FOREIGN INVESTMENT REVIEW

A journal on investment conditions in **CANADA**

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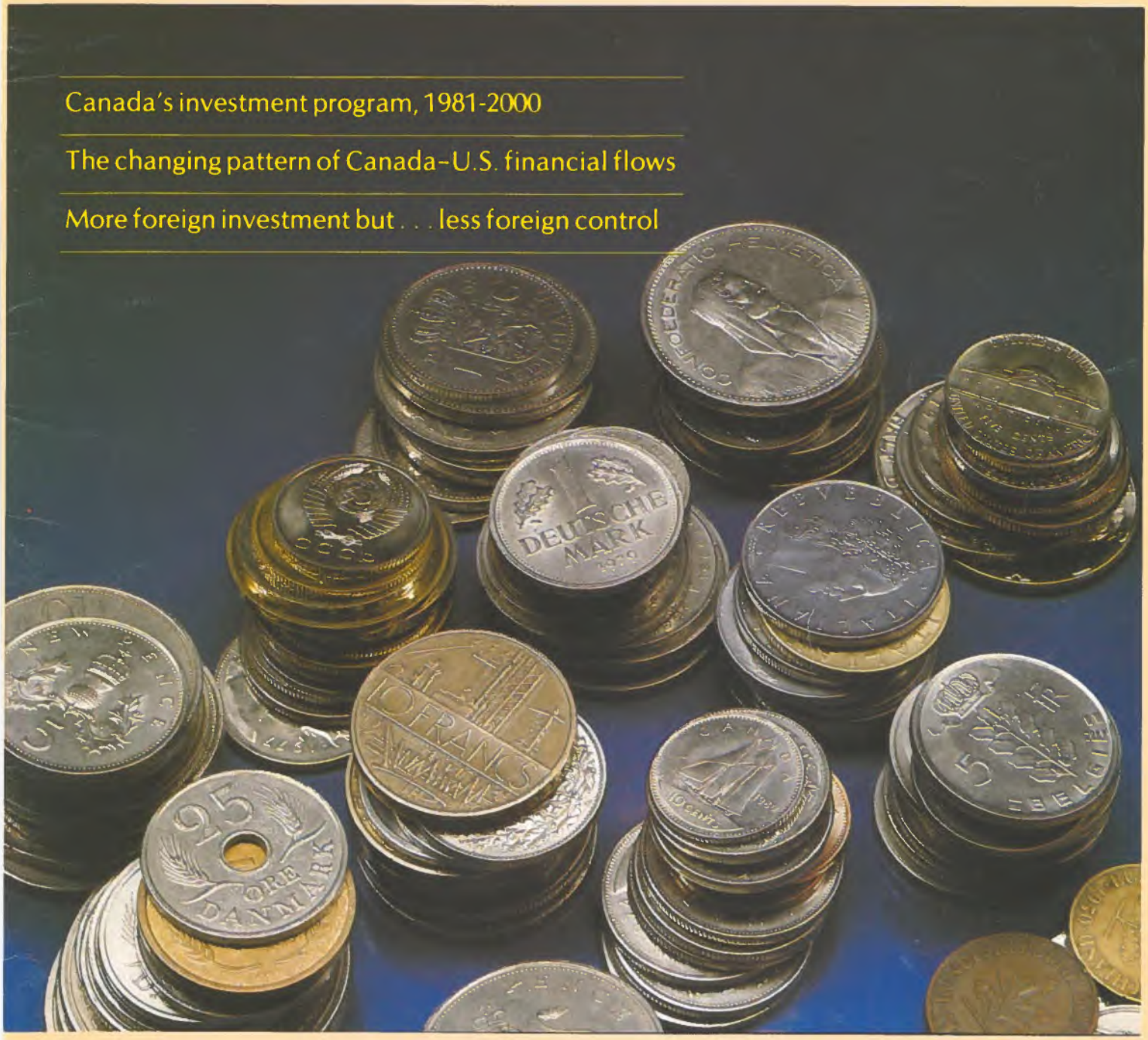
Canada's investment program, 1981-2000

The changing pattern of Canada–U.S. financial flows

More foreign investment but . . . less foreign control



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News briefs

Canada, Alberta reach oil agreement

At the beginning of September the governments of Canada and Alberta reached an agreement on energy pricing and revenue sharing. The agreement, which comes after a year and a half of talks, has significant implications for investors, producers and consumers.

The five-year term of the agreement opens the door for longer term industrial and energy planning, and is expected to help restore stability to Canada's oil industry.

The pact will allow prices for oil discovered before 1981 to increase on a fixed schedule, subject to a ceiling of 75 percent of world levels. Prices for "new" oil, which includes synthetic oil and oil from discoveries made after January 1, 1981, will be gradually adjusted upward toward current world levels. Natural gas prices for consumers will also be allowed to rise, but will, in effect, be held at about 65 percent of the Toronto market price of crude oil. For natural gas producers, prices will rise on a fixed schedule that is not tied to oil prices.

The new accord replaces the pricing formula in the National Energy Program. In return for agreeing to higher prices, the federal government will receive a larger share of oil revenues. The industry's revenue will increase under the agreement, but the industry will also face new taxes.

According to some industry experts, the agreement points the way to energy self-sufficiency for Canada by the 1990s.

Canadian Energy Minister Marc Lalonde (right) and his Alberta counterpart Merv Leitch during negotiations leading to the signing of the new oil pricing agreement.

Canada's wage compensation relatively low

Canada has one of the lowest wage compensation levels among industrial countries, according to a study carried out recently by the Department of Industry, Trade and Commerce. Based on data from the U.S. Department of Labor, as recently as 1980 Canada ranked sixth behind Belgium, Sweden, the Netherlands, Germany and the United States in terms of estimated compensation per hour worked in manufacturing. This represents a significant change over the situation in 1970 when Canada ranked second only to the United States.

Estimated compensation per hour worked of production workers in manufacturing in ten industrial countries (U.S. dollars) 1960-80
Canada = 100

Country	1960	Rank	1965	Rank	1970	Rank	1975	Rank	1978	Rank	Preliminary 1979	Rank	Provisional year 1980	Rank
United States	125	1	138	1	121	1	104	4	108	5	110	5	109	5
Belgium	38	5	57	5	60	6	108	3	133	1	145	1	145	1
Canada	100	2	100	2	100	2	100	6	100	6	100	7	100	8
France	39	5	54	6	50	8	76	8	87	7	99	6	104	6
Germany	40	4	62	4	68	4	102	5	123	4	134	4	132	4
Italy	29	9	49	9	51	7	76	7	80	8	92	8	99	7
Netherlands	32	8	54	6	62	5	108	2	128	2	138	3	134	3
Sweden	56	3	82	3	85	3	118	1	126	3	138	2	139	2
U.K.	39	5	50	8	43	9	54	9	55	10	66	10	78	9
Japan	12	10	21	10	29	10	50	10	72	9	68	9	65	10

Source: Based on unpublished data of the U.S. Department of Labor, Bureau of Labor Statistics, Office of Productivity and Technology, March, 1981.

Additional compensation above that of direct hourly wages and currency realignments are two of the most important factors accounting for the gap between Canada's wage compensation level and that of the higher ranked industrial countries. According to the study, the ratio of additional compensation to direct hourly wages in Canadian manufacturing was 30 percent in 1980, whereas it was 36 percent in the United States and ranged from 63 to 97 percent in Germany, Belgium, France, Italy, Sweden and the Netherlands. Thus, Canadian employers have a significantly lower burden of additional compensation than do employers in most other industrial countries.

The study pointed out, however, that these comparisons do not include productivity levels, which are important in comparing labour costs. It noted that productivity in Canada, defined as output per man-hour, grew at an average rate of 3.7 percent between 1961 and 1980, a rate significantly higher than that in the United States.

Ratio of additional compensation to direct hourly earnings of production workers in manufacturing in ten countries[a] percent

	1960	1965	1970	1975	1979	1980
United States	17.9	20.3	24.7	31.4	35.5	36.4
Belgium	38.9	47.9	56.2	68.3	72.1	72.4
Canada	15.4	16.2	19.8	22.8	29.2	30.1
France	54.5	62.0	60.3	70.9	79.6	80.6
Germany	35.0	36.5	43.1	57.3	62.3	63.4
Italy	70.3	75.9	79.2	99.4	96.0	97.0
Netherlands	38.5*	43.8*	56.7*	70.0*	72.1*	73.6*
Sweden	16.5	22.7	26.5	45.4	61.3	63.0
U.K.	10.9	13.3	15.0	23.9	30.0	31.7
Japan	12.6*	13.1*	13.2*	14.3*	18.8*	20.0*

Note: Data for 1979 are preliminary estimates. The estimates for 1980 are provisional.

* All employees

[a] Those ratios are in local currencies

Source: Unpublished data of the U.S. Department of Labor, op. cit., March, 1981.

Foreign banks to operate in Canada

The first 11 foreign banks to be authorized to operate in Canada were issued letters patent in late July, and had their amounts of "deemed" or authorized capital set by the Government of Canada in August 1981. Before the new Bank Act was proclaimed in December 1980, foreign banks were not permitted to engage in banking in Canada.

In all, about 60 foreign banks are expected to apply to charter subsidiary banks in Canada, and half of those will involve the conversion of existing foreign-owned non-bank financial corporations already operating in Canada.

To be approved, a foreign bank's application must show evidence of the strength of the bank or of its parent bank, that the new bank will contribute to competitive banking in Canada, and that the operating conditions for Canadian banks in the other country are as favourable as conditions are for the bank applying to establish in Canada.

After issuance of letters patent, the foreign bank is licensed for not more than one year at a time during its first five years of operations, and not longer than three years thereafter. Once licensed, the foreign bank subsidiary is treated the same as domestic banks in the fields in which it competes.

Foreign bank subsidiaries are, however, subject to restrictions: they must be adequately capitalized and conservatively financed; and their growth will be controlled. For instance, the total value of all Canadian assets of foreign banks will not be permitted to exceed 8 percent of the assets of the domestic banking system, and the Canadian assets carried by each bank subsidiary will be allowed to grow only to 20 times its authorized capital.

The 11 new foreign banks are: ABN Bank Canada; Bank of America Canada; Banque Nationale de Paris (Canada), Barclays Bank Canada; Continental Illinois Bank (Canada); Deutsche Bank (Canada); Hongkong Bank of Canada; Korea Exchange Bank of Canada; National Bank of Detroit, Canada; Swiss Bank Corporation (Canada); and the Bank of Tokyo Canada. The Banque Nationale de Paris (Canada) is based in Montreal, the Hongkong Bank of Canada in Vancouver, and the others in Toronto.

Letters patent are expected to be issued for the establishment of Citibank Canada November 1, 1981.

The establishment of foreign bank subsidiaries is governed by the Bank Act, not by the Foreign Investment Review Act.

Alberta introduces new companies and securities bills

The Government of Alberta recently introduced in the legislature two major pieces of business and investment legislation.

Passage of the Business Corporations Act, Bill 43, will make it easier to do business across Canada because after a short time — three years is proposed — there will be only one system of company law in Alberta, a system similar to federal legislation and to the company laws of Ontario, Saskatchewan and Manitoba. Bill 43 will replace the 1929 Companies Act, and will simplify procedures, protect creditors and minority shareholders and encourage investment in Alberta. While the bill deletes outmoded rules, updates the language of Albertan corporate law, and reduces the number of incorporating documents to one "Articles of Incorporation", it still requires that half the directors of Alberta companies be resident Albertans.

The second bill is the Securities Act, 1981, or Bill 44. It continues the general concepts of current legislation, but enhances the investment climate for Albertans, and clearly outlines the rules by which capital investment is raised. Bill 44 will expand disclosure requirements; introduce measures to enable groups, especially small business, to raise capital from the public more readily; recognize as self-regulators organizations that have shown themselves able to train, audit and discipline themselves; expand the Securities Commission from five to seven members; and amend prospectus preparation rules.

New centres of technology

The Government of Canada announced in June the establishment of Microelectronics Centres in six Canadian universities. With financial support from the Department of Industry, Trade and Commerce amounting to $1 million for each centre over the next five years, the University of Sherbrooke, the University of Manitoba, the University of Alberta, the University of British Columbia, the University of Toronto and a university in the Atlantic provinces will provide technical assistance to industry in their regions in the application of microelectronics to products and manufacturing processes. These universities already have capabilities in the industrial application of microelectronics.

British Columbia: Canada's slice of the Pacific Rim

by Jim Lyon

British Columbia, Canada's gateway to the fast-growing Pacific Rim countries, is a region of striking contrasts. In spite of vast thinly populated areas, cities such as Vancouver and Victoria give the province all the attributes of a highly urbanized society. Topographically, its huge mountain ranges give way to a gently undulating interior region and a coast riddled with rugged fjords that are fed by the melting ice of spectacular glaciers. More important, however, is British Columbia's economic profile: though the province has a highly developed economy, it still offers the heady potential of great untapped resources to entrepreneurs who are willing to risk their capital.

A strong economy and unique lifestyle attractions have drawn increasing numbers of people to British Columbia. The province's population, estimated in mid-1979 at over 2.5 million or approximately 11 percent of Canada's population, has been growing steadily despite a falling birth rate, mainly on the strength of immigration and interprovincial migration. The net migration of people from other provinces reached almost 50,000 in 1980 alone, accounting for 53 percent of the province's population growth that year. This is not a new phenomenon, however, the province having recorded a positive net migration almost every year since 1961.

British Columbia has been absorbing the new arrivals, be they Canadian or foreign, by creating jobs at an annual rate of 5.5 percent. This is the highest rate of employment growth of all Canadian provinces except Alberta. In fact, almost 22 percent of the national increase in employment in Canada in 1980 was recorded in British Columbia. This outstanding employment performance cut the provincial unemployment rate from 8.6 percent in 1976, which was 1.5 percent above the national average, to 6.8 percent in 1980, slightly below the national figure.

The province is beginning to experience a shortage of skilled workers. Historically, British Columbia has drawn many of its skilled workers from Europe, but in recent years the flow of workers from that source has decreased to a trickle. A recent study, commissioned by the province, predicted a shortage of 5,000 skilled journeymen by 1984, a figure that does not include the demand for skilled tradesmen that will be created by major new coal projects that were announced last Spring. The current shortage is most serious in the northern areas of the province, as workers tend to drift to the Lower Mainland near the U.S. border and to southern Vancouver Island where the weather is more clement and urban amenities more easily obtained.

The province's gross domestic product reached $28.1 billion in 1979 or 11 percent of Canada's gross national product. Personal income per capita that year was $9,758 or about $800 above the national average. But there is a more telling statistic: from 1974 to 1979 the province's real growth, excluding inflation, was nearly 21 percent compared with the national average of 16 percent. Like its neighbour Alberta, British Columbia is quickly becoming an economic power among Canada's provinces.

British Columbia is energy rich although it still must import 77 percent of its petroleum needs, mainly from Alberta. In a forecast issued in November 1978, the British Columbia Energy Commission estimated natural gas supply volumes to be more than sufficient to meet both domestic and export needs at least until 1992. Coal reserves are currently estimated at 4.7 billion metric tons, more than sufficient to meet both domestic and export markets for the forseeable future. About 47 percent of natural gas production and virtually all coal production is currently exported.

Hydro-electricity currently meets 15 percent of British Columbia's energy needs. In 1979 the total electric power consumed in the province was 41,500 gigawatt hours, up 3.2 percent over the 1978 total. In addition to existing and planned hydro-electric sites, there are major undeveloped sites with potential power greater than three times existing installed capacity.

Forestry, mining and fishing have been the mainstays of the provincial economy for decades. The forest industry has now matured and its time of rapid expansion is behind it, mining (especially coal) is gaining in importance, and the fishing industry is in troubled times.

The forest industry

The forest industry, which accounts for more than half of the gross provincial product, is undergoing a period of considerable change. Since most of the province's virgin timber has now been cut, mills must re-equip and modernize to handle smaller second-growth trees. Virtually all of the province's accessible timber resource has been allocated and expansion can only take place through efficiencies: making better use of the fibre supply through better recovery standards and logging trees that were previously considered uneconomic, either because they were too small, were of inferior quality or were too remote.

