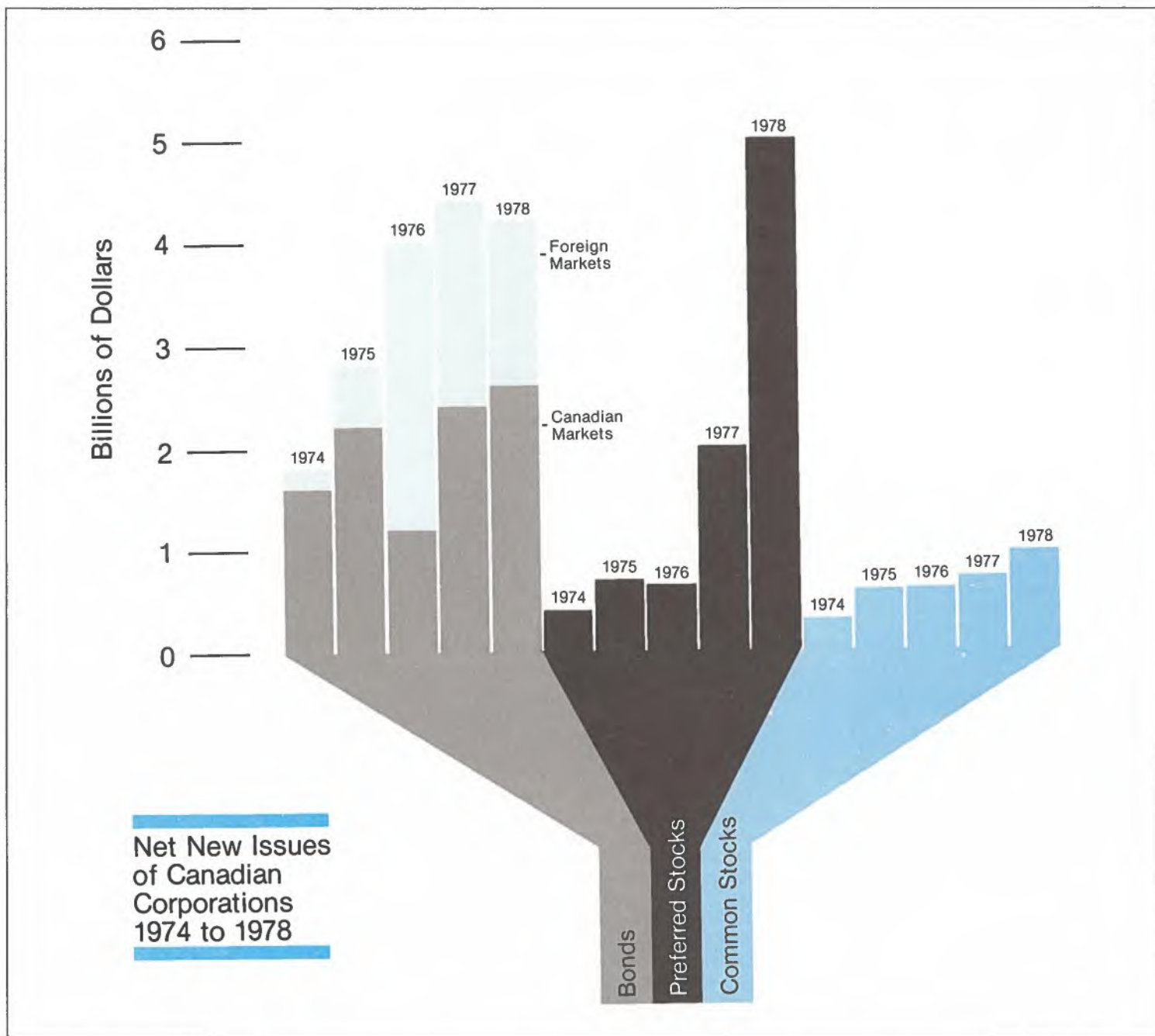
issues in foreign currencies rose from \$600 million to about \$2.9 billion. As the gap in interest rates narrowed in 1977 and the value of the Canadian dollar declined, foreign borrowing decreased and issues in Canadian dollars rose to \$2.4 billion. The following year the value of corporate issues on Canadian markets reached \$2.7 billion and those on foreign markets, \$1.5 billion.

Since 1970, common stocks have played a limited role in new financing. Apart from a small number of public utility and petroleum industry issues, few corporations have sought funds in the stock market. Business uncertainty, inflation, the increasing importance of institutional lenders and tax policies favoring debt holding are all factors that contributed to the decline in common equities. Nevertheless, the value of common shares issued in 1978 reached a postwar peak of nearly \$1 billion, an impressive 35-percent increase above the preceding year.

Since 1974, however, the market for preferred shares has surged largely as a result of innovative features which combined some of the successful elements of bond issues, such as term contracts and variable yields, with the more flexible tax treatment accorded to equity issues. The annual value of preferred stock issues rose from less than \$200 million at the beginning of this decade to more than \$5 billion in 1978. The ability to issue such securities made it possible for firms to overcome cyclical problems, expand their business, acquire other firms or reorganize their financing. Despite the introduction in 1979 of a different tax treatment that eliminates some of the advantages of preferreds, they remain very popular with financial institutions.

The long-term financing requirements of Canadian corporations have been high relative to the moderate growth in capital expenditure. This is due to the fact that a number of corporations took advantage of favorable conditions in 1977 and 1978 in medium- and long-term markets to improve their financial position by substituting longer-term debt for some short-term obligations and by accumulating

Gilles Gratton was until recently editor of L'investisseur étranger, which is the French counterpart of the Foreign Investment Review.



greater financial assets. Forecast improvements in capital expenditure for 1979, however, indicate that a larger part of new financing will be for new capital projects.

The secondary markets

In size, breadth and liquidity the Canadian secondary markets for equities rank behind only the United States and the United Kingdom. Trading in outstanding issues centers on Canada's five stock exchanges which are, in order of importance, Toronto, Montreal, Vancouver, Calgary and Winnipeg. Listing of the five exchanges totals more than 2,000 common and preferred issues and represents a total

value in excess of \$400 billion at current market prices. Both the trading and value have been heavy, some 2 billion shares being traded for a total value of \$12.7 billion in 1978 alone, which was a 62-percent increase over that of 1977.

The Toronto Stock Exchange dominates secondary equity markets, accounting for approximately 55 percent of the volume and 80 percent of the value of trading on all Canadian exchanges. The Toronto Stock Exchange's 300 composite index is widely used as the barometer of Canadian stock market performance. In the year ending in June 1979, the Canadian market outperformed all the world's major stock markets, according to a survey by *The Economist*. The stocks of 14 of the 20 largest foreign corporations in Canada (including U.S., British and European) are

listed on Canadian exchanges, and of the 1,250 companies listed on the Toronto Stock Exchange, approximately 150 are also listed on U.S. exchanges such as the New York Stock Exchange, the American Stock Exchange or the Pacific Stock Exchange.

The Canadian equity market differs from its U.S. counterpart in two important respects: in Canada there is relatively little over-the-counter trading in unlisted securities and Canadian stock exchanges maintain a schedule of fixed commissions, which is approved by provincial securities commissions and is generally uniform throughout the country.

Unlike the market for equities, the secondary market for bonds of Canadian governments and corporations is maintained by the securities dealers. The underwriters

of the issue (and for large corporate issuers or governments, several other dealers) usually transact trades on a continuous basis, whereas other securities firms will undertake occasional trades in bonds as dealers. This system may change however, as the Montreal and Toronto stock exchanges are considering the opening of bond markets.

Details of trading volume and price are not disclosed in dealer markets, but the securities firms keep customers informed about current bond prices. Another source of information is the financial press which publishes extensive lists of bond bid and ask prices provided by the Investment Dealers Association of Canada and the major bond dealers.

The buyers

Firms issuing securities find a satisfactory variety of private and institutional buyers in the Canadian capital market. During the current decade, the leading financial institutions – the banks, trust and insurance companies and pension funds – have attracted an increasing share of domestic savings. This has enabled them to meet the expanding financing requirements of governments and public agencies and still assume a progressively larger role as buyers of corporate securities. The role of individual investors, though still important, has been declining.

Pension funds are one of the principal buyers of long-term corporate securities. The assets of pension funds managed by trust companies total about \$30 billion. By the end of 1977, the value of Canadian corporate securities held by the pension funds amounted to over \$11 billion, comprising bonds (\$4.3 billion), shares (\$5.3 billion) and contributions to pooled or mutual funds (\$1.7 billion).

Though their share of business financing has decreased, life insurance companies are still among the leading buyers. At the end of 1977, they held over \$8 billion in company securities with \$6.6 billion in bonds and the rest in preferred or ordinary shares. Although mortgages still form the bulk of life insurance company assets, the proportion of these assets in corporate bonds and stocks has been growing.

Non-life insurance companies hold over \$2 billion in corporate bonds. Their market activity has also increased considerably, going from a mere 4 percent of corporate bonds in circulation in Canada in 1965 to their current 10-percent holding.

Banks have traditionally financed businesses by granting short- and medium-term loans. Recently, however, they have been engaging in long-term financing and, by the end of 1978, they held \$7.9 billion in Canadian business securities (bonds and shares). In 1977, they held only \$4.2 billion and in 1976, \$2.8 billion. This rapid growth is mainly due to the popularity of pre-

ferred and term shares and the fall in demand for short-term financing. Most of the additions to bank portfolios were negotiated directly with the banks as private placements. In 1978, Canadian banks provided 35 percent of the long-term financing for businesses in Canada compared to 12 percent in 1972.

The institutionalization of savings has encouraged the negotiation of private placements between businesses and financial institutions. In 1978, there were approximately the same number of private placements as there were public issues (55). Private placements offer the industrial entrepreneur greater flexibility in adjusting the financial instrument to his needs (for example, in terms of the due date) and are generally cheaper than public issues. The institutionalization of savings also brought about some innovations in the securities offered, such as the term preferreds mentioned above. These and other instruments, such as the sinking-fund or purchase-fund bonds and variable interest rate securities have generally been developed to meet the needs of institutional lenders.

Securities dealers: operations and regulations

Unlike the situation in some countries where banks play the leading role in securities trading, the role of the banks in Canada is overshadowed by the activities of the securities firms. This reflects the fact that chartered banks are prohibited from membership in stock exchanges. They are, however, active in the bond market and sometimes participate in primary equity offerings. Several large diversified securities firms are active in every phase of the market, acting as underwriters, dealers (principals) and brokers (agents) and serving retail and institutional customers nationally and internationally. Other firms specialize in specific market segments, such as the secondary equity market or the provincial or municipal bond markets. Still others serve particular types of clients, such as institutional investors, or operate in particular geographic regions. In all, there are over 100 dealers and brokers in Canada of which 81 are members of the Investment Dealers Association of Canada.

Corporations undertaking new security issues in the Canadian market normally use the services of an investment dealer to advise them on the type of security (debt, short- or long-term equity, common or preferred) and the specific attributes that will ensure buyer acceptance in prevailing market conditions. In the event of a public issue, the dealer will help the corporation to prepare a prospectus and other documents required by the provincial or stock exchange authorities. In their role as underwriters, securities firms will

negotiate a price for the securities with the issuing corporation and guarantee the proceeds. To market the issue, a "banking group" or syndicate of dealers may be organized by the underwriter, with each member of the group taking responsibility for a certain share of the issue. The difference between the price paid to the issuer and the price paid by the investing public represents the fee to the underwriter and banking group.

Since 1972, long-term corporate bonds in the Canadian market have been classified by Canadian firms through the use of a ratings system which is similar to those used by Moody's and Standard and Poor. Ratings vary between A**, usually given to very large domestic or multinational firms whose products or services are essential to the Canadian economy and who have shown their ability to face difficult economic and commercial situations, and D, which is given to firms whose issues are in default or who may be in the process of being liquidated.

Regulation of primary security offerings by corporations is a provincial responsibility and the conditions of an offering must comply with the terms of the various provincial securities and companies acts. To counteract the potential problems of having different provincial jurisdictions, provincial governments have been taking successful measures to bring about a considerable degree of uniformity in securities legislation and administration, and securities administrators in all provinces are seeking to introduce new legislation which will be compatible in all jurisdictions.

A number of requirements are imposed on issuers and underwriters when distributing new issues to the public. Such an offering normally requires the filing of a prospectus for approval by provincial securities commissions and its distribution to purchasers. Governments and chartered banks are, however, exempt from prospectus requirements as are private placements by other borrowers.

Although ultimate authority over securities firms rests with provincial securities commissions, the commissions recognize a self-regulatory role for the Investment Dealers Association of Canada, which directly regulates the activities of securities firms in underwriting and distributing primary offerings as well as dealing in the secondary bond market. Provincial legislation also gives self-regulatory authority to stock exchanges, who oversee the activities of market intermediaries (brokers) and listed corporations. Exchanges have established rules to ensure that the practices of member firms are seen to be fair and they oversee the financial position of securities firms. They also require listed corporations to publish specified financial information on a regular basis and to advise exchange officials and the public of unusual events which might influence the price of their shares.

Westinghouse Canada: beyond the branch plant

by Alan Darisse

Westinghouse Canada's role within the corporate family used to be to produce a full range of electrical products almost exclusively for the domestic market. In the early 1970's, however, the company concluded that changing domestic and international realities were detracting from the viability of that type of operation. Thus, the company began to pursue foreign markets more aggressively, to specialize in its most promising domestic businesses, and to develop opportunities for increased production in Canada through rationalization with company plants in the U.S. This signalled the end of the company's branch-plant era in Canada and the beginning of its current international activities.

The branch-plant era

Westinghouse first moved into Canada by establishing a manufacturing plant in Hamilton, Ontario in 1896, to produce air brakes for Canadian railroads. At that time, Westinghouse was also selling household appliances in Canada through a Canadian distributor. By 1903, Westinghouse had decided to expand its manufacturing facilities in Canada in order to produce a wide range of electrical products for the Canadian market. Thus, with the assistance of Canadian entrepreneurs, a Westinghouse affiliate was formed which was known until 1971 as Canadian Westinghouse Company Limited. This decision proved to be timely because it was in the early years of the 20th century that Canada, especially southern Ontario, experienced one of its greatest periods of industrial development, including light and heavy manufacturing and transportation. Most of this development was based on the expanding use of electric power.

From the factory to the marketplace, Canadian Westinghouse was run strictly on a Canadian basis. Operating behind a relatively high tariff wall, the company's role was to supply the Canadian market. The company flourished to the point of becoming Westinghouse's portfolio star, meaning that its profit performance was superior to that of any other Westinghouse subsidiary and even to that of its parent. In the first few decades of this century, it was a classic branch-plant success story. It was a broad-line company, producing almost every electrical product there was to produce in Canada and selling them primarily in this country.

In the 1950's, however, the company's management realized that the environment in which their branch plant had thrived was changing extensively. Among other things, the company found itself in a maturing industry which had a declining growth rate; the longstanding tariff protection was being progressively reduced; there were too many participants for the size of the market; and the company was becoming more and more vulnerable to

foreign competition. In light of these factors, management at Westinghouse Canada became increasingly concerned about the company's traditional reliance on the domestic market.