Jim Lyon is a writer for the Financial Post in Vancouver, B.C.

Foreign ownership (especially American) is high in the forest products industry. In addition to the controls exercised by FIRA, the Government of British Columbia, which owns 95 percent of the commercial forest land, scrutinizes company ownership when control (defined as more than 50 percent equity) changes hands. The province's interest is to regulate industrial and regional concentration.

British Columbia's forests are extensive, covering about 56 percent of the provincial land area; they support more than 8 billion cubic metres of mature timber, almost all softwoods. In 1979 the province's timber harvest exceeded 76 million cubic metres, surpassing the record harvest of the previous year by about one million cubic metres. The international competitiveness of the provincial forest industry has been enhanced for several years by a Canadian dollar that has averaged about 85 cents U.S.

Favourable long-term prospects for the industry are reflected in its current capital investment program. Capital and repair expenditures surpassed $1 billion for the first time in 1979 and increased to $1.3 billion in 1980. Of this latter figure $222.4 million was spent on expansion in the wood products industry and $438.4 million was on pulp and paper expansion.

In 1980 the province accounted for $2.6 billion of Canada's $8.4 billion worth of pulp and paper exports and $2.4 billion of Canada's $3.3 billion worth of lumber exports. After record sales years for lumber in 1978 and 1979, the sawmilling industry has experienced a severe cyclical downturn, largely because of declines in U.S. housing starts. Though no significant market recovery is expected in 1981, most industry spokesmen are looking forward to several boom years, once recovery does occur, due in great part to considerable pent-up demand for homes in the important U.S. market and seriously declining U.S. domestic lumber production.

The pulp and paper sector of the forest industry has been enjoying keen market demand for several years. The demand for market pulp has been softening slightly in recent months and newsprint producers are concerned about capacity increases both in the U.S. Pacific Northwest and in British Columbia, which could force temporary reduction in operating levels.

The high level of investment continues, especially in the capital-intensive pulp and paper sector. MacMillan Bloedel Ltd., the B.C.-based Canadian forestry giant, started up its $163-million No. 2 newsprint machine and thermo-mechanical pulp capacity at Powell River last Spring. Northwood Pulp and Timber is doubling the size of its bleached kraft pulp mill at a cost of $270 million at Prince George. Both British Columbia Forest Products Ltd. and Crown Zellerbach Canada Ltd. are spending more than $150 million each to increase pulp and newsprint capacity. West Fraser Timber Co. Ltd., in partnership with Daishowa Canada Ltd., is just completing a 500 ton per day thermo-mechanical mill at Quesnel in the interior of the province at a cost of more than $80 million. Western Forest Products also has spending plans worth $205 million to renovate and expand its old bleached kraft pulp mill on Howe Sound, just north of Vancouver.

Forestry is an important factor in the economy of Revelstoke and many other B.C. communities.

The mining industry

Resource investment news, however, is not limited to the forest products industry. Development is expected to begin soon on several major coal projects in British Columbia. Although the province has exceptionally large deposits, their distance from tidewater and certain significant environmental problems make their development quite challenging. Currently, the only coal fields in operation are in the Kootenays in the southeast corner of the province. The trains which move the coal must cover several hundred miles to reach Roberts Bank, just south of Vancouver, where they are loaded on bulk carriers bound for export, mainly to Japan. Both B.C. Coal, the main operator, and Fording Coal have announced major expansions.

In the northeast of the province development of the extensive untapped coal fields is only just beginning. It has been estimated that they contain sufficient coal to supply the entire Japanese steel industry for 300 years. Teck Corporation of Vancouver and Denison Mines Ltd. of Toronto have signed contracts with a consortium of Japanese steel mills to supply 7.7 million metric tons of high-grade metallurgical coal between 1983 and 1998. Other operators in the same area are also expected to sign export contracts for both metallurgical and thermal coal. The capital cost of the first phase of northeast coal development will amount to $1.6 billion in 1980 dollars, of which $911 million will be invested by the private sector and $741 million by the public sector for the upgrading of rail lines, the construction of railway tunnels and port facilities, the development of a new township, the installation of power lines and other elements of the industrial infrastructure. The initial northeast coal development is expected to create 10,600 new permanent jobs in Canada and 53,400 man-years of construction and equipment production work. Just over half the new permanent jobs will be in Western Canada.

Another huge coal development is in the planning stage. This one is located in the province's southern interior and likely will be the cause of considerable environmental controversy. British Columbia Hydro, the provincial power utility, is proposing a $5-billion development of the big Hat Creek thermal coal deposits.

The Hat Creek Valley, about 200 kilometres northeast of Vancouver, contains an estimated 10 billion to 15 billion metric tons of thermal-quality coal. Hydro's project, a massive undertaking in itself, will only consume 0.3 billion tons of this over the next 35 years. Hydro is proposing an open-pit coal mine, a powerplant and associated offsite facilities that will ultimately produce 2,000 megawatts of power. If regulatory approvals are forthcoming, construction will begin probably in 1983 to meet an in-service date in 1988 for the first commercial power. A peak construction workforce of 2,800 will be needed and 1,200 new jobs will be created directly when the project is in full operation.

Apart from coal, several other major mines are being planned. Feasibility studies have begun for a $750-million Valley Copper development in the Highland Valley. Cominco Ltd. is planning an open-pit operation with production of up to 100,000 tons of ore daily. Work was completed this summer on the Lornex mine, which is 68 percent owned by Rio Algom of Toronto, to expand copper-molybdenum output by about 68 percent at a cost of about $160 million. Cominco Ltd. is also working towards a big expansion of its lead and zinc complex at Trail and at its Sullivan mine and mill at Kimberley. The total cost by 1985 will be about $550 million.

Metal markets, however, are weak and British Columbia's mining does not expect more than a small increase in the $2.93 billion worth of production in 1980. The total value of metals, minerals, coal, petroleum and natural gas production in the province reached a record $2.8 billion during 1979, up 42 percent from 1978. Metallic minerals accounted for 47.8 percent of the total; petroleum and natural gas, 27.3 percent; coal, 15.6 percent; structural materials, 6.3 percent and industrial minerals, 3 percent.

A total of $332 million was spent on exploration and development of all minerals in the province in 1979, an increase of 135 percent over 1978. Increased commodity prices and favourable currency exchange rates stimulated exploration and new mine development in 1979. Exploration expenditures are directed primarily towards molybdenum, copper, lead, zinc, gold, silver and coal. It is expected that by the end of 1982 more than $1 billion in new annual metal production will have come on stream. The value of industrial minerals was $84.5 million in 1979 compared with $59.5 million in 1978.

The oil and gas industry

The oil industry has indicated interest in resuming exploration drilling off British Columbia's coast. In the late 1960s about 7 million hectares were taken up under permits and a number of holes were drilled. However, no work has been done for more than a decade because of a federal moratorium on exploration activity there. Statements by the Government of Canada and extensive interest by several major oil companies suggest that drilling may soon be resumed. The discovery of oil and gas in the offshore area could mean hundreds of millions of dollars of direct revenue to the province and the creation of thousands of jobs. Several major projects have been proposed through which British Columbia's abundant supply of natural gas will reach new export markets. The traditional export customer is the U.S. Pacific Northwest. Over the past year, however, there has been a major decline in demand for British Columbia gas by the U.S. power utilities. Factors to blame include greater availability of domestic natural gas supplies in the United States through heightened exploration programs, the availability of residual fuel (which has been responsible for some fuel substitution) and higher Canadian prices.

The weakening demand by U.S. power utilities had a direct impact on the Government of British Columbia's oil and gas revenues: from $599 million in 1979-80, they dropped by 25 percent to $447 million in 1980-81, and the province expects revenues from that source to decrease by about 36 percent in 1981-82. No significant market recovery is expected until 1983-84.

This situation makes market diversification important. Dome Petroleum of Calgary announced that it had signed an agreement in principle with Nissho Iwai Corporation of Japan for the sale of 2.6 million metric tons of liquefied natural gas (LNG) annually for 20 years. The export is subject to the approval both of the federal and provincial governments. Dome has estimated that the pipeline, plant, terminal and ships required to make those deliveries would involve an investment approaching $3 billion. Natural gas would be carried by pipeline from northeastern British Columbia to a terminal site on the northern coast of the province. There the gas would be refrigerated and loaded on large tankers for export. If approvals are obtained by early 1982, Dome maintains that construction would begin in the middle of that year and be completed about three and a half years later. According to Dome, the total value of the LNG under the agreement, is estimated at $26 billion, of which at least $15 billion would go to the province of British Columbia.

Dome is also heading a consortium that hopes to build a large petrochemical complex on the coast using natural gas as feedstock. It would export chemical building blocks used in the manufacture of plastics. The project is also a huge one, involving several hundred miles of pipeline and a shipping terminal. Total cost is projected to be about $2 billion.

Yet another potential venture to export natural gas is the Rim Gas Project. The partners are PetroCanada, Westcoast Transmission of Vancouver and Mitsubishi of Japan. This is another $2-billion project involving the export of liquefied natural gas by tanker by 1985-86. Still bigger is a project involving Westcoast Transmission, PetroCanada and the British Columbia Resources Investment Corporation, to produce 50,000 barrels a day of synthetic crude oil from British Columbia coal. The group, with the financial assistance of the federal Department of Energy, Mines and Resources is examining promising U.S. technological advances in coal liquefaction being accomplished in a production experiment in Kentucky.

The fishing and agriculture industries

British Columbia's fishing industry has been going through difficult times: in 1980 the estimated value of the catch was $250 million, less than half that of the previous year's record $566 million. A combination of unfortunate factors has beset the industry, including poor markets, rising costs, depleting fish stocks and too many boats.

A federal royal commission of inquiry has spent several months seeking solutions to the industry's problems. Because of the fishing industry's over-capacity, the federal Department of Fisheries has announced a program to buy back fishing boats. When this occurs, the boats are sold for other uses and the important licence that entitles the owner to fish is cancelled. So far this year, $3.5 million has been spent to retire 26 boats. This has had only a small impact on the problem, since there are more than 7,000 fishing boats operating in the province. The federal department has also taken tough and controversial measures to protect the fish stocks: closing down part of the fishery. The closure is aimed particularly at the important chinook salmon, which is endangered. Restrictions have also been applied to sports fishermen who may catch no more than four chinook a day or 30 a year.

British Columbia also has a significant agricultural economy, which includes a wide variety of products. According to farm cash receipts, which amounted to approximately $747 million in 1980, horticultural crops represent the single most important source of income for British Columbia's farmers, followed by dairy products, poultry and eggs, cattle and calves, and grains and oilseeds. Agricultural production is highly specialized by region with the Peace River District concentrating on grain, the Okanagan Valley on tree-fruit crops, the Fraser Valley on dairy products, poultry, berry crops and pork, and the Southern and Central Interior of the province on beef cattle.

Manufacturing industries

Though British Columbia clearly has a resource-oriented economy, its manufacturing sector deserves some mention. The province's manufacturing industries are less dependent on exports than are the resource industries. Manufactured goods produced in the province are more oriented toward local or regional consumer and investment goods markets.

The manufacturing sector is a significant employer: excluding the resource-based manufacturing industries such as wood products, paper and allied products and fish processing, secondary manufacturing in British Columbia employed approximately 77,000 people in 1980. The largest single industry employer was food and beverages (16,500), followed by metal fabricating (11,000), primary metals, mainly smelting and refining (10,200) and transportation equipment (8,500).

According to the estimated value of shipments recorded in a recent survey of the province's manufacturing industries, food and beverages (excluding fish products) was the leading industry, followed by petroleum and coal products, primary metals, metal fabricating, transportation equipment and machinery. Recently, the fastest growing industries have been chemicals and non-metallic minerals, which owe their growth to the strong performance of the pulp and paper and construction industries. The primary metals industry has also experienced strong growth largely due to the performance of Alcan's smelting operations at Kitimat.

Service industries

Tourism, British Columbia's third largest industry, is one of the fastest growing sectors of the provincial economy. Comprising 10,000 businesses and employing approximately 65,000 people, tourism generated $1.85 billion worth of business in British Columbia in 1980, and the province's tourism officials, whose immediate goal is to reach $2 billion, expect the value of tourist business to grow by 12 percent in 1981.

In addition to the millions of Canadians who cross the Rocky Mountains each year for a visit, millions of foreign tourists are drawn to British Columbia, mainly from the United States. An increasingly important volume of business is being generated by overseas tourists: in 1979 about 414,000 overseas tourists visited British Columbia of whom 26 percent were from the United Kingdom, 18 percent from Japan, 12 percent from West Germany and 10 percent from Asian countries other than Japan.

Given that the tourist season has been limited to July and August, industry and government officials are seeking to extend the season into the Spring and Fall. Federal and provincial government authorities are actively promoting the development of the industry. An example of this support is the $50-million federal-provincial Tourist Industry Development Subsidiary Agreement, signed in 1978, which provides forgivable and low-interest loans. A major recipient of these funds has been the big Whistler destination ski resort, just north of Vancouver, that is being developed as a world-class year-round facility.

British Columbia is growing too as a financial centre. The Vancouver Stock Exchange (VSE), now regarded as the pre-eminent venture capital market in North America, enjoyed phenomenal growth in 1980: the value of shares traded increased from $1.4 billion in 1979 to more than $4.4 billion last year. To put the VSE's performance into perspective, the VSE is second only to Canada's largest exchange, in terms of both the volume and value of shares traded. In 1980, the volume of shares traded at the VSE reached 1.7 billion and their value about $4.4 billion: the corresponding figures for Toronto were 2 billion and $29.5 billion, for Montreal, 299.1 million and $3.8 billion and for Calgary, 162.3 million and $469.7 million. The value of shares traded at the VSE increased 1,305 percent between 1975 and 1980, whereas that of the Toronto Stock Exchange and the Montreal Stock Exchange increased 622 percent and 179 percent, respectively. Share volumes also rose sharply during that period, almost doubling from 900 million to 1.7 billion. Since then, the trading pace has stabilized at about 7 million shares on a busy day compared with 15.3 million shares on November 21, 1980, the exchange's record day. The VSE will soon move to a new $5-million home where it will be equipped to handle the large volume of business without the irritating delays created by excessive paper work.

It is estimated that about 20 percent of the money invested on the VSE comes from Europe, including Great Britain, 20 percent from Eastern Canada, 20 percent from investors in British Columbia and 35 percent from the United States, while 5 percent is professional trading. Most of the VSE's business is in financing oil and gas exploration companies.

The Port of Vancouver is B.C.'s principal container facility.

A description of British Columbia's economy would be far from complete if no mention were made of its deep-sea port facilities. British Columbia has several of these including Vancouver, Roberts Bank, Victoria, Nanaimo, New Westminster, Port Alberni and Prince Rupert. All of these facilities are open year-round.

Tens of million tonnes of cargo are loaded and unloaded at British Columbia ports each year. Leading the list of export products are coal and grain. Container traffic is also important, principally at Vancouver. Authorities in British Columbia and in the Canadian Government are not, however, satisfied with current handling capacity on the West Coast. In spite of the impressive volume of cargo that passes through the ports — in 1979, approximately 53 million tonnes of export cargo and 6 million tonnes of import cargo — several projects are now being undertaken to eliminate bottlenecks that have developed over the years and to facilitate large projected increases in Canada's Pacific trade.

A major expansion of bulk-handling facilities at Roberts Bank has been planned involving the creation of three additional bulk-handling terminal sites. Most of British Columbia coal exports are handled by the Roberts Bank Superport, which currently has the capacity to load 10 million tonnes of British Columbia coal and Alberta petroleum coke a year.

Also being expanded and improved are the facilities at Nanaimo. A 50-hectare, three-berth terminal will supplement the existing 15-hectare inner harbour terminal and the outer portion will serve as a forest products shipping terminal.

Industry representatives and government officials are nothing less than sanguine about the projected development of the port at Prince Rupert. Though the proposed handling facilities are most commonly seen as serving the coal and grain export business, their links with an extensive railway and highway infrastructure will probably lead to fairly intensive handling of other products such as sulphur, potash, lumber and woodchips. Prince Rupert is also being seriously considered as a liquefied natural gas processing and export terminal. Considered by many as an ideal site, Prince Rupert offers several advantages to exporters over other British Columbia ports: it is 700 kilometres closer to Japan than Vancouver; it has the deepest natural harbour in the province and the dock will be designed to load vessels of up to 150,000 dead weight tons; and Ridley Island offers 320 hectares of which only 40 will be used for grain and coal terminals.