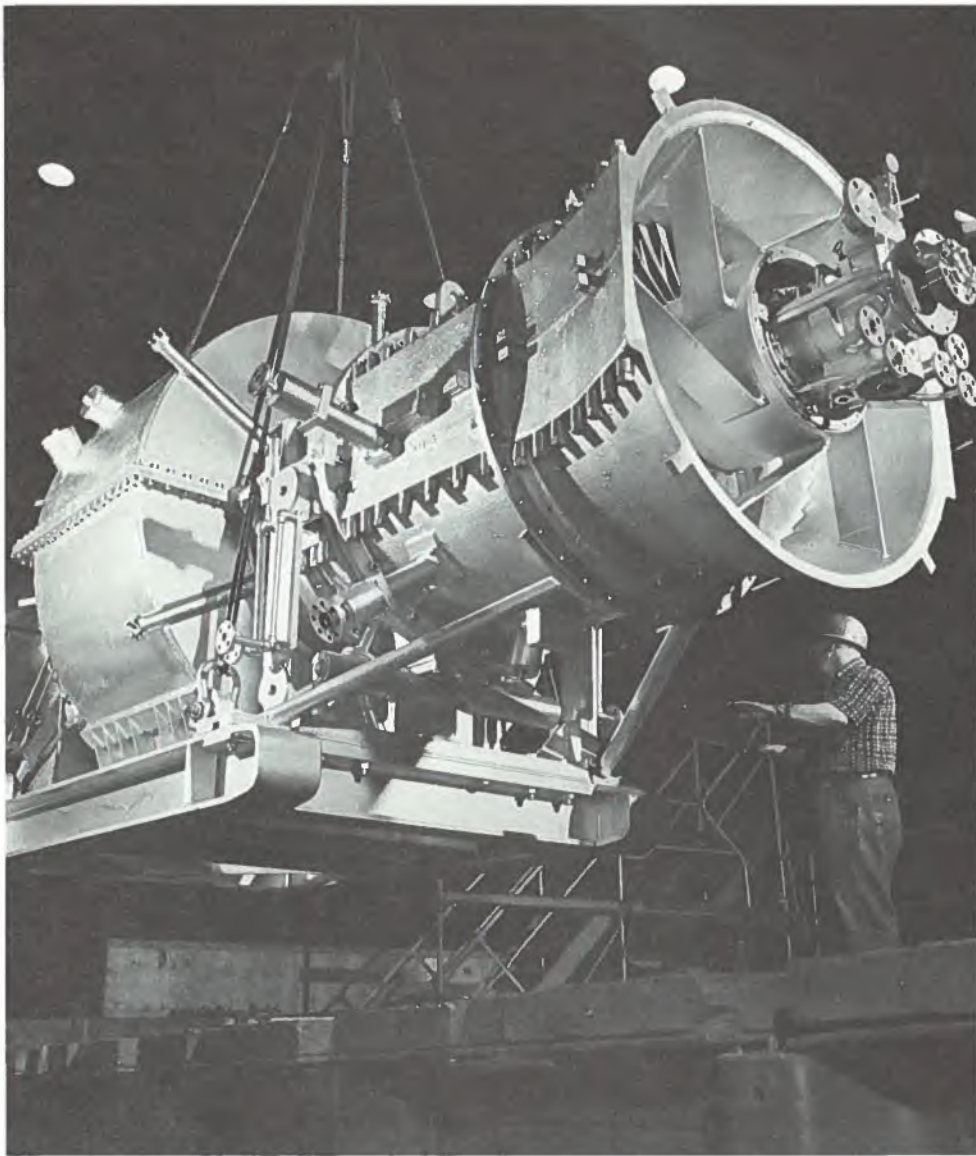
It was this concern that led to a complete reassessment of the company's activities and policies. Having analysed domestic and world market conditions, Westinghouse Canada concluded that it could no longer continue to be a broad-line company serving primarily the domestic market. To remain profitable, it would have to drop certain product lines. To grow, it would have to venture into the international market.

Westinghouse Canada: the international subsidiary

Cutting the unprofitable elements of a business is one thing, but identifying products and activities which offer the greatest potential is quite another. Westinghouse Canada could have narrowed its product range and continued to concentrate on the domestic market. But the company went further. While it did specialize in certain product lines and activities, the company decided that it was time to explore foreign markets as well as improve its competitiveness in the domestic market. The prime objective, therefore, was to broaden its market base.

The next step for Westinghouse was to rationalize production in some of its Canadian factories in a coordinated way with its U.S. factories in order to supply the North American market more efficiently. Another step was to change the company's attitude toward tariffs. Though they had contributed significantly to Westinghouse Canada's early development, they were no longer taken for granted. The company's planners decided to base their production and marketing strategy on the assumption that tariffs would be eliminated because, in so doing, they believed that the company would be better prepared and more competitive.

The most significant change in Westing-



Westinghouse Canada's worldwide charter includes products like this industrial gas turbine, slated for a desert irrigation project in Libya.

Photo: Westinghouse Canada

Westinghouse Canada's strategy, however, was to acquire world charter rights or world product mandates. This meant that Westinghouse Canada acquired total responsibility, within the corporate family, for certain product lines, including control over research and development, design, manufacture and marketing from a Canadian base. It has stated publicly that world product mandates are its top priority in the allocation of investment funds. World product mandates offer several significant benefits to Canada. They almost invariably involve the type of product that is technology-intensive. They create jobs requiring not only factory know-how, but also managerial, professional and technical skills. World product mandates also result in more research and development activities being carried out in Canada. For example,

Westinghouse Canada spends from 6 to 10 percent of its sales of world mandate products on research and development, a rate which is considerably higher than the average for the industry as a whole.

Westinghouse Canada is now responsible for a wide range of such products, which it is successfully marketing all over the world. The company has sold its gas turbine products to 14 different countries in South America and the Middle East. One order from Libya was a turnkey operation involving the supply and installation of a power station, sub-stations and a transmission system for a large desert irrigation project. The company has also sold industrial steam turbines to some 30 countries. Westinghouse Canada's Model CW-352, a new high-efficiency gas turbine for mechanical-drive functions for pipelines and other services, has been success-

fully marketed in the United States and is world competitive.

The Electronics division of Westinghouse Canada also has world product mandates for several products which have been successfully marketed abroad. These include shipboard sonar, optical control line tracing equipment, and a range of video display terminals and data communication equipment now in use throughout the world. Other products for which the company has world charter responsibility include airport lighting systems, solid state excitation systems for controlling large generators, core form power transformers, and nuclear fuel for CANDU reactors.

These examples show that a substantial part of the Canadian operation is no longer in the branch-plant category. The company now serves the North American and other foreign markets with a range of products which have been designed, developed and manufactured in Canada. In fact, nearly 40 percent of the company's employees in the Hamilton and Burlington, Ontario area are employed in world mandate activities.

Exports currently represent about 17 percent of the company's sales and are accounted for almost entirely by world charter and rationalized production activity. It is expected that much of the company's future growth will come from the successful implementation of these export oriented strategies. Westinghouse Canada's vocation used to be to supply just what Canada needed; it has now been broadened to help supply what the world needs.

Westinghouse Canada received strong encouragement from its parent company when it proposed this restructuring of its product portfolio. It was perceived by the parent company that these changes would strengthen the Canadian subsidiary by improving its return on investment which had dropped below the average of the whole company.

Another reason for supporting the initiative of the Canadian subsidiary was that Westinghouse was seriously questioning whether its traditional branch-plant strategy was the best way of adapting to the increasing internationalization of business. The traditional strategy was to have only one home base for exports, research and development and decision-making. Given the rapid changes occurring in the international business community, Westinghouse concluded that its former branch-plant concept was no longer an appropriate strategy for its international operations.

The company, therefore, has been very supportive of the initiative taken by its Canadian subsidiary in adapting to changing domestic market conditions and accepting the challenge of competing in foreign markets. As a result, Westinghouse Canada has made good progress in breaking out of its now outmoded branch-plant role.

Investment opportunities in energy conservation

by Edward R. Lauer

Canada is a growing market for technology designed to improve energy utilization and conservation. Faced with an increasing energy bill, Canadian industry is seeking ways of becoming more energy-efficient. Both the federal and provincial governments have established information and incentive programs to reinforce efforts by private industry. Over the next several years there will be a growing need for expertise and technology which can improve the energy efficiency of everything from manufacturing processes to household appliances.

Although Canadian industry has traditionally enjoyed an abundant supply of relatively low-cost energy, it has always been an important cost factor for certain energy-intensive primary industries. However, the unprecedented oil-price increases of the 1970's have now made energy costs a significant factor across virtually the entire industrial spectrum. In some cases energy has come to represent up to 25 percent of total manufacturing costs. By 1974, government and business leaders realized that steps would have to be taken to improve energy utilization and conservation throughout all sectors of Canadian industry if they were to remain internationally competitive.

Government initiatives

Jurisdiction over energy in Canada is shared by the federal and provincial governments. While each level of government has acted on its own to promote better energy conservation and management, they also work together in a number of joint programs, a significant example being the *Energy Bus*, a mobile energy audit system which provides a free computerized analysis of existing plant energy utilization and potential savings. Provincial governments have also developed policies to complement, extend or expand those of the federal government.

The Government of Canada has mounted a major energy conservation initiative which includes policies and programs affecting energy use by all Canadians. In 1974, it established the Office of Energy Conservation to coordinate and spearhead activities in this area. The government has published over nine million consumer education booklets covering major topics such as insulation, vehicle operation and maintenance, recycling, and furnace servicing. Minimum mileage standards for new automobiles have been raised. Fiscal incentives have been pro-

vided to increase investment in more efficient electric power generation and waste heat reclamation equipment and to encourage use of insulation, solar equipment and heat pumps. In 1978, the government announced a \$380-million program of research and development directed towards solar energy development and towards recovery of energy from forest and urban wastes. On the policy side, in 1976 the Government announced a new energy strategy which dealt, among other things, with oil pricing and reduction in the rate of increase of energy consumption. The strategy called for gradual increases in domestic oil prices toward international levels and for an adjustment of domestic natural gas prices "to an appropriate competitive relationship with oil." The strategy also set 3.5 percent as the target annual rate of increase in total primary energy consumption, a figure significantly lower than the 1962-72 average of 6.3 percent. A subsequent government study proposed that an even lower 2-percent growth rate could readily be achieved. The strategy left no doubt that domestic oil and gas prices would have to rise in line with international trends and that the Government was giving top priority to energy conservation.

Business initiatives

In most energy-intensive sectors - pulp and paper, steel, chemicals, cement, non-ferrous metal smelting and refining - companies have been studying energy conservation and taking concrete action for some time. In the less energy-intensive general manufacturing industries, however, thousands of firms have only recently begun to look seriously at this matter. Though some still question the cost effectiveness of measures to improve their energy efficiency, most realize that the era of cheap energy is over and that they must now consider energy costs in

Edward Lauer is an Assessment Officer in the Foreign Investment Review Agency's Resource Industries Division. Prior to joining the Agency, he was actively engaged in the Canadian Government's industrial energy conservation programs, initially with the Department of Industry, Trade and Commerce and later with the Office of Energy Conservation in the Department of Energy, Mines and Resources.



Canada's Energy Bus is a shining example of how business and government can cooperate to make energy consumption more efficient.

Photo: Energy, Mines and Resources

much the same way as their offshore competitors traditionally have. Examples of significant accomplishments in both high and low intensity industries are provided below.

At its integrated chlor-alkali/petrochemical plant in Sarnia (Ontario), Dow Chemical of Canada, Limited installed a system to generate both electrical power and process steam which it calls the *Total Energy Concept*. Exhaust heat from a 117 MW gas turbine generator is recovered to produce steam used in a 55 MW generating unit, the exhaust from which becomes process steam. Dow achieves an overall cycle efficiency of 83 percent compared to the average of 38 percent in the conventional Canadian thermal power generating plant. Another example is the work done at 3M Canada Ltd.'s 57,000 square metre manufacturing facility in London (Ontario). Since 1973, the company has succeeded in reducing energy consumption per unit of production by 30 percent by means of conservation measures such as reduced temperatures and modified lighting systems for storage areas, extensive use of

timers for air exhaust systems, and recovery of waste heat from steam condensate and compressors.

There have also been industry-wide activities in energy conservation and management. In 1975, responding to the Canadian Government's call for voluntary industry sector task forces to direct the conservation effort, the Canadian Chemical Producers' Association, the Canadian Fertilizer Institute and the Rubber Association of Canada were the first to organize a new task force, and secured participation by 74 out of a possible 77 companies. Using an energy monitoring and reporting system developed in the U.S., the task force established a target of reducing unit energy consumption by 17 percent. Two months later, the task force sponsored the first of its industry energy conservation seminars. The seminars were eventually opened to all industrial firms, including those outside the chemicals sector. Other industry task forces, such as those covering textiles and transportation equipment, soon followed the chemical industry's lead with seminars structured to the

particular needs of their member firms. All these activities are an indication that a wide cross-section of Canadian industry is developing the expertise and technology necessary to improve energy efficiency.

Investment opportunities

From simple household appliance timers to sophisticated computers and monitoring systems for large office buildings, the demand for equipment to control or recover energy is rising sharply. Of particular importance for Canada's winter climate is equipment which can recover heat otherwise discharged outdoors and devices to control electrical power demand during peak winter periods.

Virtually all high energy-consuming end products are becoming candidates for redesign either through imposed standards, such as those dealing with gasoline mileage of automobiles, or through voluntary conservation measures such as energy labelling for major household appliances. More energy-efficient street lighting systems, improved residential furnace de-

signs, and adaptation of heat pumps for Canadian climatic conditions are other product development examples. As consumers and corporations begin to understand the potential cost savings to be realized from energy-efficient equipment and begin to revise traditional first-cost versus lifetime-cost concepts, purchase habits will change dramatically, creating a wide spectrum of opportunities for product innovation.

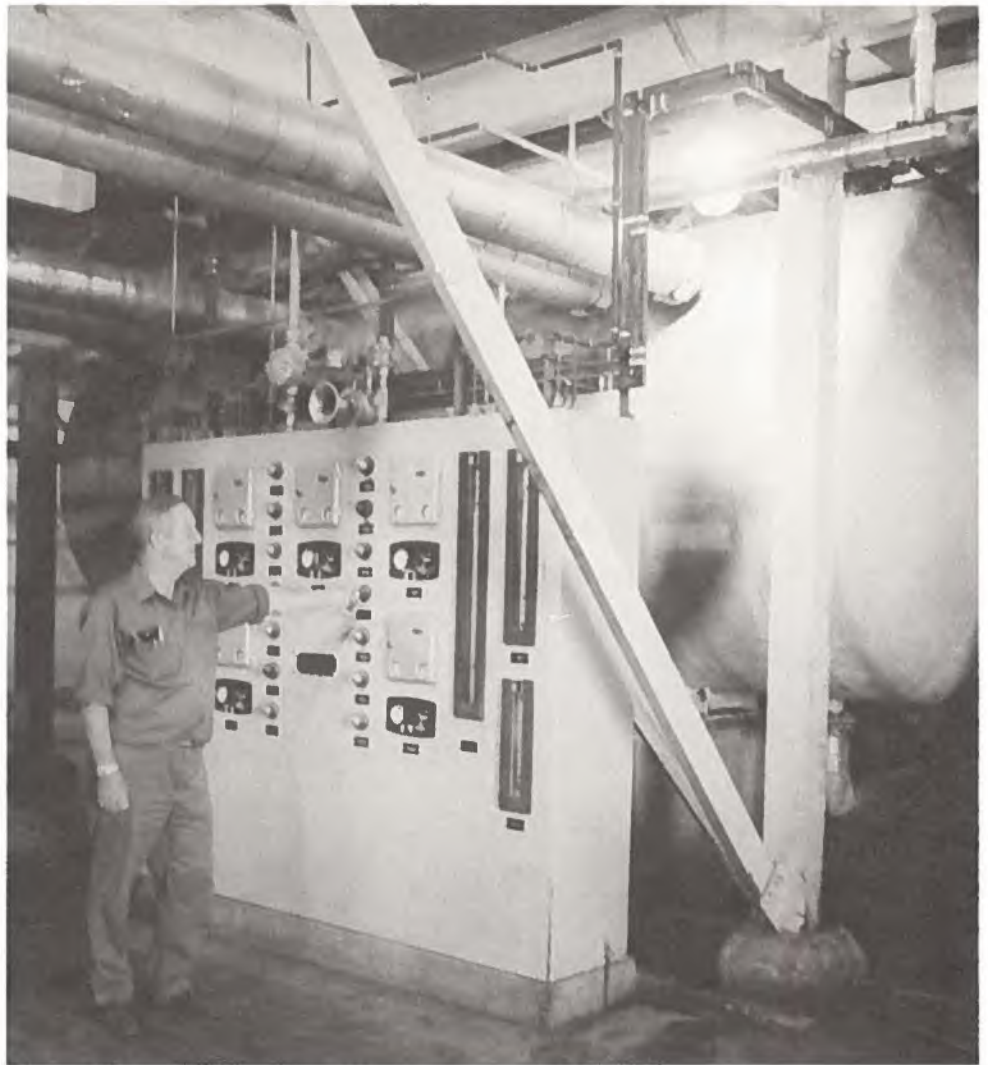
Inevitably, awareness of a savings opportunity creates a demand for those who are able to supply specialized services or know-how. Consultants, experienced in comprehensive energy management programs, are sought by firms wanting to correct energy inefficiencies and develop specific process modifications.