A recent forecast by the Conference Board of Canada maintains that British Columbia, which largely escaped the national economic slowdown in 1980, will enjoy a 3.6 percent increase in real output in 1981. Other forecasters have suggested a similar growth rate based on a moderate recovery of the U.S. economy, good economic growth in Japan and favourable conditions in other markets such as Australia, Taiwan and South Korea.

Capital investment is expected to increase 2 to 4 percent above last year's figure of just over $9 billion. Resource development and related infrastructure projects are expected to be major contributors to the increase in investment.

The changing pattern of Canada-U.S. financial flows

by Robert M. Dunn, Jr.

For generations the volume of funds flowing between Canada and the United States has been nothing less than massive. Between 1960 and 1975, the pattern of financial flows between the two countries was roughly short-term south and long-term north. In the last half of the 1970s, however, this pattern changed as funds at all maturities flowed into Canada from the United States.

Americans and Canadians typically think that direct investment accounts almost entirely for capital flows between the two countries, an impression reinforced by the conspicuous and often controversial investment activities of multinational corporations. In recent years, however, financial capital generated by bond and treasury bill issues and the acquisition of non-controlling equity interests has far outpaced direct investment. In fact, portfolio investment has been the dominant form of Canadian external financing, especially long-term bonds issued by Canadian hydro authorities and other public enterprises.

Some facts and figures on net investment flows between the two countries in the 1970s illustrate the predominance of portfolio investment. Net direct investment[1] from the United States, which reached $477 million in 1971, decreased throughout the first half of the decade and became negative during the last half (-$507 million in 1979), whereas net portfolio investment from the United States was large and positive throughout the decade rising from $2.3 billion in 1971 to $5.7 billion in 1979. In fact, throughout the 1970s average net direct investment per year from the United States was -$177 million, whereas the average for portfolio investment was $3.5 billion. The flows of portfolio capital included both short- and long-term items, and took many forms.

Many Canadians fear that the net flows of capital into Canada from the United States and elsewhere have been large enough to make the country an unacceptably large net debtor to the rest of the world. However, inflation has made the real growth of Canadian indebtedness considerably smaller than the numbers appear to indicate. The second graph, which shows the stock of Canadian indebtedness to the rest of the world in contrast to the first graph which shows annual flows of capital, shows that Canada's net debt to the rest of the world rose from $24 billion in 1966 to $69 billion in 1979. Indebtedness to the United States dominates that growth, Canada actually being a slight creditor to countries other than the United States. These figures, however, are in current dollars and cover a period of rapid inflation. Since the Canadian price level, as measured by the Consumer Price Index, rose by about 135 percent during a period in which Canada's nominal indebtedness grew by about 188 percent, the real growth of Canada's indebtedness was only about 38 percent, somewhat less than the real growth in the Canadian economy. Expressed another way, Canada's net indebtedness to the rest of the world decreased from 38.8 percent of the Gross National Product in 1966 to 36.6 percent in 1979. It should be noted, however, that Canada's indebtedness may be somewhat understated in the graph because book values rather than market values were used in the figures for direct investment.

Given the extent to which the capital markets of Canada and the United States are integrated, the flow of funds between the two countries has historically been very sensitive to changes in the markets, in particular changes in interest rates. One recent study in the United States indicated that a shift of one percentage point in the Canada-U.S. interest rate differential will attract over $400 million in short-term capital over a period of about three months, as managers of financial institutions respond to changing incentives. This was not the first study to have suggested a similar response to relative interest rates.

From 1971 to 1979 Canadian interest rates, particularly for long-term maturities, generally exceeded U.S. rates. This resulted in net inflows of capital into Canada throughout the decade, valued at approximately $30 billion. Contributing to that movement of capital was Canada's reputation as one of the safest countries in which to lend money.

It may come as something of a surprise to some people that a country as developed and wealthy as Canada imports such vast amounts of capital. Economists typically associate large-scale borrowing with the early stages of development. Developed or high per capita GNP countries are expected to be net lenders rather than net borrowers. Canada, which is highly developed and has one of the world's highest levels of per capita GNP, has not followed this pattern and continues to be a large net borrower.

Canada's continuing need for foreign capital is explained by the fact that its economy has consistently invested more than it has saved. The primary role of the flow of capital into Canada is to finance the current account or trade and services deficit, which totalled $25 billion (U.S.$) between 1970 and 1980. If Canada could not borrow abroad, it would be forced to restrain its imports to what it could

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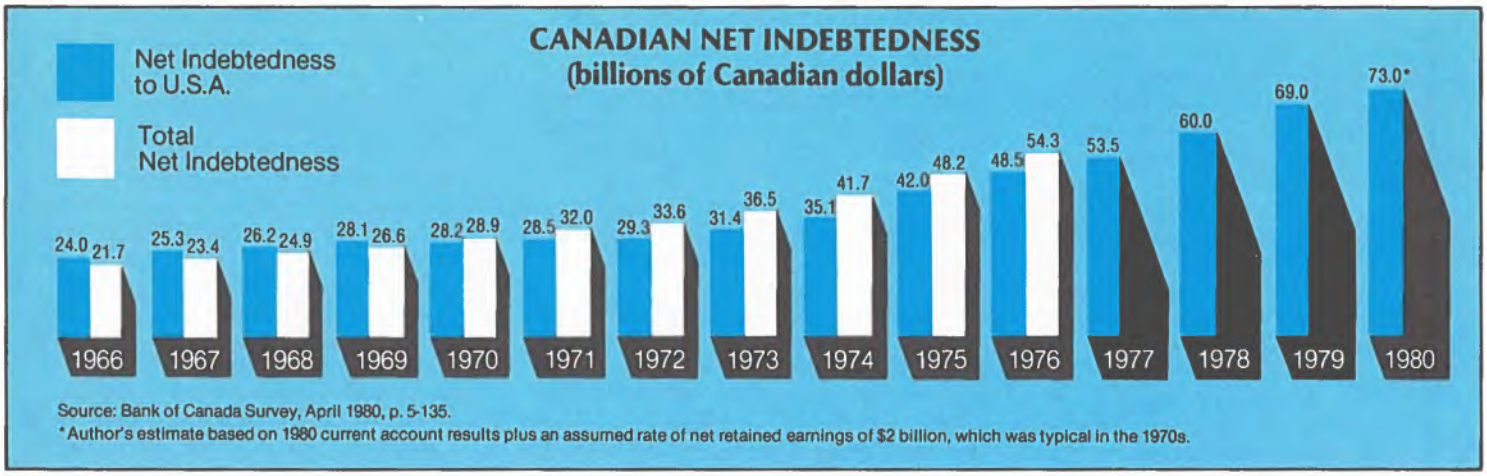
[1] *Readers interested in foreign direct investment statistics for Canada should read another article in this issue, by Ted Zahavich, which includes a discussion of the relative merits of gross as opposed to net statistics.*



Source: Bank of Canada Survey, April 1980, p. 5-135.
*Author's estimate based on 1980 current account results plus an assumed rate of net retained earnings of $2 billion, which was typical in the 1970s.

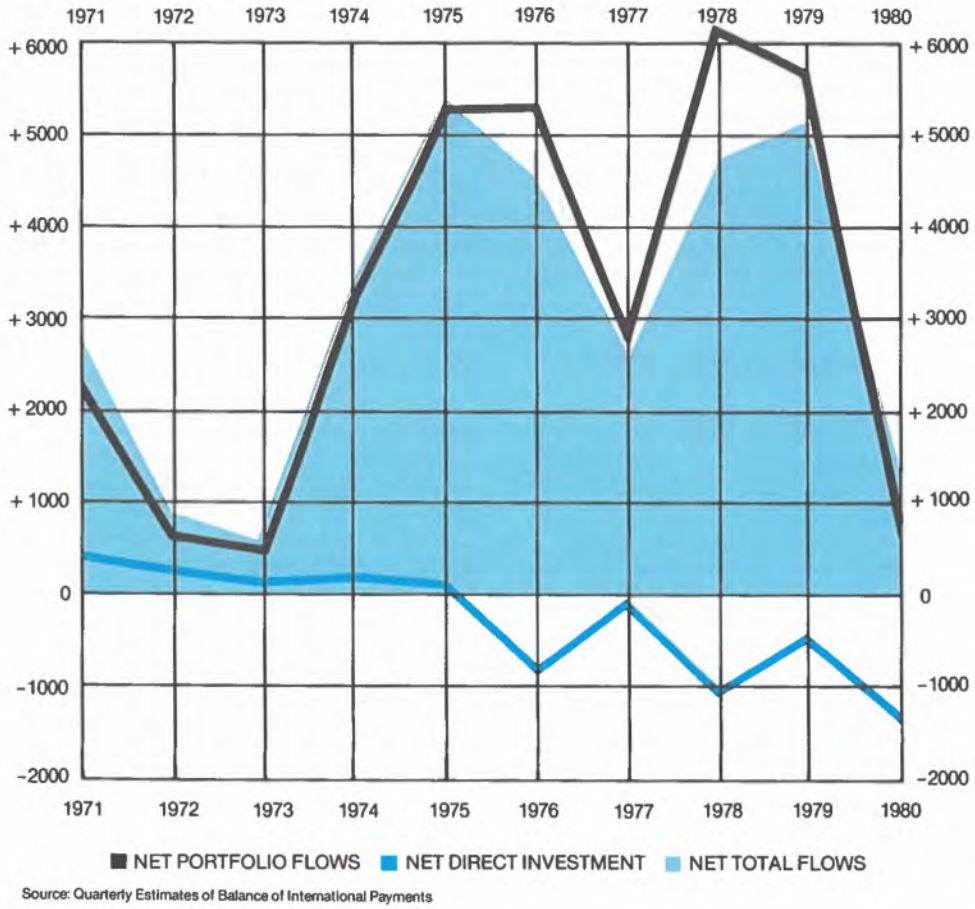
afford with export revenue, and investment in plant and equipment would be limited to financial resources generated domestically and saved out of current income. Borrowing abroad eliminates this constraint because the current account deficit can be financed, thus allowing a net flow of resources into the economy and investment in excess of current saving.

A number of factors explain Canada's investing more than it saves, one of the most important being the fastest labour-force growth among the major industrialized countries. The entrance into the labour market of the children of the baby boom and large-scale immigration increased requirements for investment in plant and equipment to prevent excessive unemployment and merely to maintain the capital-labour ratio. During times of fast labour growth, exceptionally high levels of investment are needed to increase the capital-labour ratio and thus improve labour productivity.

Also underlying Canada's high level of investment has been the capital-intensive nature of many of Canada's fastest growing industries. This is most clearly the case for energy-related industries as well as resource industries generally. The situation in the United States, for example, is quite different because the most rapidly growing U.S. industries are in the service sector, which is considerably less capital intensive.

High levels of investment are not, however, the only cause of Canada's need for foreign capital. The high rate of household and private saving in Canada, which is higher than in the United States, has been more than offset by public sector dissaving. Canadian public sector deficits have recently represented a higher percentage of GNP than in the United States and have drained funds and resources from private investment. Some of those deficits, however, are explained by major public investment projects, particularly in the energy sector. An accurate estimate of the operating or current budget deficit of the Canadian public sector would exclude such investments, but would include depreciation of previous investments as a current expense. Although most governments have such public investment projects, Canada's may be relatively larger.

To the extent that various levels of government borrow from the private sector to finance deficits, funds saved in households and businesses are not available for private investment. This in turn leads to a situation where private investment must be financed by borrowing abroad. Some public sector borrowing may actually be arranged in foreign capital markets, but the basic process is the same. Large public sector deficits in Canada have been an important source of the demand for borrowed funds which has required large-scale foreign borrowing. If public and private sector borrowing needs in Canada exceed the funds available through domestic saving, the demand for funds spills over into the New York capital market.



Source: Quarterly Estimates of Balance of International Payments

Financial intermediation

The relationship between Canadian and U.S. capital markets includes both a sizeable net flow of funds into Canada and a much larger flow of funds in both directions. As mentioned at the beginning of this article, the general pattern has been that, within the large net flows from the United States to Canada, long-term funds flow north but short-term funds move back and forth across the border. During the 1960-75 period, there was a rough inconsistent pattern in which short-term funds flowed south and a much more regular pattern of long-term funds flowing north. In the latter half of the last decade, however, this pattern changed.

New York has, to some extent, acted as a financial intermediary between Canadian savers who want to hold relatively liquid short-term assets and Canada borrowers who want to sell long-term liabilities. The long-term flow has been considerably larger than the short-term flow, thus producing the net capital flow to Canada. To the extent that New York borrowed short-term and lent long-term in Canada, it acted as an intermediary, bridging the gap between Canadian savers who preferred relatively liquid assets and Canadian borrowers of long-term funds. In that sense, it could be said that the United States exported liquidity to Canada. This pattern was not as clear, however, during most of the last few years, as both long- and short-term capital flowed into Canada from the United States.

A major cause for the earlier pattern of capital flows between Canada and the United States was the relative interest rates in both countries for different maturities. Normally, long-term interest rates exceed short-term yields because of the reduced liquidity and greater risk associated with long-term bonds. In Canada, however, the margin between long- and short-term yields between 1960 and 1975 was somewhat greater than in the United States, a phenomenon that economists call a steeper yield curve. This difference in interest rate margins was a prime moving force behind the flow of short-term funds south and long-term funds north. Canadian long-term interest rates almost always exceeded U.S. bond yields by a sizeable margin, whereas short-term interest rates were generally similar in both countries.

A recent survey of major participants in Canadian-U.S. financial flows provided some explanations for the greater Canadian margin between long- and short-term interest rates between 1960 and 1975.[2] Investment managers in both countries maintain that Canadian savers and portfolio managers are more wary of risks than their U.S. counterparts and that they tend to maintain more liquid portfolios, thus creating a relatively strong demand for short-term assets and weaker demand for bonds and other long-term claims in Canada. Also identified as contributing to the greater Canadian margin is the industrial background of major borrowers in Canada. As noted above the most rapidly growing industrial sector in Canada is resources, whereas in the United States it is the service sector. Resource-based industries typically need long-term funds, whereas service industries can often operate with short-term funds. The relatively longer average maturity of the Canadian demand for funds increases bond yields relative to short-term interest rates in Canada.

Furthermore, Canadian capital markets have been perceived as being somewhat thinner and more erratic than those in the United States, although it would be hard to imagine anything more erratic than U.S. capital markets during the last few years. The greater variability of yields in Canada, particularly in secondary markets which have often been quite illiquid, introduce an additional element of risk for both borrowers and lenders. The latter group fears holding long-term assets because they may be difficult or expensive to sell before maturity and consequently tend to avoid lending for long periods if they may need funds in the meantime. Borrowers try to avoid having to roll over short-term loans to finance long-term projects and try to borrow for the full period for which the funds will be needed, thus avoiding the risk of having to repay old loans and arrange new ones in unsettled capital markets. Therefore, lenders are encouraged to operate with relatively short securities and borrowers to seek long-term maturities. The resulting shifts in the demand and supply of short- relative to long-term assets creates higher long-term and lower short-term interest rates. Lenders drive down money market yields by trying to buy primarily short-term assets, and borrowers increase long-term yields by trying to sell bonds instead of short-term paper.

Debt management policies have been perceived as having differed in a way that encourages a larger spread between long- and short-term interest rates in Canada. Though some might question this analysis, the Government of Canada apparently has borrowed at considerably longer average maturities than has the U.S. Treasury.

Certain institutional and historical factors have also influenced foreign borrowing and lending decisions in Canada. For example, the elimination in 1975 of the Canadian withholding tax on long-term bond interest payments to foreigners sharply increased U.S. purchases of Canadian bonds. In addition, the borrowing decisions of Canadian subsidiaries of U.S. firms can be influenced by balance sheet considerations and the views of the parent corporation, although such subsidiaries would presumably be encouraged to borrow where interest rates were lower.