A number of investors have already begun to take advantage of some of the opportunities opening up in the energy-conservation field. In the 1978-79 fiscal year alone at least five new-business FIRA cases were related directly to energy conservation. One new business, ADT Energy Systems Ltd., was planning to provide energy consumption and monitoring services. Three new businesses, Jesse Equipment Ltd., Panelera Corp. (Canada) Ltd. and Pacific Enercom Inc., were planning to manufacture and market insulation. Another new firm, Standard Industries Ltd., proposed to manufacture rock wool fibre for use in insulation. Early in the 1979-80 fiscal year, the new-business proposal of Anga & Varne (Canada) Ltd., which planned to become involved initially in subcontracting and later in the manufacture of equipment for energy-recovery systems, was allowed.

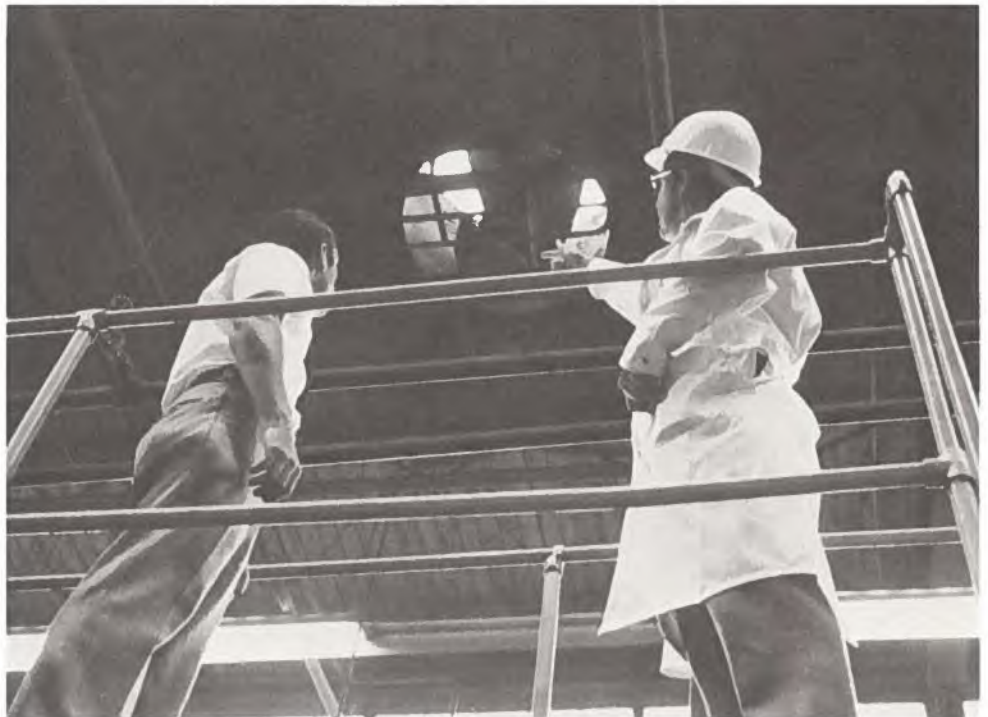
As Canada evolves from an era of unrestrained use of inexpensive energy to one of conservation, opportunities for innovation and investment will grow in all sectors of business and industry. Canada could benefit from the know-how of foreign industry which has historically faced higher energy costs and which has developed the expertise and technology necessary to cope with them. Foreign investment proposals that can assist Canada to achieve its energy conservation goals are likely, therefore, to rate highly in FIRA's assessment of "significant benefit to Canada".

An increasing number of firms are studying ways of improving waste-heat recovery in their plants.

Photo: Energy, Mines and Resources



Heating systems are high on the list of energy conservation targets.



Capital investment projects in Canada

Electric power, oil and gas, and mining

This list shows major capital spending projects now in progress or firmly committed in the electric power, oil and gas, and mining sectors. Only projects costing over \$10 million are included. Other sectors will be covered in subsequent issues of the Foreign Investment Review. Information has been obtained mainly from press reports verified, where necessary, by the companies concerned.

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

There are a number of extremely large electric power projects, some in almost every province. The James Bay hydroelectric project, which will include 4 generating stations and 44 generating units by 1985, will have an installed capacity of 10,420 MW and a production capacity of 67.8 billion kWh a year. Manitoba Hydro plans to triple the province's hydroelectric power capacity over a 10-year period. Thermal power plants are planned in Alberta and British Columbia, and nuclear generating plants are being constructed in Ontario and New Brunswick. Feasibility studies are being carried out on the further hydroelectric power development of the Churchill River in Newfoundland and a pre-investment study is underway on the possibility of harnessing tidal power in Nova Scotia's Bay of Fundy.

Activity in the oil and gas sector has never been more intense with exploratory and development completions up 8 percent in the first quarter of 1979 over the corresponding period of 1978, which itself was a record period. The average count of rigs drilling in the first quarter of 1979 rose to 380 from 295 in 1978, with Alberta, British Columbia and, to a lesser extent, Saskatchewan accounting for most of the increase. Completions were up in Saskatchewan and British Columbia, but were slightly lower in Alberta. Activity in 1979 will be at least as great as in 1978.

Mining activity will increase substantially in 1979 principally as a result of the rise in metal prices, the introduction of fiscal incentives and the reduction of taxation. These and other elements have fortified confidence in Canada's mining future and will be translated into increased expenditures over the next few years. Development of the Highmont copper-molybdenum ore deposits in British Columbia is just one of several major mining projects. In addition, large capital expenditures are being made for uranium exploration and development in northern Saskatchewan.

Company and project description		Completion date	Cost (\$ million)	Location
British Columbia				
Electric power				
New power plants				
B.C. Hydro and Power Authority	hydro	1984	1,200	Revelstoke
	hydro	1980	271	Pend d'Oreille River
	hydro	1980	410	Peace River
Weldwood of Canada Ltd. and Luscar Ltd.	thermal	n.a.	508	Hat Creek
	thermal	n.a.	50	Campbell River
Oil and gas				
Westcoast Transmission Co. Ltd.	pipeline	1979	28.5	Fort St. John
	pipeline	1980	150	Fort St. John
	pipeline	1980	80.5	Chetwynd to Huntingdon
	gas processing	1979	75	Pine River
Mining				
Teck Corp.				
Copper-molybdenum mine		1981	150	Highland Valley
Carolin Mines Ltd.				
Gold mine		1980	19.3	Near Hope
Equity Mining Corp.				
Silver-copper mine		1980	85	South of Houston
Noranda Mines Ltd.				
Copper mine		1979	19	Granisle
Climax Molybdenum Corp.				
Increased mill capacity		1981	143	Alice Arm
Cominco Ltd.				
Expansion and modernization program		1985	425	Trail and Kimberley
Newmont Mines Ltd.				
Similkameen Division				
Copper mine expansion		1981	23.4	Near Princeton

Alberta				
Electric power				
New power plants				
Calgary Power Ltd.	thermal	1983	500	Keephills
	thermal (last unit)	1980	100	Sundance
Alberta Power Ltd.	thermal	1985	750	Sheerness
	thermal	1981	242	Battle River
Edmonton Power	proposed thermal	1986	500	Genesee
Oil and gas				
Esso Resources Canada Ltd.				
Oil sands plant		1985	5,000	Cold Lake area
Alsands Project Group				
Oil sands plant		1986	5,000	Fort McMurray
Great Canadian Oil Sands Ltd.				
Oil sands plant expansion		1981	185	Fort McMurray
Turbo Resources Ltd.				
Oil refinery		1980	50	Near Edmonton
Alberta Energy Co. Ltd.				
Synthetic natural gas plant		1980	162	Fort Saskatchewan
Mining				
Forestburg Collieries Ltd.				
Surface coal mine		1982	110	Near Sheerness

Saskatchewan

Oil and gas				
Husky Oil Operations Ltd.				
Petro Canada and Saskatchewan Oil and Gas Corp.				
Heavy oil exploration		1986	100	Lloydminster area
Husky Oil Ltd.				
Upgrading plant		1985	700	Lloydminster area
Mining				
Amok Ltd.				
Uranium mine and mill		1981	168	Cluff Lake
Saskatchewan Mining Development Co., Uranerz Canada Ltd. and Eldorado Nuclear Ltd.				
Uranium mine		1981	100	Key Lake
Eldorado Nuclear Ltd.				
Additions and alterations to nuclear refinery		1980	45	Uranium City

Manitoba

Electric power				
New power plants				
Manitoba Hydro	hydro	1979	600	Long Spruce, Nelson River
	hydro	1979	178	Jenpeg, Nelson River
	hydro	1987	1,100	Limestone, Nelson River

Ontario

Electric power

New power plants

Ontario Hydro

nuclear	1985-88	5,000	Darlington, Lake Ontario
nuclear	1983-86	2,800	Bruce B, Lake Huron
thermal	1983-84	535	Atikokan
nuclear	1981-83	2,500	Pickering, Lake Ontario
thermal	1980-81	322	Thunder Bay
thermal	1980-	28	Windsor

Great Lakes Power Co. Ltd.

hydro	1982	95	St. Mary's River
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Mining

Campbell Red Lake Mines Ltd.