Recent changes in interest rate patterns

The traditional pattern in interest rates in Canada and the United States changed significantly during the latter half of the 1970s. The margin between Canadian long- and short-term yields declined sharply and became smaller than the margin in the United States. This occurred because a sharp increase in Canadian short-term interest rates was accompanied by a much smaller increase in bond yields. Though similar, the pattern was considerably weaker in the United States with the result that capital flows between the two countries changed. Canadian short-term capital inflows became large and sometimes exceeded long-term inflows. The earlier situation in which New York acted as a financial intermediary between Canadian borrowers and lenders came to an end and Canada imported capital at all maturities. During 1980, however, the previous pattern returned, at least temporarily, as short-term funds flowed from Canada to the United States and long-term funds flowed north.

A number of factors could account for the changing relationship between interest rates in the two countries. First, as mentioned above, the 1975 elimination of the Canadian withholding tax on payments to foreigners of interest income on long-term bonds, but not on short-term assets, undoubtedly increased U.S. demand for Canadian bonds. This would tend to drive yields on such bonds down and cause the shift in yield patterns. In addition, inflationary expectations in Canada may have declined due to what appears to be the Bank of Canada's firm commitment to monetarism. If Canadian investors expect less inflation, they are also likely to expect lower interest rates, which would encourage purchases of long-term bonds in hope of earning capital gains when yields decline. Lower inflationary expectations are generally viewed as encouraging a narrower (or negative) spread between long- and short-term yields as people shift portfolios toward longer maturities where larger capital gains are possible if interest rates fall.

Another possible explanation is that Canadian capital markets are maturing so that investor preferences for highly liquid assets may be decreasing. As Canadian capital markets become larger and more stable, one might expect the margin to narrow as investors become more willing to hold long-term assets.

Readers should keep in mind, however, that any analysis of yields in the two countries is subject to change. U.S. capital markets have been in considerable turmoil due to rapid inflation, attempts to impose tight money in periods of huge federal government borrowing, and constantly shifting investor expectations. One could argue that capital markets in both countries, but particularly in the United States, have been so unsettled in recent years that current comparisons of interest relationships do not represent anything which is likely to be permanent.

Outlook

Canada's investment needs relative to its ability to generate internal savings will determine whether or not it will continue to rely heavily on foreign capital in general and U.S. capital in particular. Now that most of the children of the baby boom have entered the labour force and immigration policy is relatively tight, Canada's labour force growth is likely to slow down. This should reduce requirements for investment in plant and equipment to avoid excessive unemployment and maintain the capital-labour ratio. The capital-intensive nature of Canada's major energy projects, however, may maintain Canada's needs for capital. Canada's savings rate, which will be greatly influenced by the public sector, will determine whether the economy can finance its own investment needs or continue to rely on external funds.

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[2] *Robert M. Dunn, Jr., The Canada-U.S. Capital Market, C.D. Howe Research Institute, Montreal, pp. 67-77. The arguments in this article and a range of related issues are discussed in some detail in this volume.*

More foreign investment but . . . less foreign control

By Ted Zahavich

A curious phenomenon developed during the last decade or so: though foreign investors continued to pour billions of dollars worth of direct investment into Canada, the level of foreign ownership and control of the Canadian economy decreased. This is explained, in part, by the takeover of a number of large foreign-controlled companies by Canadian-controlled companies, and by, in part, the more rapid growth of Canadian-controlled firms in general. An increasing amount of foreign funds has also been invested in Canada in recent years for the purpose of acquiring minority equity positions in Canadian public companies through the purchase of outstanding and new shares.

In recent years, it has often been suggested that Canada no longer attracts foreign investment as it once did. Many of those who hold this opinion base their argument on Canada's net foreign direct investment statistics. A close look at those statistics, however, reveals that use of the net figures can be very misleading. For example, though net foreign direct investment statistics have fluctuated markedly in recent years, it is clear that gross outflows and not gross inflows are responsible for this pattern.

Gross outflows, which do not include investment by Canadians abroad, are a return of all or part of the original investment to the parent company, including repayment of loans and sale of subsidiaries. The latter has accounted for the most dramatic fluctuations in gross outflows, which occurred in 1976 and 1978. In 1976, the Canada Development Corporation acquired the Canadian assets of Tenneco Oil and Minerals Ltd. (U.S.-owned), Inter-City Gas Ltd. acquired Canadian Hydrocarbons Ltd. (European-owned) and Field Stores acquired Zellers Ltd. (U.S.-owned). In 1978, PetroCanada Inc. acquired Pacific Petroleums Limited (U.S.-owned), Nova (formerly the Alberta Gas Trunk Lines Co. Limited) acquired Husky Oil (U.S.-owned) and Canadian Forest Products Limited acquired Prince George Pulp and Paper Ltd. and Intercontinental Pulp Company, both U.S.-owned. Large transactions such as these, which run into the hundreds of millions of dollars, tend to tip the foreign capital scales and, in 1976, created an exception to the rule because, for the only time during the past 30 years, gross outflows exceeded gross inflows that year. It should be mentioned that these transactions were for the most part initiated by Canadian buyers, not by foreign sellers.

In 1981, because of a number of exceptionally large acquisitions of foreign-controlled firms by Canadian-controlled firms, such as the purchase of Canadian International Paper Co. (U.S.-controlled) by Canadian Pacific Enterprises Ltd. for $1.1 billion and the purchase of Petrofina Canada Ltd. (Belgium-controlled) by Petro-Canada for $1.5 billion, the gross outflow of foreign direct investment may again exceed the gross inflow. However, the gross inflow will again be large.

In the past five years, almost $12 billion of direct investment has entered Canada. This investment reached $2.7 billion in 1978 and dropped slightly to $2.6 billion in 1979. While final figures for 1980 are not yet available, the data suggest another year of large gross inflows of foreign direct investment, again in the neighbourhood of $2 billion to $3 billion.* Gross inflows are the regular type of investment made by a foreign parent company in a subsidiary such as loans or equity investment. In 1980, there were several transactions that resulted in large inflows. For example, there was the purchase of a one-third interest in Brunswick International Paper Co. by Japanese companies. Under a rights offering, Exxon Corp. invested over half a billion dollars in its Canadian subsidiary, Imperial Oil Ltd. Another large transaction which resulted in a large inflow was the purchase by Superior Oil Ltd., a U.S. company, of the shares in Canadian Superior Oil Ltd. which it did not already own. In addition to having an impact on the flows of direct investment, the sheer size of investments of this type can significantly affect the overall balance of payments as well.

The United States has been the largest foreign investor in Canada and not surprisingly continues to make a large addition to that investment. (It should be noted that the balance of payments measure of direct investment does not include the expansion of existing investments through the reinvestment of earnings.) But recently, European investors, particularly German and Dutch, have committed a large amount of funds for investment in Canada. Several factors account for the continuing heavy inflow of foreign capital, including Canada's wealth in natural resources, particularly energy, its mature manufacturing sector, a highly sophisticated service sector, a well-developed communications and transportation infrastructure, and close proximity to a very accessible U.S. market.

Different foreign investors have provided different reasons for explaining Canada's drawing power. Mr. Heinz Durr, Chairman of AEG Telefunken, recently attributed his company's interest in Canada to its strong industrial base, the accessibility to the U.S. market and the favourable exchange rate of the Canadian dollar, which gives exporters using Canada as a base a significant competitive edge. Mr. Toshiro Tomabechi, Executive Vice-President of Mitsubishi Corp., was quoted as having said at a symposium in Toronto that ". . .considerations of energy cost, technologi-

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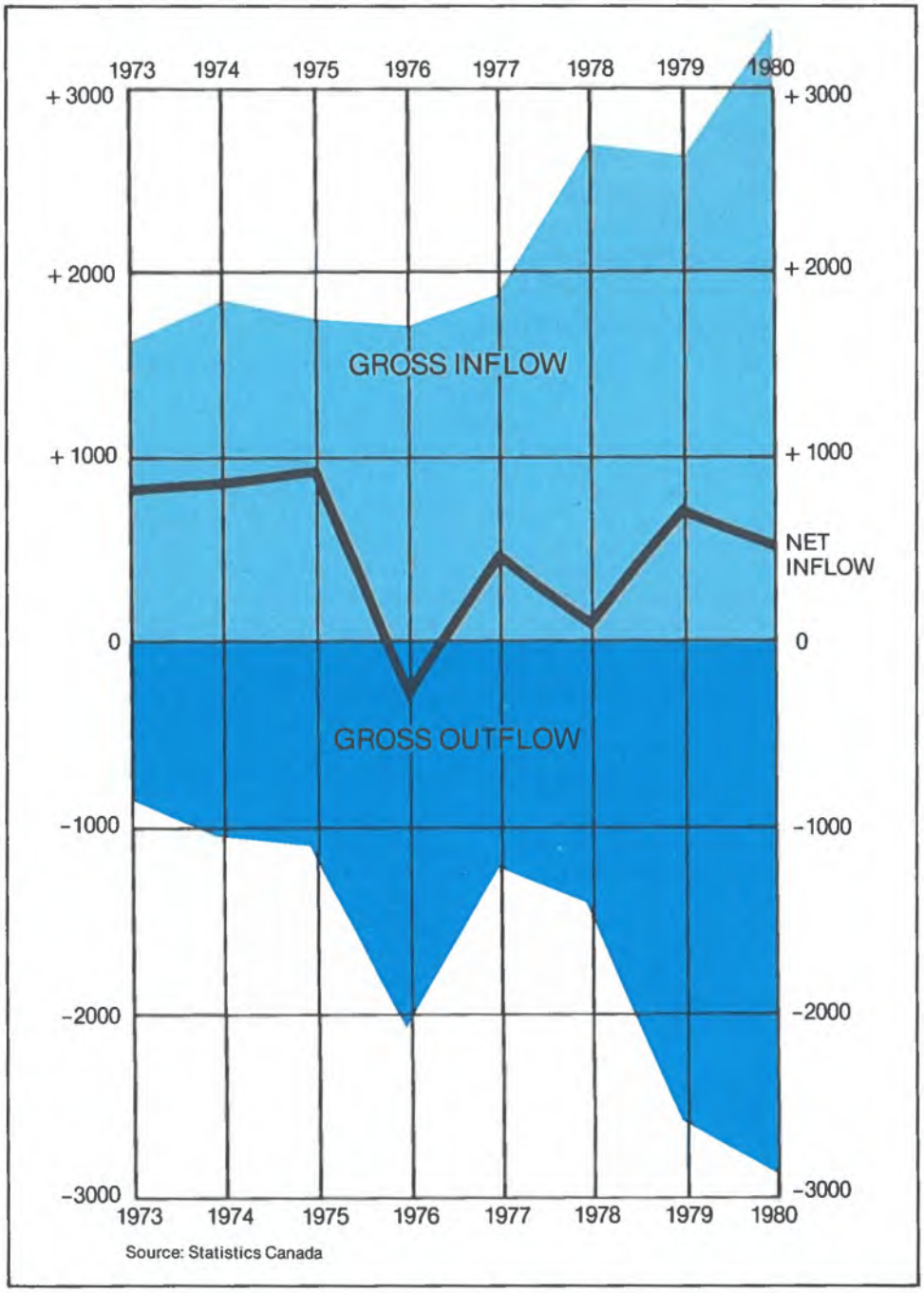
**Just before going to press the author obtained 1980 data on gross foreign direct investment inflows, which reached $3.4 billion. This figure is higher than that predicted in the article.*



cal capacity and long-range potential make Canada an especially attractive site for operations." Another noteworthy source of opinion on Canada as a host country for foreign investment is the Geneva-based European Management Forum. According to EMF's 200 economic, social and political criteria, Canada ranked a close fifth behind the United States, Japan, Switzerland and West Germany. Following behind the top group of five were such countries as the Netherlands, France, Sweden, Britain, Denmark, Italy, Portugal and Greece. A fourth comment on Canada's economic well-being was published by the Nikkei Sangyo Survey. This bi-weekly Japanese report evaluated countries on three aspects: market size, economic environment and investment climate. The results showed that Canada ranked third behind West Germany and the United States.

What is most surprising about the large inflow of foreign funds into Canada in the last few years is that it has not caused a major increase in the level of foreign ownership and control of the Canadian economy in spite of the re-investment of retained earnings, which has accounted for most of the foreign direct investment in Canada since the early 1960s. In fact, the reverse has occurred, the level of foreign ownership and control in Canada having steadily decreased since the early 1970s.

There are a number of methods that can be used to indicate the level of foreign control of the Canadian economy. Probably one of the best is to use "assets", as collected under the Corporations and Labour Unions Returns Act. This measure shows that in 1970, 36 percent of the non-financial corporate assets in Canada were controlled by foreigners. By 1978, this figure had dropped to 30 percent, and today is probably in the area of 26 percent to 28 percent.

At the end of 1978, the value of assets in Canada controlled by foreigners was $100 billion. Six countries accounted for over 92 percent of the $100 billion: the United States ($73.9 billion), the United Kingdom ($9.5 billion), the Netherlands ($4.0 billion), France ($2.4 billion), West Germany ($1.4 billion) and Japan ($1.4 billion). While the United States was by far the most important source of foreign investment, other countries, notably West Germany and the Netherlands, have recently increased their stake in Canada at a faster rate. In 1978 alone, the value of German-controlled assets jumped 30 percent, and that of the Netherlands, 27 percent.

Over 43 percent of U.S. investment in Canada is in manufacturing, over 24 percent in oil and gas, and over 8 percent in mining. The various service industries, such as retail trade and utilities, make up the remainder. U.K. investment in Canada is also concentrated in manufacturing, but the service sector has recently become important principally as a result of the entry into the Canadian market on a large scale of two major U.K. retailers, Marks and Spencer and Boots Drugstores. German investment in Canadian manufacturing jumped 56 percent in 1978, but is still concentrated in wholesale trade mainly because of the activities of Volkswagen Canada Ltd.

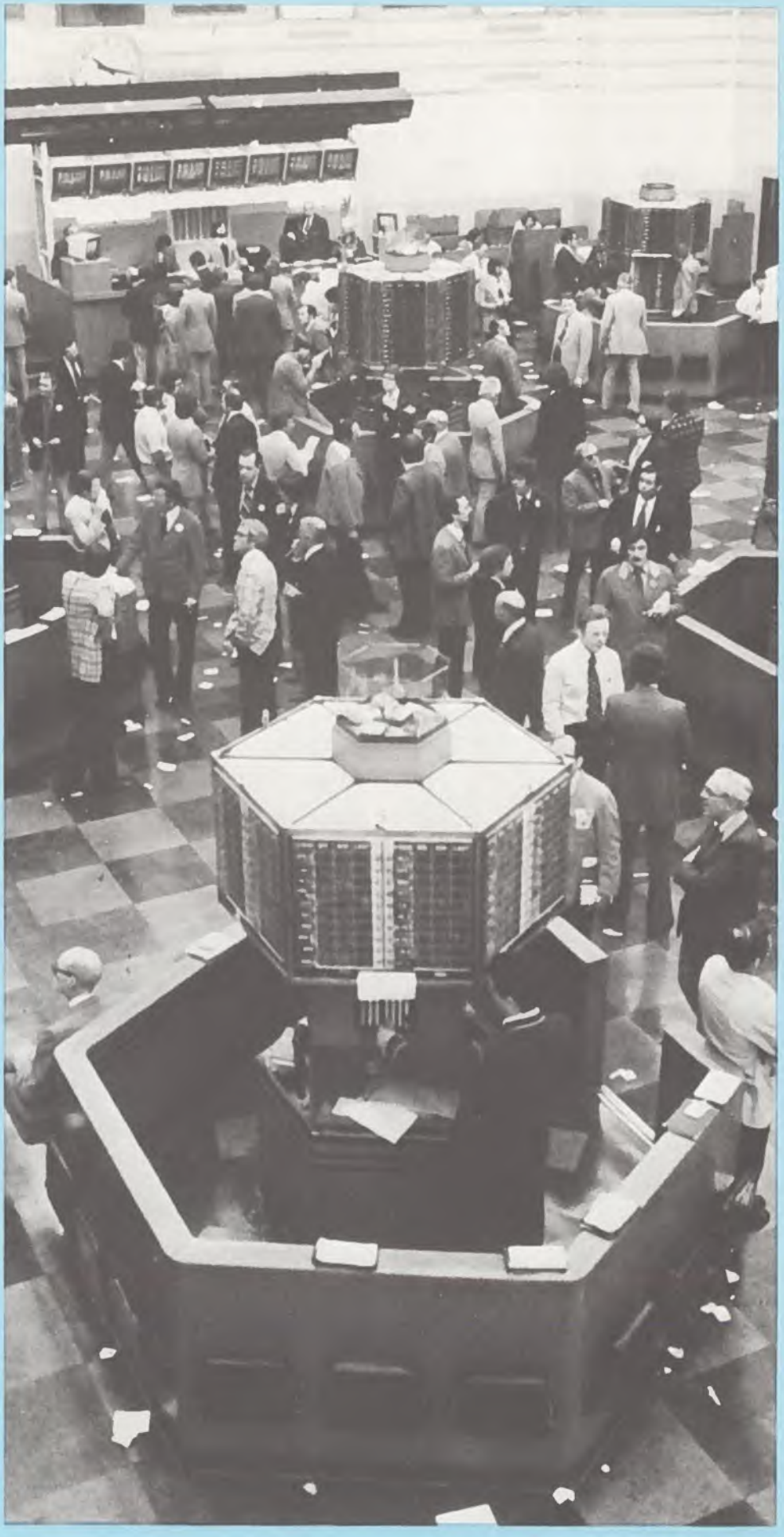
But the story behind foreign investment in Canada in recent years would be far from complete if it did not include an analysis of another type of foreign investment: the purchase of minority equity positions in Canadian public companies by foreigners. Foreign investors have been accumulating shares in a wide range of Canadian companies at a rapid rate. For example, in 1980, foreign investors purchased $7.7 billion worth of outstanding shares in Canadian companies, sold $6.7 billion during the year, for a net year-end position of $1 billion. This is by far the largest annual accumulation recorded by Statistics Canada. The previous record ($300 million) was established in 1979 when foreign investors purchased $4.4 billion worth of outstanding shares in Canadian companies and sold $4.1 billion.

Furthermore, foreign investors were also active buyers of new share issues of Canadian companies. In 1980, they purchased just under $500 million worth of these issues. Again, this is a marked increase over the $160 million recorded in 1979. Another $2 billion was invested by foreigners through the purchase of bonds and debentures of Canadian companies, an increase of $800 million from 1979.

In summary, while foreign direct investment in Canada continues to grow, foreign control of Canada's non-financial industries is decreasing. With the expected construction of energy-related mega projects during the next 20 years, the need for new capital formation in Canada will be great. Foreign investors will still have a role to play in meeting these requirements.

Canada's investment program, 1981-2000

by Andrew G. Kniewasser



The author is president of the Investment Dealers Association of Canada.

Canada is on the threshold of the largest, most broadly based and innovative two decades of new capital investment in the country's history. We expect to put in place $1.5 trillion of new investment between 1981 and 1990 and another $4.7 trillion between 1991 and 2000.

New capital investment, expressed as a percentage of gross national expenditure is now in the order of 23.5 percent. This ratio will rise to over 25 percent during the 1980's and to over 27 percent in the 1990's. (See table 1.)

The composition of the program

These forecasts, when measured as percentage of gross national expenditure, indicate some interesting and reassuring trends in the Canadian economy.

Throughout the 1980's and 1990's substantial increase is expected in business investment in new plant and equipment. Indeed, if one defines "productive investment" narrowly, as investment by business on new plant and equipment, the outlook is for very considerable progress in Canada in the application of capital to productivity increase and growing international competitiveness. In the decade of the 1970's, 62 percent of all new investment in Canada was "productive investment" by business. In the 1980's, the figure will be 70 percent and in the 1990's this trend will continue and this key ratio will be in the order of 76 percent. These ratios are not sufficiently well known in Canada as yet but they are by far the most significant indicator in our entire long term economic outlook.

Industry sectors

The 1981-2000 capital investment program is clearly unprecedented in size and unprecedented in its breadth and diversity. There will be large requirements for new capital over a broad range of Canadian industry and commerce (see table 2) and in all parts of Canada (see table 3). Energy related investments will comprise some 36 percent of all new business investment over the next 20 years. Activity will remain strong across the country and expand at very high rates in Newfoundland and on our northern frontiers.

In summary, we foresee throughout the 1980's very rapid growth in Newfoundland and the West with something over one-half of all new investment taking place in these provinces. But all provinces are growing and we expect that Ontario and Quebec will still account for over 50 percent of real output by 1990.

The investment community

There are, of course, many consequences of such a program for the Canadian and international investment communities. Financing $6.2 trillion of new capital investment over the next 20 years is a considerable challenge and responsibility. In Canada, the financial industry is well advanced in gearing up for the program. Rates of personal and corporate savings remain very high by international standards and the facilities required to get the job done are rapidly being put in place.

The Canadian financial system is decentralized and characterized by a philosophy of separation of function which encourages competition among the functions of investment, banking, insurance and fiduciary services. Suppliers and users of capital, as a result, have a wide choice of opportunity as they seek to fulfill their needs. There has been a tendency to underestimate Canada's capacity to finance capital requirements from domestic savings and systems. It is interesting to note that, on a relative basis, we now raise more than twice as much new capital through securities markets in this country than any country in the world.

Looking ahead we are planning to finance, on a net basis, some 94 percent of the 1981-90 capital investment program from Canadian savings. Indeed, our studies indicate that we can expect to become net capital exporters in the mid 1990's.

This assessment of our rapidly growing capacity to generate savings in Canada does not, however, imply in our minds any lessening in Canada's traditional interest and participation in international trade and finance. Rather, we view our role in finance in future as larger and, indeed, increasingly attuned to opportunities at home and abroad. As a corollary, many Canadians view our growing ability to generate capital in Canada as the principal means of improving their ownership and control over a range of existing and new industries. It is now quite clear that very substantial progress can be achieved in this respect in future through the marketplace rather than by direct government intervention and ownership.

Table 1
New capital investment in Canada, 1961 to the year 2000, in billions of current dollars and as a percentage of gross national expenditures

	1961-70		1971-80		1981-90		1991-2000	
	$billion	%	$billion	%	$billion	%	$billion	%
Residental construction	27	4.4	102	5.6	266	4.5	597	3.4
Non residential construction	39	6.5	117	6.4	465	7.9	1,702	9.9
Machinery and equipment	43	7.1	135	7.4	542	9.2	1,754	10.2
Increase in inventories	7	1.2	16	0.9	45	0.8	144	0.8
Total business investment	116	19.2	370	20.3	1,318	22.4	4,197	24.3
Government	25	4.2	61	3.4	175	3.0	519	3.0
Total new capital investments	141	23.4	431	23.7	1,493	25.4	4,716	27.3

Source: Informetrica, Ottawa
June, 1981.

Sources of financing

We foresee sources of financing for our capital program between 1981 and 1990 this way: 25 percent personal savings, 65 percent from corporate savings in the form of capital cost allowances and retained earnings, 4 percent from net savings from all levels of government and their agencies and 6 percent from non-residents.

Although corporate savings remain the largest component throughout the period, particular emphasis must be placed in our strategy on the growing role of personal savings and securities markets which channel capital generated by individuals to all parts of Canada and to all enterprises. Corporate savings usually remain within the enterprise which generates them and do not become available to other businesses across the country.

Securities markets in the 1970's financed some 25 percent of our capital needs. In the 1980's they will finance some 35 percent and we expect this trend to continue in the 1990's. It is because more of these needs will have to be financed through personal savings and through securities markets that so many young Canadians are now in the process of preparing for a career in the Canadian investment industry.

Securities markets reviewed

We have been successful in Canada since 1974 in improving the efficiency of the allocation of new capital to productive purposes. New equity financing, that is permanent risk capital and widespread Canadian ownership, amounted to 12 percent of all new financing through our markets for the first six months of 1981. The figure was 3 percent in 1974.

This ratio of new equity for non-financial business to total financing for all business and governments is a key indicator of confidence and the appetite for risk-taking in this country. Our performance in this respect is presently very favourable by international standards. It is essentially a function of fiscal policy, which in Canada since 1974, has attached a high priority to individual saving and investment decision making. It is precisely this kind of portfolio investment which flows through our market system and becomes available to enterprises, small and large, in all parts of Canada, that is integral to our investment program over the next twenty years. (Table 4 reviews new securities issues by Canadian government and business in recent years.)

Conclusion

These thoughts will certainly appear bullish and optimistic in the light of very severe immediate problems, such as inflation, high interest rates, the exchange rate and poor productivity performance. Our securities markets reflect these days widespread concern about these symptoms of economic underperformance.

But, it is important to take a longer view, to assess fundamentals and to try to make some balanced assessment about our prospects. For example, consistent sensible economic man-

Table 2
Industrial profile of new capital investment in plant and equipment, 1981 to the year 2000, in billions of current dollars

	1981-90	1991-2000
Agriculture, forestry, fishing	106	306
Mining	192	853
Manufacturing	205	681
Construction	22	56
Utilities	166	563
Transportation	137	461
Trade	31	99
Finance, insurance, real estate	72	232
Services	77	203
Total	1,008	3,454
Energy-related investments will be a major opportunity		
Energy	339	1,297

Source: Informetrica, Ottawa
June, 1981

Table 3
Regional profile of new capital investment, 1981-90

	Real growth by province 1980-90	Share of total investment 1981-90
	(% change)	
	% 1980-1990	% Share
Newfoundland	72	3.1
Prince Edward Island	31	0.3
Nova Scotia	32	2.3
New Brunswick	35	1.8
Quebec	33	21.0
Ontario	38	23.9
Manitoba	42	3.2
Saskatchewan	46	4.1
Alberta	46	25.0
British Columbia*	51	15.3
Canada	41	100.0

* includes Yukon and Territories

Source: Informetrica, Ottawa
June, 1981

Table 4
New securities issues by Canadian government and business ($ millions)

	Government				Corporate							
	Canada	Prov. & Munc.	Total Gov't	% of Total	Debt	Equity	Corp. Total	% of Total	of which True Equity (Non-Fin.)	% of Total		Total
1965	$ 1,965	$ 2,005	$ 3,970	62.6%	$ 1,825	$ 550	$ 2,375	37.4%	$ 410	6.5%		$ 6,345
1966	1,890	2,865	4,755	65.7	1,850	630	2,480	34.3	580	8.0		7,235
1967	2,450	3,520	5,970	74.6	1,545	490	2,035	25.4	360	4.5	+7.0%	8,005
1968	2,920	3,160	6,080	71.2	1,865	595	2,460	28.8	565	6.7		8,540
1969	1,805	3,755	5,560	63.8	2,140	1,015	3,155	36.2	820	9.4		8,715
1970	4,170	3,785	7,955	73.3	2,525	380	2,905	26.7	330	3.0		10,860
1971	5,095	4,045	9,140	73.7	2,895	375	3,270	26.3	340	2.7		12,410
1972	2,970	4,665	7,635	69.2	2,680	720	3,400	30.8	550	5.0	+3.7%	11,035
1973	2,060	4,240	6,300	62.5	3,130	655	3,785	37.5	485	4.8		10,085
1974	6,230	5,660	11,890	65.1	5,590	780	6,370	34.9	580	3.2		18,260
1975	5,630	9,685	15,315	73.3	4,315	1,310	5,625	26.7	940	4.5		20,940
1976	6,350	11,465	17,815	69.0	6,600	1,345	7,945	31.0	1,035	4.0		25,760
1977	9,940	10,040	19,980	65.0	7,490	3,245	10,735	35.0	1,275	4.2	+5.6%	30,715
1978	12,820	9,745	22,565	59.4	8,380	7,035	15,415	40.6	1,850	4.9		37,980
1979	10,475	9,145	19,620	61.9	7,835	4,250	12,085	38.1	3,190	10.1		31,705
1980	15,000	11,585	26,585	62.1	10,400	5,790	16,190	37.9	3,990	9.3		42,775

Note: Gross new issues of marketable bonds and stocks — includes CPP. Increase in outstandings for CSBs and short-term paper.

Sources: Bank of Canada Review,
IDA underwriting reports. June 1981.

agement is critical. Such an assessment is, of course, implicit in these forecasts and is reasonable in the light of our traditions and performance over the past two decades when assessed in perspective and by international comparison. Our fiscal system has become, and we expect will remain, internationally competitive. All levels of government in Canada are pledged to restraining expenditures to a rate not higher than the growth of the gross national product. There is a consensus in Canada that we must maintain a high rate of savings and, increasingly, focus more of these savings on productive new investment in business and social capital. In a large, open, internationally dependent country like Canada, we must expect shocks and frustrations and delays in decision-making from time to time. And, our performance in managing our environment can certainly be improved. But our assessment at the IDA in Canada in 1981 is, on balance, that for the foreseeable future, there is "Opportunity from East to West".

In the decade of the 1970's, 8 percent of capital formation in Canada or $35 billion net was financed by non-residents. In the 1980s, this percentage will decline to 6 percent but $92 billion net of new foreign investment will offer many fine opportunities for foreign investors.

New life for Canadian metal mining*

Enormous energy projects and sharp federal-provincial differences over energy policies have tended, quite rightly, to dominate public and business concerns through the past year. One side effect, however, has been an overshadowing of the improvement in activity in the Canadian mining industry, and of a welcome resurgence in mineral exploration and development.

Through much of the 1970s the Canadian mining industry experienced a lengthy pause in development. But today, the pickup in activity ranges from tungsten in New Brunswick, and gold in central Canada, to copper and molybdenum in British Columbia (see map). In this article, we look at the recent performance of the Canadian metal mining industry and assess the prospects for continuing vigour through the next few years. Although the industry picture has included a notable burst of activity in uranium, coal, and potash development, this article will limit its focus to the spectrum of non-ferrous metals that are currently in the forefront of developmental and market interest. In keeping with this approach, too, nickel is touched on only in passing — for while it is still a major factor in the Canadian mining picture, little new development is in early prospect.

The pause in activity

The recent improvement in Canadian metal mining development stands in contrast to the stagnation that occurred through most of the 1970s. To some extent, that weakness was shared by the mining industry in other countries because of an extended period of uneven market recovery and low profitability after the deep world recession of 1974-75. Investment decisions tended to be delayed, too, as potential producers slowly came to terms with the new era of more stringent environmental regulations, escalating capital costs for new mines, and more expensive private sector financing. During this period major new projects were largely centred in the less developed countries where governments took a leading role in resource development.

For Canada, there were a number of special factors which made the pause in activity here an especially protracted one. Easily accessible areas of potential development had become scarcer, and many of the significant new discoveries were located in remote northern areas, where development would require extensive infrastructure. The imposition by a number of provinces of onerous new royalties and mining taxes in 1974-75 (in the wake of the earlier spectacular commodity boom) along with federal-provincial conflicts over resource revenues resulted in high, and in some cases very high, effective tax rates on mining. Although these taxation problems in due course were eased, they created a climate of great uncertainty for some time.

Once the new mines which were under construction at the start of the 1970s came on stream, relatively few new projects were undertaken and indeed almost none in the 1976-78 period. The volume of capital investment in metal mining dropped off sharply, iron ore and uranium providing the only areas of strength. The record of production (and exports) was discouraging as well, though at times some of the weakness in output arose from prolonged labour disputes.

. . . Followed by a welcome upsurge

In most respects, for Canada, the tide has turned dramatically over the past two years or so. Exploration activity has leapt ahead. All areas of the country have been benefiting, and there has been a particular resurgence in exploratory work on already known gold deposits and prospects. Capital investment in metal mining, too, has been exceptionally strong despite a sharp reduction in spending on iron ore.