Expansion, gold mine and mill

1982	10.4	Kenora
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Rio Algom Ltd.

Expansion, uranium mine

n.a.	100	Elliot Lake
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Eldorado Nuclear Ltd.

New uranium refinery

1982	100	Near Port Hope
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Québec

Electric power

New power plants

Société d'énergie de la Baie James

hydro	1979-85	16,000	James Bay area
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Hydro Québec

hydro	1985	750	Manic River
hydro	n.a.	1,000	Ste Anne River

Oil and gas

Trans Canada Pipelines Ltd.

Gas pipeline

n.a.	88	Montréal to Trois-Rivières
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Imperial Oil Ltd.

Refinery alterations

1980	92	Montréal
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Golden Eagle Canada Ltd.

Refinery upgrading

1980	60	St. Romuald
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Mining

Alcan Aluminum Ltd.

New aluminum smelter

1981	200	La Baie
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Bell Asbestos Mines Ltd.

Expansion

1982	14	Thetford Mines
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Dumagami Mines Ltd.

Molybdenum mine

1980	11	Cadillac
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Atlantic Region

Electric power

New power plants

Newfoundland and Labrador Hydro
Commission

thermal	1980	72	Holyrood, Nfld.
hydro	1981	80	Hinds Lake, Nfld.
hydro	1982	155	Upper Salmon River, Nfld.

Lower Churchill Development Corp.

hydro	n.a.	2,500	Gull Island, Nfld.
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Nova Scotia Power Corporation

thermal	1979-80	200	Lingan, N.S.
hydro	n.a.	8,000	Bay of Fundy, N.S.

New Brunswick Electric Power Commission

nuclear	1980	895	Point Lepreau, N.B.
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Oil and gas

Esso Resources Ltd.

Exploratory drilling

1980	60	East Coast
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Texaco Canada Inc.

Exploratory drilling

1980	25	East Coast
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Mobil Oil Canada Ltd.

Exploratory drilling

1980	14	Sable Island, N.S.
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Mining

Denison Mines Ltd.

Potash mine

1985-86	150	Sussex, N.B.
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Brunswick Tin Mines Ltd.

Tungsten-molybdenum mine

1980	35	Mount Pleasant, N.B.
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Brunswick Mining and Smelting Corp. Ltd.

Zinc-lead mine

1980	53	Belledune Point, N.B.
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Provincial incentives

In an effort to attract new investment and industry, Canada's provincial governments have developed a range of programs designed to provide professional, technical and financial services to both foreign and Canadian firms. These incentive programs vary from province to province according to their economic vocation, industrial structure and priorities. In addition to providing technical assistance, such as the information and advisory services offered usually by their departments of industry and commerce, several provinces have created economic development corporations which offer financial assistance in the form of subsidies, loan guarantees and participation in share capital. Other provincial corporations work with industry to take advantage of certain market opportunities. All these provincial incentives should be viewed together with the federal government's programs and services. The latter were described in the last issue of the Review (volume 2, number 2). For further information on federal programs, readers should consult ABC, Assistance to Business in Canada, which is a handbook published by the Board of Economic Development Ministers (Catalogue no. ID31-61/1979). In it the reader will find a useful description of the financial assistance, tax incentives and range of services offered by the Government of Canada to business.

Newfoundland

"Energy" could become a key word in Newfoundland's future economic vocabulary. The province has already harnessed enormous reserves of hydroelectric power. In addition, several years of intensive offshore oil exploration have produced some very promising results. Currently, however, the cornerstones of the province's economy are fishing, pulp and paper and mining, particularly iron ore. Uranium and gold have also been found. Newfoundland has a limited manufacturing sector in electronics and food and beverages. The province's scenic beauty and unique folklore have made it the site for the development of a significant tourist industry.

Newfoundland and Labrador Development Corporation Limited

The Corporation assists small- and medium-sized business enterprises in the primary and manufacturing sectors to carry out capital projects not exceeding \$2.5 million by lending up to 80 percent of the total capital costs for up to 15 years at the prevailing interest rate. The Corporation can provide up to 49 percent

of equity requirements with holdings to be in the form of preference shares. **Contact:** Newfoundland and Labrador Development Corporation, P.O. Box 1738, 44 Torbay Road, St. John's, Newfoundland, Canada A1C 5P5

Department of Industrial Development

The Department has a marketing and product development program for small- and medium-sized companies in which it provides up to 50 percent of a project's total cost, which cannot exceed \$50,000. For small amounts up to 75 percent of the project cost may be provided. **Contact:** Department of Industrial Development, Confederation Building, St. John's, Newfoundland, Canada A1C 5T7

Department of Rural Development

The Department offers rural development authority loans to encourage the development of small resource-based industries. It provides interest-free loans of up to \$20,000 for the purchase of land or buildings, or the construction or renovation of buildings, and the purchase of

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lly and internationally. It
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velop import replacement
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Canada's West, Manitoba
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four years, the major thrust
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ssing on five specific indus-
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care products, light machin-
ortation. In addition to the
assistance provided to busi-
rprise Manitoba, the Depart-
strong service support
ol of experienced industrial

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es Program provides interest-
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related maintenance or
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is of 50 percent of eligible
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gible capital costs up to
eligible, businesses must
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palities.

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two Enterprise Development
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sses that are new or that are
new product or are em-

barked on a marked departure from pre-
vious operations. Self-contained modules
of factory space, ranging in size from
1,350 m² to 3,600 m², will be offered to
businesses on a cost-shared basis. Also
offered through the Enterprise Develop-
ment Centres, specifically for small manu-
facturing firms, are technical and business
consulting services for the purpose of im-
proving products, sales and profitability,
upgrading management skills, and starting
or expanding businesses. Expertise will
be available generally through staff resources
at the Centres, but provision has been
made for cost-sharing of up to 50 percent
of the cost of hiring private consultants
when highly specialized expertise is
required.

The Department also has a Human Re-
sources Management program which
offers educational programs and courses
to Manitoba businesses to assist them in
upgrading their management skills, speci-
fically as they relate to human resources.
Contact: *Department of Economic
Development, 155 Carlton Street,
Winnipeg, Manitoba, Canada R3C 3H8*

Market Development Group

The Market Development Group coordi-
nates export sales and administers a pro-
motional assistance program which pro-
vides cost-shared financing for participa-
tion in trade fairs and missions, assistance
related to incoming buyers and general
promotional activities.

The Manitoba Trading Corporation, an
arm of the Market Development Group,
provides export financing by extending
credit to agents, distributors and organiza-
tions. The Corporation may act as an
export merchant by taking title to presold
export orders, or may act as an agent.

Contact: *Market Development, Department
of Economic Development, 7th Floor,
155 Carlton Street, Winnipeg, Manitoba,
Canada R3C 3H8*

Manitoba Design Institute

The Institute provides consulting and
advisory services for market research, de-
sign and redesign of products, graphic
materials and packages. Assistance fund-
ing is also made available. **Contact:**
*Manitoba Design Institute, 155 Carlton
Street, Winnipeg, Manitoba Canada
R3C 3H8*

Manitoba Research Council

The Council provides technical assist-
ance by industrially experienced scientists

and engineers in the general area of prod-
uct and processes development, raw
material selection and testing, product
testing, quality control, product costing
and so on. **Contact:** *Manitoba Research
Council, 510-155 Carlton Street, Winnipeg,
Manitoba, Canada R3C 3H8*

Saskatchewan

Saskatchewan is Canada's most impor-
tant agricultural province and, given the
importance of this industry to the prov-
ince's economy, it is not surprising that a
number of agricultural equipment manu-
facturers have established themselves
there. In addition, Saskatchewan is the
home of the Canadian West's largest steel
industry and its production of iron and
steel products has been steadily growing.
The province has a special interest in
industries related to food processing, elec-
tronics, plastics, pharmaceuticals and
those supplying its growth resource sector,
particularly petroleum, uranium and
potash.