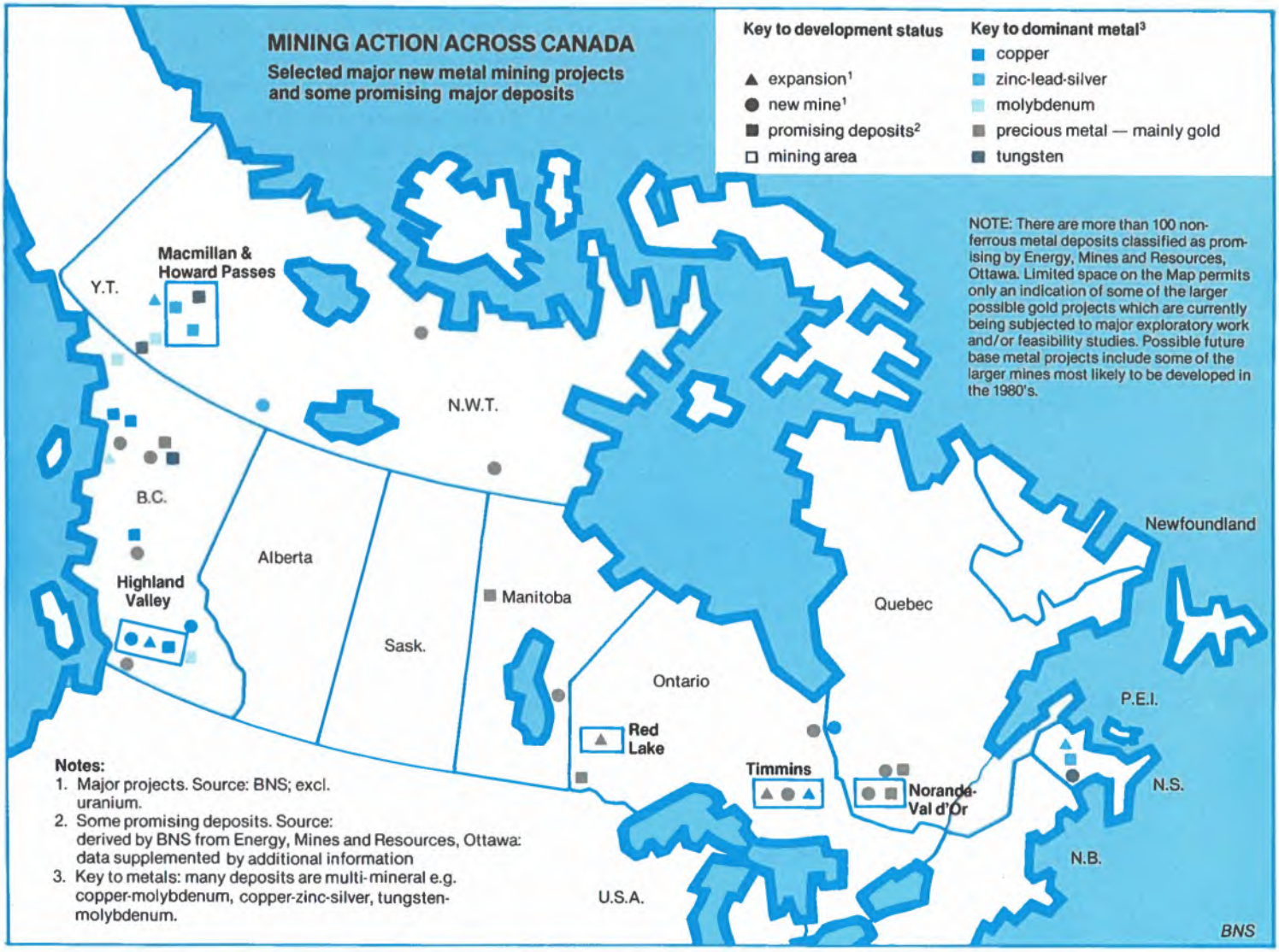
Total investment expenditure on new copper, lead, zinc, and precious metal mines more than tripled in current dollar terms between 1978 and 1980.[1] Although only a modest further increase is expected this year, the total remains at a very high level. The fruits of this investment should start to show up in production figures toward the end of this year.

The most intense development activity has been in British Columbia where projects costing almost $1 billion are under way or have just recently been completed. As well as the development of new mines, these projects include programs of expansion and mine-life extension, and modernization and expansion of processing facilities. By the end of this year, the volume of potential copper production could be increased by almost one-third as compared with current levels while the increase in molybdenum mine capacity will be even larger. Sharp gains should also be recorded in output of gold and silver (the latter boosted by a large mine near Houston, some 180 miles west of Prince George).

In the Northwest Territories, construction has started at a major zinc-lead mine in the

* *This article was first published in the April–May 1981 issue of the Bank of Nova Scotia's Monthly Review.*

[1] *This does not include spending on nickel-copper deposits which is classified under other deposits.*



High Arctic and at an important gold mine some distance to the east of Great Bear Lake. Gold also is the focus of much activity in Ontario and Quebec. Although most of the projects are quite small, plans for a large open-pit operation some 125 miles northeast of Timmins have recently been announced, and in Quebec a sizeable development is under way in the Noranda area. The Atlantic Provinces' metal mining industry will be further diversified when work on a new tungsten-molybdenum mine is completed late this year.

Copper: hopes for better times

Copper markets, often regarded as a bellwether for industrial metals, have been clearly reflecting world economic difficulties over the past few months. Deepening recession in western Europe, the slowdown in Japan, and the hesitant U.S. recovery have been the main influences depressing copper prices to the 85-90 cent (US) level. Sustained world economic recovery, even on a modest scale, is not expected until toward the end of this year. Despite weak demand and poor prices, few cutbacks in production have been announced, at least in part because byproduct output, particularly of precious metals, has been sustaining revenues from many copper mines. In consequence, producer stocks are expected to build up quite markedly in the period just ahead. For 1981 as a whole, some recent estimates suggest, the addition in inventories could amount to around 150,000 to 200,000 metric tons. (In contrast, production and consumption were in close balance last year since the market was shielded from much of the effects of the U.S. recession by a protracted strike at U.S. copper producers.) Sizeable as the projected increase is, it remains of manageable proportions in comparison with the huge build-up of inventories after the mid-1970s.

In fact, that earlier heavy overhang of stocks — which reached a peak of over 1.5 million tons early in 1978 — had greatly impeded copper's recovery from the world recession of 1974-75. The price improvement which finally took place in 1979-80 owed much to limitations on production which contributed to a rapid draw-down in these stocks. The amount of new mine capacity coming on stream, in contrast to previous years, was quite small. Output was held back or reduced in such major producing countries as South Africa and Canada. In this country, the nickel-copper orebodies around Sudbury account for an important proportion of copper output, but depressed nickel markets in 1978 and a long strike at Inco in 1978-79 much reduced Canadian production of copper.

Although economic projections in today's uncertain world are hazardous, most metal analysts expect that demand for copper will grow modestly — in the range of 2.5 percent to 2.8 percent a year on average to 1985. Copper supplies, however, constitute one of the big question marks for the years ahead. The 1980s opened with a significant inventory of very large unexploited deposits, a number of them already subjected to extensive pre-production work. Recently announced new mining projects in North and South America, however, have been of moderate size, and several have included precious metals as well as copper, and others have represented expansion of existing mines.

Although many very large known deposits, in Chile and Peru for example, are being re-examined, uncertainty as to whether prices will reach levels sufficient to justify heavy construction and financing costs could effectively delay (and in some cases is already delaying) production decisions. And the lead time for a production start in such instances is considerable. New or increasingly important elements which could assist in the development of large new mines are joint-venture enterprises, participation or ownership by

cash-rich oil companies, and more pragmatic attitudes of host governments in developing countries.

Most estimates point to an improved supply-demand balance over the next five years, the modest growth in consumption to be met by an equally modest growth in mine capacity. By implication then, real prices could stabilize at more profitable levels for existing mines. This would be in contrast to the downward trend experienced through most of the 1970s.

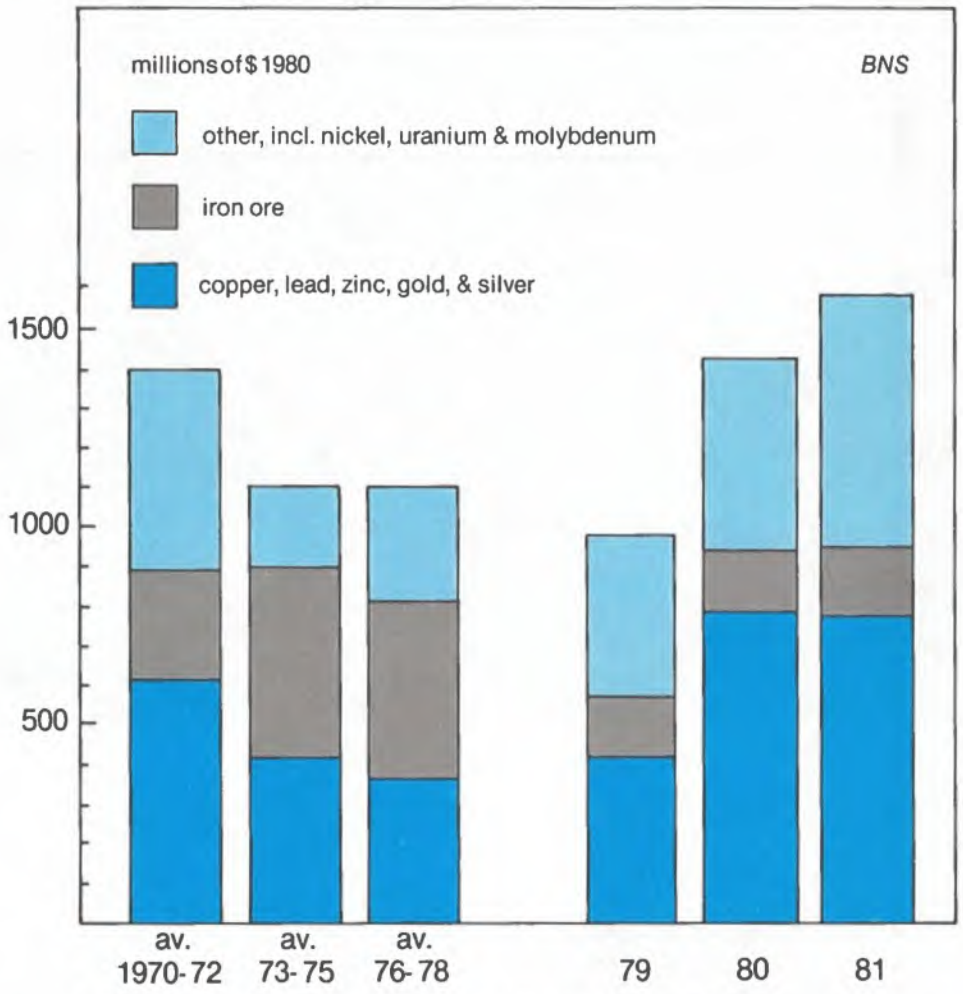
In Canada, several new mining projects are under way or have recently come into operation. In addition, in northern Ontario, a new copper smelter and refinery is close to completion and work is already going ahead for expansion of these facilities. For the future, Canada has a number of attractive undeveloped copper deposits and the step-up in exploration will undoubtedly lead to new discoveries. One really major new development in the Highland Valley area of B.C. could come into production toward the mid-1980s.

Zinc: concentrates in demand

For zinc, the recovery in demand has been weak, and even through 1979 and 1980 prices rose only marginally above their level of late 1978. The automobile industry represents a major market — both for die castings and for coatings to protect steel against corrosion. Automotive demand for zinc die castings has declined sharply over the last few years in the large U.S. market as car manufacturers have substituted such lighter materials as plastic and aluminum in their efforts to produce vehicles with greater fuel efficiency. And, though the use for corrosion protection is certainly a growing market for zinc in many different industries, the weakness in sales of North American-built motor vehicles has held down consumption on this continent.

Despite weak demand overseas as well as in the United States, producer stocks have remained at relatively low levels. The flow of metal supplies has been limited by production cutbacks, particularly at overseas smelters and by the shutdown of some U.S. refining capacity due in part to the difficulty of meeting environmental regulations. But for some time, too, zinc mine output (in the form of concentrates) has failed to keep pace with even the reduced smelter demand, giving rise to considerable strength in the markets for zinc concentrates. With little new mine output scheduled to come on stream this year, the relatively tight supply position for concentrates is expected to continue. This situation may reflect more of a structural problem than a cyclical one. If so, rationalization of the industry to eliminate some of the surplus high-cost smelter capacity in Western Europe and Japan might end the anomaly of low prices for the refined metal occurring at the same time that supplies of the raw material are tight.

Canada is by far the world's leading exporter of refined zinc and of concentrates and is likely to remain so in the foreseeable future. Most zinc mines and processing plants in this country are large and employ up-to-date, efficient technology. They enjoy relatively low energy costs as compared with those in, say, Japan. In addition to smaller ongoing programs in Canada, there is a major modernization and expansion program at the zinc-lead processing facilities at Trail, in British Columbia, and a large new zinc-lead mine in the High Arctic is scheduled to start production in 1982. And known but as yet undeveloped ore deposits in this country are large (as indicated in the map).

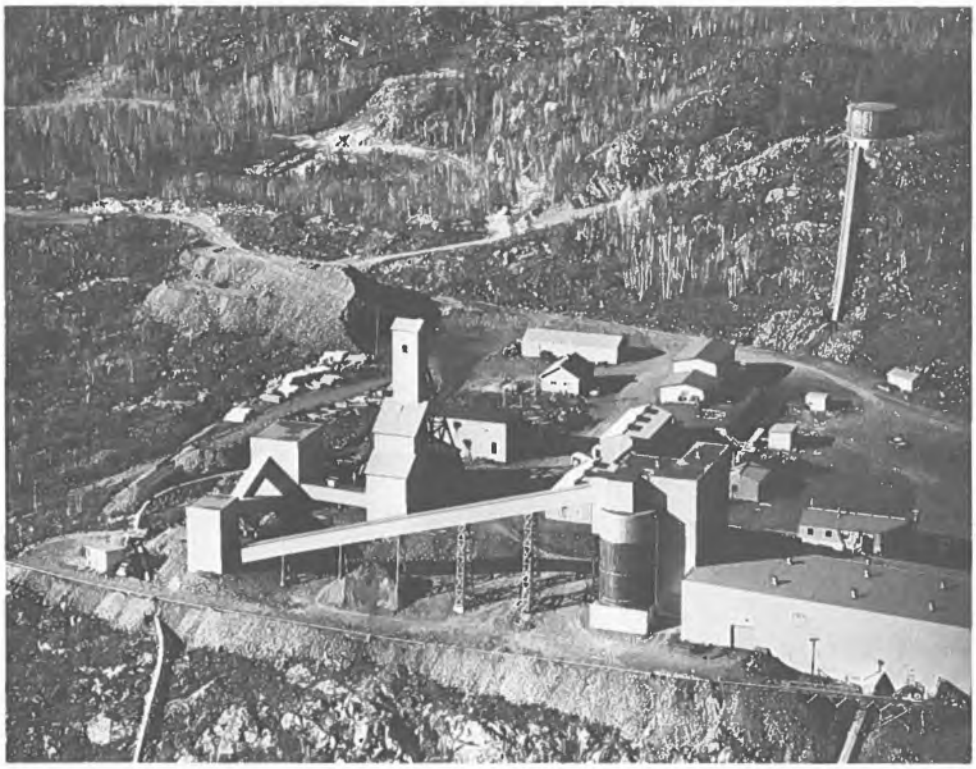


DATA: Basic source — *Public and Private Investment in Canada*; 1981 data — intentions, BNS ests. for iron ore, 1970, 1971, and 1977, current dollar figures converted to constant 1980 dollars by GNP non-residential construction price index, 1981 index — BNS est.

Lead: fluctuating prices

The recent pronounced swings in lead prices have been quite uncharacteristic of this normally rather stable metal. Prices rose steeply in 1979 to abnormal heights, mainly because of large Eastern European purchases at a time when world supply and demand were in close balance and producer stocks were low. A fall-off in these purchases, combined with a lowering of replacement-battery demand (in part because of the relatively mild 1979-80 winter in the United States and Europe), brought a sharp weakening in demand and prices during 1980. This was exacerbated by the drop in U.S. auto sales (and thus requirements for new batteries) along with the mandated U.S. phasedown of the use of lead in anti-knock additives for gasoline.