Department of Industry and Commerce

The department of Industry and Com-
merce offers a multitude of development
programs to assist manufacturers and pro-
cessors located in the province. These
include: the Aid to Trade Program for
manufacturers who wish to extend their
market areas through promotion; the Prod-
uct 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 Pro-
gram and the Small Industry Development
Program. These programs provide assist-
ance up to 50 percent of approved costs,
except for the latter which provide for-
givable loans, according to region and
population, and abatement grants.

Contact: *Saskatchewan Department of
Industry and Commerce, Power Building,
7th floor, Regina, Saskatchewan S4P 3V7*

Saskatchewan Economic Development Corporation (SEDCO)

Provides mortgages up to 20 years, loan
guarantees, venture capital and industrial

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land for lease or sale. **Contact:** Saskatchewan Economic Development Corporation, 1106 Winnipeg Street, Regina, Saskatchewan, Canada S4R 6N9

Alberta

With its abundant petroleum, natural gas and coal resources, Alberta is Canada's most important energy-producing province. In addition to intense exploration and development activities in Alberta's conventional and non-conventional energy resources, the manufacturing and service sectors have grown extensively. Alberta is also an important agricultural producer, particularly in grains and livestock. The volume of government revenues from petroleum production royalties and exploration and development permits has made it possible for Alberta to have the lowest personal and corporate income tax rates in Canada.

Department of Economic Development

The Department offers a variety of services relevant to industry. Its Strategic Planning Services are responsible for coordinating economic activity related to a number of government departments. Its Industry Development Branch has as its goal to improve the performance of Alberta's manufacturing and processing industries by means of sector development programs, business expansion assistance and new-business establishment programs. The Department offers marketing services, seeking to match product and manufacturing capacities with domestic and foreign market opportunities as well as assisting business on marketing problems. The Department also offers trade-development services by assisting the industrial and consulting sectors to expand export sales through trade shows, exhibits, missions, joint ventures and licensing opportunities.

Contact: Department of Economic Development, Government of Alberta, Industry Development Branch, 14th Floor, Capitol Square, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 0H4

Alberta Opportunity Company

The company provides funds for growth, expansion and diversification of industry when other forms of conventional

financing are not readily available. This includes direct loans at market rates for up to 15 years and loan guarantees. Emphasis is placed on small business in smaller communities. **Contact:** Alberta Opportunity Company, P.O. Box 1860, Ponoka, Alberta, Canada T0C 2H0

Department of Tourism and Small Business

The Department has programs for the development of Alberta as a year-round destination for tourists by offering marketing and development services to the tourist industry and small business throughout Alberta. **Contact:** Department of Tourism and Small Business, Government of Alberta, 1021 Legislative Building, Edmonton, Alberta, Canada T5K 2B6

British Columbia

Canada's Pacific province, British Columbia has an extensive export-oriented resource-based economy in which forestry, mining, fishing and agriculture predominate. British Columbia's geographical position has made it a natural site for the development of important export industries with direct access to Pacific Rim and other world markets. In fact, the province's largest city, Vancouver, is Canada's gateway for trade with Japan, China and other Asian countries, the Western United States, Latin America and Europe. British Columbia's principal manufacturing firms are closely tied to the province's natural resources, essentially forest products, pulp and paper, mineral commodities and hydrocarbons. Several of the province's industries have recently experienced substantial growth with pulp and paper, lumber and plywood production and fish products heading the list.

Ministry of Economic Development

The Ministry offers a variety of programs designed to stimulate industrial and export development, especially in secondary manufacturing. Its export services include programs related to trade missions, market development, incoming buyers and trade shows. The Ministry's technical services assist companies to expand their facilities, diversify their product lines or establish new businesses by means of financial

support for hiring outside professionals to help develop corporate plans and operations.

The Ministry also coordinates and manages a number of federal-provincial programs designed to encourage the economic and industrial development of the province. One such program is a \$70-million agreement to provide assistance for research, regional economic development commissions, small business and community industrial development (industrial parks, sites, malls and advance factory space). A \$60-million agriculture and rural development program provides assistance for research, planning, training, market promotion, coordinated resource management, primary resource development, support services and community development. A third program, the result of a \$50-million agreement, provides assistance to the province's tourist industry. All these programs have geographical target areas which generally exclude the areas in and around Vancouver and Victoria. **Contact:** Director, Business Development, Ministry of Economic Development, Robson Square, 800 Hornby Street, Vancouver, British Columbia, Canada V6Z 2C5; or, Assistant Deputy Minister, Program Implementation and Coordination Branch, Ministry of Economic Development, Parliament Buildings, Victoria, British Columbia, Canada V8V 4R9

British Columbia Development Corporation (BCDC)

The BCDC provides financing in the form of term loans, loan guarantees, performance bonds, indemnities to chartered banks and leasing of buildings. 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. As well as its own corporate lending activity, the BCDC administers the province's Low Interest Loan Assistance Program by virtue of which loans can be made to manufacturing or processing businesses that wish to modernize, expand or establish in the less developed areas of the province. Finally, the 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. The BCDC acts as project manager of large capital projects in British Columbia. **Contact:** British Columbia Development Corporation, 272 Granville Street, Vancouver, British Columbia, Canada V6C 1S4

Statistical Tables

REVIEWABLE ACQUISITION CASES*

	Table 1 — Outcome or status				First six months	
	1975	1976	1977	1978	1978	1979
Reviewable new cases	166	171	261	360	176	195
Carryover from previous period	52	54	65	73	73	106
Total of above	218	225	326	433	249	301
Total resolved	164	160	253	327	176	172
Allowed	116	124	231	282	153	152
Disallowed	21	19	12	28	11	5
Withdrawn	27	17	10	17	12	15
Carried over to next period	54	65	73	106	73	129
Allowed cases as percent of resolved (%)	71	78	91	86	87	88
Value of assets, all cases (\$000,000)	1,070	1,069	1,145	4,491	1,602	2,138

	Table 2 — Country of control				First six months	
	1975	1976	1977	1978	1978	1979
Total	166	171	261	360	176	195
United States	116	109	171	243	127	139
United Kingdom	15	23	40	47	21	25
Other Europe	27	34	41	52	21	25
Austria	-	-	-	-	-	1
Belgium	2	1	2	1	-	2
Denmark	-	-	2	1	1	-
France	6	6	6	5	3	6
Germany, West	2	10	15	17	-	1
Greece	-	-	-	-	-	-
Italy	2	1	3	1	-	-
Liechtenstein	2	-	-	1	-	-
Luxembourg	-	3	-	1	-	-
Netherlands	5	-	4	8	3	-
Norway	1	-	-	1	7	9
Sweden	2	9	2	7	5	4
Switzerland	5	4	7	9	2	2
All other	8	5	9	18	7	6
Australia	1	-	1	-	-	-
Bermuda	2	1	-	-	-	1
Japan	2	3	3	7	2	1
Others	3	1	5	11	5	4
Allowed cases as percent of resolved	%	%	%	%	%	%
United States	77	73	91	87	89	89
United Kingdom	79	82	95	78	80	90
Other Europe	50	86	90	89	86	83
All other	30	100	80	80	60	89

	Table 3 — Industrial sector				First six months	
	1975	1976	1977	1978	1978	1979
Total	166	171	261	360	176	195
Primary	18	15	20	30	15	18
Agriculture, fishing and trapping	1	2	4	5	5	1
Forestry	1	-	1	1	1	-
Mines, quarries, oil wells	16	13	15	24	9	17
Manufacturing	82	93	108	161	86	88
Food, beverage and tobacco	11	9	15	15	4	7
Rubber, plastic and leather	3	4	6	12	7	1
Textiles, knitting and clothing	3	3	5	4	2	7
Wood, furniture and paper	10	7	12	14	10	4
Printing, publishing, and allied	3	1	2	4	3	2
Primary metal and metal fabrication	9	19	12	20	11	14
Machinery and transport equipment	17	7	14	27	17	27
Electrical products	9	11	12	16	5	12
Non metallic mineral products	3	9	5	8	6	3
Petroleum and coal products	-	2	1	1	-	-
Chemical	11	15	10	22	10	9
Miscellaneous	3	6	14	18	11	2
Construction and services	66	63	133	169	75	89
Construction	2	2	3	1	-	3
Transportation, communication, utilities	6	9	10	11	3	3
Trade	37	38	72	102	43	54
Finance, insurance, real estate	14	8	15	19	10	3
Community, business, personal services	7	6	33	36	19	26

* Provision for review of acquisitions came into force April 9, 1974.

REVIEWABLE NEW BUSINESS CASES*

Table 4 — Outcome or status	First six months					
	1975	1976	1977	1978	1978	1979
Reviewable new cases	6	196	328	331	145	182
Carryover from previous period	-	6	58	52	52	64
Total of above	6	202	386	383	197	246
Total resolved	-	144	334	319	146	158
Allowed	-	115	297	273	118	139
Disallowed	-	9	12	21	14	7
Withdrawn	-	20	25	25	14	12
Carried over to next period	6	58	52	64	51	88
Allowed cases as percent of resolved (%)	-	80	89	86	81	88
Planned investment, all cases (\$000,000)	5	324	803	323	129	107

Table 5 — Country of control	First six months					
	1975	1976	1977	1978	1978	1979
Total	6	196	328	331	145	182
United States	4	90	184	193	92	111
United Kingdom	-	22	30	26	10	18
Other Europe	1	63	85	80 ^R	33	32
Austria	-	-	-	3	1	-
Belgium	-	1	-	1	-	1
Denmark	-	5	6	4	3	1
Finland	-	1	1	1	2	1
France	-	9	17	16	1	3
Germany, West	-	22	26	18	7	4
Greece	-	-	1	1	-	-
Ireland	-	-	-	1	3	3
Italy	1	9	10	10	-	-
Liechtenstein	-	2	-	-	-	-
Luxembourg	-	-	-	1	-	-
Monaco	-	-	1	-	-	-
Netherlands	-	2	3	1	1	1
Norway	-	-	3	3	1	1
Portugal	-	-	-	1	-	-
Spain	-	1	-	2	7	9
Sweden	-	3	9	5	2	2
Switzerland	-	8	8	12	5	6
All other	1	21	29	32 ^R	10	21
Australia	-	2	3	3	-	1
Hong Kong	-	3	3	3	2	1
India	-	3	1	1	-	1
Japan	-	4	10	6	2	6
Others	1	9	12	19 ^R	6	12
Allowed cases as percent of resolved	%	%	%	%	%	%
United States	-	73	88	86	85	90
United Kingdom	-	93	82	85	82	93
Other Europe	-	80	95	87	82	84
All other	-	91	81	79	59	82

Table 6 — Industrial sector	First six months					
	1975	1976	1977	1978	1978	1979
Total	6	196	328	331	145	182
Primary	-	12	22	27	13	12
Agriculture, fishing and trapping	-	2	6	2	1	-
Forestry	-	-	2	2	1	1
Mines, quarries, oil wells	-	10	14	23	11	11
Manufacturing	2	67	94	99	48	49
Food, beverage and tobacco	-	3	7	6	5	5
Rubber, plastic and leather	-	4	5	5	3	5
Textiles, knitting and clothing	-	4	9	5	4	3
Wood, furniture and paper	1	5	5	6	3	2
Printing, publishing, and allied	-	-	-	4	1	2
Primary metal and metal fabrication	1	15	19	12	4	10
Machinery and transport equipment	-	6	19	19	12	10
Electrical products	-	7	5	7	2	4
Non metallic mineral products	-	3	5	6	4	-
Petroleum and coal products	-	-	-	-	-	-
Chemical	-	6	3	6	1	5
Miscellaneous	-	14	17	23	9	3
Construction and services	4	117	212	205	84	121
Construction	-	4	4	14	5	8
Transportation, communication, utilities	1	10	5	11	5	5
Trade	1	68	133	102	38	69
Finance, insurance, real estate	1	10	16	11	6	6
Community, business, personal services	1	25	54	67	30	33

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

Books

International business and investment

Transnational Money Management: Issues and Practices

Massaro, Vincent G.

New York: The Conference Board Inc., 1978

Describes international financing practices of a sample of U.S.-based multinationals. Among the issues examined are the extent to which foreign currency financing decisions are made at headquarters, the relative importance of security, liquidity, yield and other factors in determining investment strategies, the instruments used for investing surplus international funds, and the services required of financial institutions.

Fiscal Transfer Pricing in Multinational Corporations

Mathewson, G.F., and G.D. Quirin

Toronto, Buffalo, London: University of Toronto Press for the Ontario Economic Council, 1979

A study of the scope for transfer price manipulation by multinational enterprises operating in Canada and recommendations for tightening and enforcing Canadian legislation.

American Multinationals and American Interests

Bergsten, C. Fred, Thomas Horst and Theodore H. Moran

Washington, D.C.: Brookings Institution, 1978

Analyzes the effects of American multinationals on the U.S. economy and U.S. foreign policy.

Financing the International Petroleum Industry

White, Norman A. (editor)

London: Graham & Trotman Ltd., 1978

Reference manual on the development and structure of the oil industry, financing of production and distribution (including pipelines and liquefied natural gas systems), taxation, insurance and sources of finance.

Technology and the Multinationals

Baranson, Jack

Lexington (Mass.):
Lexington Books, 1978

Case studies illustrate the changes from protection of technological know-how to sharing it with foreign countries.

Exchange Risk and Corporate International Finance

Aliber, Robert Z.

New York: Wiley Publications, 1978

Describes the international financial environment and its effect on investors, providing a basis for developing corporate strategies.

Multinationals in Contention

Black, Robert, Stephen Blank and Elizabeth C. Hanson

New York: The Conference Board Inc., 1978

General views on approaches to multinational enterprises by host countries and home countries are followed by case studies showing controls and incentives in Canada, France, Nigeria and Brazil.

Canada: Business, investment, government policy

Industrial Relations 1979: Outlook and Issues

Frank, James G. (editor)

Ottawa: The Conference Board in Canada, 1979

Views of seven industrial relations specialists on the economic and legislative environment for industrial relations in Canada, the current priorities and concerns of management and the impact of the public interest.

Canada-Japan Trade and Investment

Hay, Keith A.J. and S.R. Hill

Ottawa: The Canada-Japan Trade Council, 1979

Examines the pattern of Japanese-Canadian trade, including trade between Japan and the several regions of Canada, and the outlook for the principal export and import products. On investment, it traces the recent history of Japanese direct investment overseas and in Canada and looks at the prospects for future investment, particularly in energy and fisheries.

Canadian Directorship Practices: Compensation 1978

Ferrari, Leslie Ann and William E.A. Robinson

Ottawa: The Conference Board in Canada, 1979

Biennial up-date of statistical information on fees and retainers for regular board service and service on committees of the board, expense reimbursement and other benefits received.

U.S. Ownership of Firms in Canada

Globerman, Steven

Montreal: C.D. Howe Research Institute, 1979

Part of a series on Canada-U.S. Prospects sponsored by C.D. Howe Research Institute (Canada) and National Planning Association (U.S.A.). One monograph in this volume examines Canadian-U.S. economic linkages through the direct investment process and a second appraises Canada's Foreign Investment Review Act.

Financial Markets and Foreign Ownership

Pattison, J.C.

Toronto: Ontario Economic Council, 1978

Explains the role of financial factors in foreign direct investment in Canada.

Canadian Taxation of Oil and Gas Income

Holland, E.N., G.R. Schulli and R.M. Kemp
Don Mills, Ontario: CCH Canadian Limited, 1979

A guide to Canadian taxation of income derived from oil and gas operations; includes chapters on resource profits and resource allowances, capital cost allowances, exploration and development expenses, joint exploration corporations and taxation of non-residents.

The Current Industrial Relations Scene in Canada, 1979

Wood, W.D. and Pradeep Kumar (editors)

Kingston (Ont.): Industrial Relations Centre, Queen's University, 1979

Annual survey of the economy, manpower and labor markets, labor legislation and public policy, trade unionism, collective bargaining, wages, productivity and labor costs.

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

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