Little improvement in lead demand is foreseen for this year, particularly in view of the further drop expected in U.S. consumption of leaded gasoline. Prices have been recovering from the low point reached in February, however, in part because of a strike at a U.S. producer. As with zinc, lead mine output has been static for some years, and little new capacity is coming into operation this year. Concern over lead pollution in the workplace and elsewhere has led to proposed new stringent regulations in the United States. In all industrialized countries, indeed, standards for lead emissions are under review. Such uncertainty has held back the construction of new production facilities and, in some cases, could result in plant closures. For Canada, with large potential ore reserves, this situation could present good opportunities, providing clearly defined and consistent pollution control standards are developed by the various regulatory authorities.



The Lake Dufault Mines Ltd. copper mine north of Noranda, Québec also yields zinc, silver and gold.

Molybdenum: into world surplus

Molybdenum — a relative newcomer in the metal world — is used chiefly as an additive in alloy and stainless steels. Growth in demand has been very rapid in recent years, averaging some 6 percent to 7 percent a year. Between 1973 and 1979, in fact, tight (and at times short) supplies and sharply rising prices were the rule.

By last year, however, the market began to weaken as world industrial activity declined, and molybdenum supplies became more adequate following the settlement in late 1979 of a prolonged strike at a major Canadian producer. Dealer prices[2] have fallen sharply from their strike-inflated levels, and producer prices have been trending somewhat lower (though they are still double their 1977 average). There have been no announcements as yet of production cutbacks, although at least some producers are building up stocks.

The attractive market situation prevailing until quite recent months has led to a rush of new molybdenum projects. In Canada (the second largest producer next to the United States), productive capacity could increase by almost 50 percent by 1983 when new projects, mostly in British Columbia, are scheduled to be fully in operation. At the same time, U.S. output is scheduled to move up sharply. In total, announced capacity increases over the next five years, if all come into operation as planned, are likely to exceed by a considerable margin the somewhat lower consumption growth rate which is anticipated (on the order of 5 percent a year).

Though outlets in the transportation and energy-related fields continue to be promising, high prices and shortages have encouraged a good deal of substitution and economy in use and, in general, markets for molybdenum are maturing. The dominance of one major U.S. producer may serve to cushion the pressures of indicated surplus capacity. But, as was the case for nickel several years ago, much will depend upon the course of action adopted by new producers intent on establishing a market share.

Precious metals: dazzling price levels

Despite continuing great volatility, prices of precious metals have risen in the last few years to unprecedented and largely unforeseen heights. Current prices of around US $500 an ounce for gold and US $11 an ounce for silver compare with about $240 and $7 only two years ago, although they are down sharply from the peaks reached in early 1980. Precious metals (as well as other metals at times) have been the target of both investment and speculative demand. The huge price increases are symptomatic of today's difficult world environment, marked as it is by grave political uncertainties, escalating energy costs, serious inflationary trends, and a widespread distrust of paper currencies.

In Canada, until recently, interest in gold and silver mining exploration and development lagged considerably behind the big rise in prices. In large part, this hesitance was due to a lack of confidence that higher price levels would persist. But over the past year there has been an enormous outburst of activity, coincident with the ready financing provided by a strong market for mining stocks.

About one-third of Canada's gold production is derived as a byproduct of non-ferrous metal mining; revenues from this gold (and also silver) have provided an important contribution to earnings. For the pure precious-metal mines, the major turnaround in profitability after so many dismal years is particularly welcome.

Capital expenditures on gold exploration and mine development doubled in 1980 and are expected to show a similar increase this year. Including only projects costing $25 million or more, plans have been announced for four new operations to start between 1981 and 1983. And there are a score or more of smaller mines now under construction or in the planning stage. To some extent this projected new output will be offset by the exhaustion of other orebodies and by the tendency of existing mines to mine lower-grade ore now economic at higher prices. Nevertheless, the declining trend in Canadian gold output should be halted and production should actually increase, though slowly.

The recent dips in gold prices to around US $500 an ounce or even a bit lower have calmed some of the excessive fervour in the gold mining scene in Canada. A number of the projects under study are really quite small and often low grade; their development will be sensitive to the outlook for a continuation of high gold prices.

Opportunities for Canada

A number of promising ore deposits are already well delineated and "on the shelf" in Canada, and further new discoveries are a reasonable expectation. Accordingly, the outlook for new mine development here is quite bright, if only because of the slow pace of mine development around the world over the past few years. Construction of new metal processing facilities is also likely; plans for a zinc refinery in New Brunswick are currently under consideration.

The actual rate of new development could, of course, be affected by any new uncertainties about resource investment generally as a result of federal-provincial conflicts over energy resources and pricing. For some of the more remote potential mining areas, government cooperation in the establishment of infrastructure will be required. The labour situation has frequently been a problem as evidenced by the need both for skilled personnel and for a lessening of the high turnover rate in many northern areas, as well as by the adversary atmosphere which too frequently has led to crippling strikes. And environmental concerns will have to be accommodated.

There are challenges ahead but with a favourable energy potential relative to many other areas, plus proximity to the huge U.S. market and well-established ties with Japanese and Western European customers, Canada appears quite well positioned to take advantage of the new opportunities arising in the changing world mining scene.

[2] *Dealer prices for metals are apt to fluctuate more widely than the prices established by producers. For most metals, the amount marketed by dealers is generally small.*

Capital investment projects in Canada

Electric power, oil and gas, and mining

Some analysts assert that over the next 20 years well over $1 trillion worth of capital investment will be made in Canada. Resource industries will account for a considerable portion of that investment as pipelines are built, energy resources developed, mineral exploration and production increased and related infrastructure expenditures made.

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 from press reports. This report was prepared by the staff of the Foreign Investment Review Agency with the assistance of the Economics Department of the Bank of Nova Scotia.

Company and project description		Completion date	Cost ($ million)	Location
British Columbia				
Electric power				
New power plants				
B.C. Hydro and Power Authority	hydro	1987	1,900	Peace River, Site C
	hydro	1985	1,700	Revelstoke
	transmission line	1983-84	800	mainland to Vancouver Island
Oil and gas				
B.C. Hydro and Power Authority				
Gas transmission line		1984	125	Tilsbury to south of Nanaimo
Chevron Canada Inc.				
Refinery expansion		1982	13	Burnaby
Shell Canada Ltd.				
Refinery expansion		1983	52	Burnaby
Mining				
B.C. Coal Ltd.				
Coal mine		1983	282	Sparwood
Bethlehem Copper Corp. and Valley Copper Mines Ltd.				
Copper, molybdenum and silver mine		1984	750	Highland Valley area
Cominco Ltd.				
Expansion and modernization of zinc refinery		1983	210	Trail
New zinc leaching plant and lead smelter		1985	n.a.	Trail
Modernization of Sullivan lead-zinc mine		1982	20	Kimberley
Denison Mines and Teck Corp.				
Coal mine		n.a.	900	Tumbler Ridge
Fording Coal Ltd.				
Expansion, coal mine		1982	115	Elkford
Noranda Mines Ltd.				
Development of copper-zinc mine		1982	62	Goldstream Valley
Expansion of molybdenum milling capacity		1982	13	north of Kamloops
Quintette Coal Ltd.				
Coal mine		1985	700	Peace River area
Shell Canada Resources Ltd.				
Coal mine		1982	200	Sparwood area
Teck Corp.				
Coal mine		1983	220	Peace River area
Westmin Resources Ltd. (formerly Western Mines Ltd.)				
Copper-lead-zinc mine		1982	19	Buttle Lake
Alberta				
Electric power				
New power plants				
Alberta Power Ltd. and Transalta Utilities Corp. (formerly Calgary Power Ltd.)	thermal	1985-86	750	near Hanna
Edmonton Power	thermal	1987-88	760	Genesee
Transalta Utilities Corp.	thermal	1984	1,200	Keephills
	thermal	1985-86	750	Keephills
	transmission system	1983	n.a.	Keephills to Edmonton
	interconnection with B.C. Hydro	1983	n.a.	Crowsnest Pass area

Oil and gas			
Alberta Energy Co. Ltd.			
Twin pipeline system	1982	65	Cold Lake to Edmonton
Canada Development Corporation			
Pilot steam injection plant	1982	30	Kearl Lake
Chieftain Development Co. Ltd.			
Gas processing plant	1982	20	Sinclair gas field
Foothills Pipe Lines Ltd.			
Prebuild section of Alaska Highway Pipeline	n.a.	600	James River Junction to Monchy (Sask.)
Gulf Canada Ltd.			
Refinery expansion	n.a.	200	Edmonton
Gulf Canada Resources Inc.			
Gas processing plant	1982	250	near Edson
Husky Oil Ltd.			
Expansion, heavy oil refinery	1982	80	Lloydminster
Husky Oil Operations Ltd.			
Twin pipeline system	1982	55	Cold Lake to Lloydminster
Imperial Oil Ltd.			
Expansion, oil refinery	1986	290	Edmonton
Shell Canada Ltd. and Husky Oil Ltd.			
Synthetic heavy oil refinery	1984	520	near Fort Saskatchewan
Suncor Inc.			
Expansion, heavy oil plant	1982	185	Fort McMurray
Texaco Canada Resources Ltd.			
Expansion, gas processing plant	1982	40	Bonnie Glen area
Mining			
Gregg River Resources Ltd.			
Coal mine	1983	180	Hinton area
Union Oil Co. of Canada Ltd.			
Coal mine	1983	240	Hinton area

Saskatchewan

Electric power				
New power plants				
Saskatchewan Power Corporation	thermal	1982	170	Coronach area
	hydro	1985-86	505	Nipawin
Mining				
Cominco Ltd.				
Expansion, potash operations		1982	30	Saskatoon area
Key Lake Mining Corp.				
Uranium mine-mill complex		1983	400	Key Lake
Potash Co. of America				
Expansion, potash mine		1982	30	Saskatoon area
Potash Corp. of Saskatchewan Ltd.				
Expansion, potash mine		1983	430	Lanigan

Manitoba

Electric power			
New power plants			
Manitoba Hydro	1989	n.a.	Limestone, Nelson River

Mining

Brinco Ltd. and New Forty-Four Mines Ltd.			
Reactivation of gold mine	1981	15	Bissett
Hudson Bay Mining and Smelting Co. Ltd.			
Zinc mine	1982	16	Flin Flon area
Zinc refinery improvements	1982	20	Flin Flon area
Copper-zinc mines	1982	15	near Snow Lake
Manitoba Potash Co.			
Potash mine and processing plant (planned)	1987	600	McAuley

Ontario

Electric power

New power plants

Great Lakes Power Co. Ltd.	hydro	1982	110	Sault Ste. Marie
Ontario Hydro	thermal	1984-88	938	Atikokan
	nuclear	1988-90	6,700	Darlington
	nuclear	1983-87	4,550	Bruce
	nuclear	1983	3,100	Pickering

Mining

Amoco Canada Petroleum Co. Ltd., Dome Mines Ltd. and Campbell Red Lake Mines Ltd.			
Gold mine	1983	143	Detour Lake
Denison Mines Ltd.			
Expansion, uranium mines	1985	250	Elliot Lake
Dickenson Mines Ltd.			
Expansion, gold mine	1982	15	Red Lake area
Dome Mines Ltd.			
Expansion and improvement of gold mine	1984	92	Timmins
Domtar Inc.			
Expansion, rock salt mine	1983	37	Goderich
Inco Ltd.			
Electro-cobalt plant	1982	21	Port Colborne
Ventilation system, Creighton mine	1982	72	near Sudbury
Mattabi Mines Ltd.			
Expansion, zinc-copper mine	1984	27	Sturgeon Lake
Pamour Porcupine Mines Ltd.			
Reactivate gold mine	1982	15	Timmins area
Preston Mines Ltd.			
Reactivate uranium mine	1984	186	Elliot Lake
Rio Algom Ltd.			
Uranium mine and mill complex	1983	188	Elliot Lake
Texasgulf Inc.			
Expansion, zinc plant	1982	10	Timmins

Québec

Electric power

New power plants

Hydro-Québec	hydro	1985	600	north of Baie Comeau
	nuclear	1982	1,000	Gentilly
Société d'énergie de la Baie James	hydro	1985	15,000	James Bay area

Oil and gas

Gaz Inter-Cité Québec Inc.			
Gas distribution system	1991	500	Trois-Rivières, Quebec City and other points
Gaz Métropolitain			
Extension, gas distribution system	n.a.	65	Montreal and east of Montreal

Golden Eagle Canada Ltd.				
Refinery improvements		1982	300	St-Romuald
Trans Canada Pipelines Ltd. and Q & M Pipeline Ltd.				
Pipeline		1982	500	Montreal to Quebec City
Mining				
Bachelor Lake Gold Mines Ltd.				
Gold mine		1981-82	10	Bachelor Lake
Les Mines Seleine Inc.				
Salt mine		1982	65	Iles de la Madeleine
Noranda Mines Ltd.				
Improvements, copper smelter		1983	35	Noranda
Improvements, zinc reduction plant		1983	45	Valleyfield
QIT-Fer et Titane Inc.				
Productivity improvements and pollution control		1985	100	Sorel
Teck Corp. Ltd. and Niobec Inc.				
Expansion, columbium mine		1981	10	St-Honoré

Atlantic Region

Electric power				
New power plants				
Lower Churchill Development Corp.	hydro	n.a.	3,200	Muskrat Falls, Nfld.
New Brunswick Electric Power Commission	nuclear	1982	1,200	Point Lepreau, N.B.
Newfoundland and Labrador Hydro Commission	hydro	1982	155	Upper Salmon River, Nfld.
	hydro-electric plant	1984	287	near Devil Cove, Nfld.
Nova Scotia Power Corporation	thermal	1984	161	Lingan, N.S.
Mining				
Cape Breton Development Corp.				
Coal mine		1983	300-400	Cape Breton Island, N.S.
Coal mine		1984	54	Point Aconi, N.S.
Denison-potocan Potash Co.				
Potash mine		1983	190	Sussex, N.B.
Mount Pleasant Joint Venture				
Tungsten-molybdenum mine		1982	80	near Fredericton, N.B.
Potash Co. of America				
Potash mine		1983	150	Sussex, N.B.

Yukon and Northwest Territories

Electric power				
New power plant				
Northern Canada Power Commission	hydro	1983	26	Whitehorse, Yukon
Mining				
Cominco Ltd.				
Lead-zinc mine		1982	130-140	Little Cornwallis Island, N.W.T.
Echo Bay Mines Ltd.				
Gold mine		1982	108	Contwoyto Lake area, N.W.T.

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 4, number 2).

Newfoundland

"Energy" could become a key word in Newfoundland's future economic vocabulary. The province has already harnessed enormous reserves of hydro-electric 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.

To encourage the secondary and final processing of fish and fish products, the Corporation provides loans, interest free for the first two years if principal repayment is within program guidelines, for the purchase of suitable machinery and equipment approved by the Corporation. **Contact:** Newfoundland and Labrador Development Corporation, P.O. Box 1738, 44 Torbay Road, St. John's, Newfoundland, Canada A1C 5P5.

Department of Development

The Department has a market and product development program for assisting Newfoundland companies which plan to market goods or services outside the Province or within the Province in order to substitute for goods and services being imported. Financial assistance is in the form of a non-repayable grant up to 50 percent of the project's total cost to a maximum of $50,000. **Contact:** Department of Development, P.O. Box 4750, 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 low interest loans of up to $25,000 for the purchase of land or buildings, the construction or renovation of buildings, the purchase of machinery and equipment, and for working capital for start-up or expansion.

The Department also offers development grants as follows:

(1) 50 percent of the capital cost up to $25,000 for the establishment, expansion or modernization of manufacturing or processing facilities. Maximum grant $12,500.

(2) 50 percent of the capital cost up to $60,000 for the establishment of industries utilizing primary resources. Maximum grant $30,000.

(3) 50 percent of the capital cost up to $30,000 for the expansion or modernization of industries utilizing primary resources. Maximum grant $15,000.

(4) 75 percent of the approved cost up to $10,000 for the research and development of new industry ideas. Maximum grant $7,500.

Contact: Department of Rural Development, P.O. Box 4750, St. John's, Newfoundland, Canada A1C 5T7.

Prince Edward Island

Prince Edward Island is Canada's smallest province. Traditionally, agriculture and fishing have been its economic cornerstones. The Island's charming scenery has made tourism one of the province's principal industries. In recent years, however, the province has enjoyed considerable industrial growth, notably in specialized manufacturing and food processing. This has added greater balance to the province's economy. Prince Edward Island has two significant industrial programs for the development of light industry.

Industrial Assistance Program

Administered by the Department of Tourism, Industry and Energy, the program provides financial assistance in the form of interest-free forgivable performance loans (FPL) to manufacturing and processing businesses, as well as to selected service industries, for modernizing or expanding operations or for creating new ones. Eligible manufacturing and processing businesses may receive a maximum FPL of up to $30,000 for any one project. In addition, the program provides assistance for the purchase of new, used or reconditioned equipment and machinery. It also assists in the financing of construction or renovation of production facilities. Financing for the program is on a joint federal-provincial basis. **Contact:** Department of Tourism, Industry and Energy, P.O. Box 2000, Charlottetown, Prince Edward Island, Canada C1A 7N8.

Three-Phase Power Transmission Program

The Three-Phase Power Transmission Program is designed to provide adequate energy supplies to those manufacturing and processing plants that are restricted in capacity and production because the present power supply is insufficient. This program provides funds to convert single-phase power transmission to three-phase power, and/or to purchase and install equivalent power generating equipment. **Contact:** Department of Tourism, Industry and Energy, P.O. Box 2000, Charlottetown, Prince Edward Island, Canada C1A 7N8.

Nova Scotia

A peninsula situated on the Atlantic coast, Nova Scotia has developed an international reputation for its oceanographic and aquacultural research. Fishing is naturally one of the province's most important industries. Nova Scotia has a long mining history with its significant deposits of coal, lead and zinc. In addition, the province has been the setting for considerable offshore oil and gas exploration. Manufacturing in Nova Scotia is based principally on resource processing, although companies such as Crossley-Karastan, Volvo and Michelin have an increasing input to the economy of the province. There is also a growing number of high-technology industries related to ocean industry, an area which is receiving keen attention from business and government as the province trains its attention to profiting from the 200-mile economic zone. The province also has a vigorous tourist industry. Nova Scotia is and has always been an active trading province, as is shown by the tonnage which passes through the Port of Halifax, the capital city. Halifax is the closest ice-free mainland North American port to Europe.

Industrial Estates Ltd.

Industrial Estates Ltd. is a Crown corporation for the development of industry in Nova Scotia. It provides long-term loans on 20-year first mortgages up to 100 percent of the cost of land and buildings of secondary manufacturers and up to 60 percent financing of installed cost of machinery with 10 years to repay. **Contact:** Industrial Estates Ltd., P.O. Box 519, Halifax, Nova Scotia, Canada B3J 2R7.

Nova Scotia Department of Development

The Nova Scotia Department of Development is responsible for the development of businesses and industry. It offers loans to tourist industries and processing plants in agriculture, forestry and fisheries, through the Nova Scotia Resources Development Board. The department also has specific assistance programs in marketing, management development, product design and development and professional consulting. A rural industry program offers capital grants to businesses wishing to expand, establish or modernize outside the Halifax-Dartmouth area. Other programs are offered by the departments of agriculture, lands and forests, tourism, labour, fisheries and education which may be relevant to businesses and industries. **Contact:** Nova Scotia Department of Development, P.O. Box 519, Halifax, Nova Scotia, Canada B3J 2R7.

New Brunswick

New Brunswick offers some very real geographic advantages to investors; on one side of the province is its common border with the United States and on the other, its seaports provide easy access to both North American and European markets. As a result, New Brunswick is an important trade area on the Atlantic coast. Agriculture, forestry and mining are all important economic activities in the province. In recent years, manufacturing has grown significantly, particularly pulp and paper, food processing and non-ferrous metals.

Department of Commerce and Development

The Department offers firms established in New Brunswick an extensive support program in the areas of management, marketing, production and distribution. The Department also seeks out and processes new industrial projects, and evaluates applications for financial assistance submitted to the New Brunswick Industrial Development Board by entrepreneurs wishing to establish businesses in New Brunswick. **Contact:** The Department of Commerce and Development, P.O. Box 6000, Fredericton, New Brunswick, Canada E3B 5H1.

New Brunswick Industrial Development Board

The Board offers financial assistance to firms in the form of direct loans, bonds or loan guarantees, or the acquisition of shares. The Board also administers a joint federal-provincial grant and loans program for small businesses. **Contact:** The Department of Commerce and Development, P.O. Box 6000, Fredericton, New Brunswick, Canada E3B 5H1.

Provincial Holdings Ltd.

This Crown corporation has holdings in the share capital of manufacturing companies located in New Brunswick. The agency can hold equity in manufacturing and processing industries that wish to become established in New Brunswick. **Contact:** The Department of Commerce and Development, P.O. Box 6000, Fredericton, New Brunswick, Canada E3B 5H1.

Quebec

Quebec has a wealth of natural resources on which it can base further economic expansion. The province has a relatively strong industrial base, particularly in aeronautics, shipbuilding and public transport equipment. It has strong growth prospects in the machinery and electrical products industries. Quebec's tremendous reserves of hydro-electric power, available at a very competitive price, make the province an attractive location for the development of highly productive manufacturing industries, particularly in the electro-metallurgical and electrochemical sectors. Also worth mentioning are Quebec's relative strength and technological competence in transport equipment, communications instruments, electrical equipment and pharmaceuticals.

Quebec Industrial Development Corporation (QIDC)

The QIDC is the Government of Quebec's principal tool for providing financial assistance to manufacturing firms established in Quebec. This assistance is offered in different forms according to the nature and needs of the recipient firm: loans at prevailing market interest rates; partial reimbursement of debt costs; partial reimbursement of loans when certain criteria are met; and participation in share capital. **Contact:** Quebec Industrial Development Corporation, 1126 Chemin Saint-Louis, Room 700, Sillery, Quebec, Canada G1S 1E5.

Department of Industry, Commerce and Tourism

The Department provides technical services to firms in marketing, financing, management, manpower and production, the negotiation of licensing agreements, market studies and statistics. It has permanent delegations or economic counsellors in Atlanta, Boston, Brussels, Chicago, Dallas, Dusseldorf, London, Los Angeles, Milan, New York, Paris, Tokyo and Toronto. **Contact:** Quebec Department of Industry, Commerce and Tourism, Industrial Promotion Branch, 1 Place Ville-Marie, Suite 2300, Montreal, Quebec, Canada H3B 3M6.

Quebec enterprise development corporations (SODEQ)

These are private corporations that invest in small- and medium-sized Quebec manufacturing firms to which they offer management assistance.

Contact: Department of Industry, Commerce and Tourism, Enterprise Services Branch, 710 Place d'Youville, 8th Floor, Quebec, Quebec, Canada G1R 4Y4.

SOQUEM, SOQUIM, SOQUIP, SOQUIA, REXFOR

These Quebec government-owned companies are involved in financial participation in joint ventures with Canadian or foreign private sector investors in the mining sector (SOQUEM), oil and gas (SOQUIP), agriculture and food industries (SOQUIA) and forestry (REXFOR). **Contact:** Quebec Ministry of Industry, Commerce and Tourism, Industrial Promotion Branch, 1 Place Ville-Marie, Suite 2300, Montreal, Quebec, Canada H3B 3M6.

Processing firms can also receive exemptions from the provincial sales tax on certain products, tax rebates on fuel purchases and on industrial machinery used for processing in Quebec.

Ontario

Ontario is one of Canada's most important centres of economic activity. Of all the provinces, it has the largest number of manufacturing firms and is the home of numerous head offices. Its capital, Toronto, is the financial heart of this country and the service industry is highly concentrated there. Its most important industries are automobile manufacturing, steel, tourism, mining and pulp and paper. The Government of Ontario offers various programs which provide financial incentives and advisory services to stimulate the economy and create jobs.

Development Corporations

Ontario has three development corporations: the Ontario Development Corporation, the Eastern Ontario Development Corporation and the Northern Ontario Development Corporation.

They offer a comprehensive program of financial and advisory services to business and industry throughout Ontario. Secondary manufacturing industries, service industries closely allied to manufacturing, tourist operations and tourist attractions are all eligible for development corporation assistance.

The type of financial assistance provided will be tailored to the needs of the applicant and may be provided through any one or combination of the following methods: corporation consultants may help the client in approaching private lenders or other sources of government funding; guarantees can be provided to encourage private lender participation; direct loans from the development corporations involving a variety of terms and conditions of repayment can be adapted to meet the specific needs of the small business person; and special incentives can be offered if it can be shown that the project would not succeed unless an incentive were available. **Contact:** Ontario Development Corporation, 1200 Bay Street, 6th floor, Queen's Park, Toronto, Ontario, Canada M7A 2E7.

Small Business Development Corporations Program

Incentives in the form of a share credit program are provided to encourage equity investment in Ontario-based small business ventures. The incentives are available only on new issues of SBDC shares.

Subject to certain conditions, investors may establish their own small business development corporation through a straightforward registration procedure. In 1980-81, the minimum capital requirement for an SBDC is $100,000. Businesses involved in mining, oil and gas exploration, development and production do not qualify as eligible investments, but will be handled in separate incentive programs.

For individuals, upon receipt of their share certificates from the SBDC, they may apply to the Ontario Ministry of Revenue for their share credit. A special statement concerning the share purchase will be provided by the SBDC to the Ministry of Revenue for this purpose. For corporations, the statement will be submitted to the Ministry of Revenue and, when approved, installment payments not fully applied in the year of investment may be carried forward indefinitely. **Contact:** Ministry of Revenue, Parliament Buildings, Queen's Park, Toronto, Ontario, Canada M7A 2B3.

Ministry of Industry and Tourism

Ontario's Ministry of Industry and Tourism offers industry services to manufacturing companies and service industries to expand in the province, to find new business opportunities, to seek out and apply new technologies, to establish new production facilities and to market their products domestically and internationally. It also makes available an array of trade services to identify and develop export markets, to assist selected industries to increase export market penetration, to identify and develop import replacement opportunities and to help target industries increase their share of the domestic market. **Contact:** Ontario Ministry of Industry and Tourism, Parliament Buildings, Queen's Park, Toronto, Ontario, Canada M7A 2E1.

Manitoba

Gateway to Canada's West, Manitoba has an economy based primarily on agriculture and mining. In recent years, however, the province has seen its economic base expand and diversify as a result of a growing manufacturing industry which is less closely tied to natural resources.

Department of Economic Development and Tourism

For the next two years, the major thrust of the Department's programs for business will be the $44-million federal-provincial Industrial Development Agreement known as Enterprise Manitoba, whose purpose is to stimulate growth in the manufacturing sector by focusing on six specific industries: aerospace, electronics, food and beverages, health care products, light machinery and transportation. In addition to the direct funding assistance provided to business by Enterprise Manitoba, the Department provides strong service support through its pool of experienced industrial consultants.

The Department offers a variety of programs to business. The Rural Small Enterprise Incentives Program provides interest-free forgivable loans to manufacturing, processing or related maintenance or repair businesses: for new firms, the loans are on the basis of 50 percent of eligible capital costs up to $30,000; for existing businesses, they are on the basis of 30 percent of eligible capital costs up to $18,000. To be eligible, businesses must have yearly sales not exceeding $500,000 and be located outside Winnipeg and adjacent municipalities.

Advance factory space can be provided in one of the two Enterprise Development Centres located in Brandon and Winnipeg to businesses that are new or that are introducing a new product or are embarked on a marked departure from previous operations. Self-contained modules of factory space, ranging in size from 1,350 m^2 to 3,600 m^2, will be offered to businesses on a cost-shared basis. Also offered through the Enterprise Development Centres, specifically for small manufacturing firms, are technical and business consulting services for the purpose of improving 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 Resources Management program which offers educational programs and courses to Manitoba businesses to assist them in upgrading their management skills, specifically as they relate to human resources. **Contact:** Department of Economic Development and Tourism, 155 Carlton Street, Winnipeg, Manitoba, Canada R3C 3H8.

Market Development Group

The Market Development Group provides marketing and export services designed to assist the increase of sales of Manitoba-made merchandise and services outside Manitoba. A cost-shared promotion assistance program for participation in trade fairs and missions is available. **Contact:** Market Development, Department of Economic Development and Tourism, 155 Carlton Street, Winnipeg, Manitoba, Canada R3C 3H8.

Travel Manitoba

Operators of packaged tours within or bringing visitors to Manitoba are assisted with grants for the initial development and marketing of new tour products. Grant assistance to a maximum of $15,000 or 50 percent of approved costs in the first year and $3,000 or 25 percent of approved costs in the second year of a new product may be obtained.

Consultative, research and advisory services to prospective investors in the tourism industry in Manitoba are also provided. **Contact:** Destination Manitoba, Department of Economic Development and Tourism, 155 Carlton Street, Winnipeg, Manitoba, Canada R3C 3H8.

Manitoba Design Institute

The Institute provides design consulting and advisory-assistance to manufacturers for design research and product innovation. Cost shared funding for design projects — packaging design, brochure design, corporate identity, and product design improvement. **Contact:** Manitoba Design Institute, 155 Carlton Street, Winnipeg, Manitoba, Canada R3C 3H8.

Manitoba Research Council

The Council provides technical assistance by industrially experienced scientists and engineers in the general area of product and processes development, raw material selection and testing, product testing, quality control, product costing and so on. **Contact:** Manitoba Research Council, 155 Carlton Street, Winnipeg, Manitoba, Canada R3C 3H8.

Saskatchewan

Saskatchewan is Canada's most important agricultural province and given the importance of this industry to the province's economy, it is not surprising that a number of important agricultural equipment manufacturers have established themselves there. In addition, Saskatchewan has a growing resource sector, particularly in potash, uranium and petroleum. The province is also the home of the Canadian West's largest steel industry and its production of pipe and steel products has been increasing steadily. Saskatchewan has a special interest in industries related to machinery and equipment, food processing, electronics, plastics, pharmaceuticals and industries supplying the resource sector.

Department of Industry and Commerce

The Department offers a variety of development programs to assist businesses in the province. These include: The Aid to Trade Program for manufacturers wishing to extend their market areas through promotion; the Product Development Program which provides assistance for developing and testing of new products; and the Management Development Program which is aimed at helping firms improve performance through counselling, technical assistance, courses and seminars. For the most part, these programs provide assistance up to 50 percent of approved costs.

The Small Industry Development Program provides forgivable loans to manufacturers planning to expand, modernize or establish new facilities in Saskatchewan. The amount of assistance depends upon the size of the project and its location. Abatement grants are available under the Small Business Interest Abatement Program to businesses borrowing to start new operations or expand and upgrade existing ones. **Contact:** Saskatchewan Department of Industry and Commerce, SPC Building, 7th Floor, 2025 Victoria Avenue, Regina, Saskatchewan, Canada S4P 3V7.

Saskatchewan Economic Development Corporation (SEDCO)

SEDCO's primary objective is to foster economic growth within the province. This role is facilitated through diversified financial, industrial and property services to virtually all sectors of the provincial economy. SEDCO provides project financing to Saskatchewan businesses in the form of term financing, guarantees, equity participation and a variety

of special programs as the need arises. In addition, SEDCO organizes industrial sites for lease or sale and provides property-related services to businesses in the province. SEDCO is also the developer and manager of *INNOVATION PLACE*, a major research park situated adjacent to the University of Saskatchewan at Saskatoon. **Contact:** Saskatchewan Economic Development Corporation, 1106 Winnipeg Street, P.O. Box 5024, Regina, Saskatchewan, Canada S4P 3M3.

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, 9th Floor, Pacific Plaza, 10909 Jasper Avenue, Edmonton, Alberta, Canada T5J 0M8.

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 aims to develop Alberta as a year-round destination for tourists by offering marketing and development services to the tourist industry. Small business is assisted by means of counselling activities, management consulting, small business guides, community economic development, and an industrial land and business site location program. **Contact:** Department of Tourism and Small Business, Government of Alberta, 16th Floor, Capitol Square, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 0H4.

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 Industry and Small Business 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. Because of geographical exclusions, the Ministry has implemented, on a year-by-year basis, a low-interest loan program for small businesses in the Vancouver and Victoria areas. **Contact:** Director, Business Development, Ministry of Industry and Small Business Development, Robson Square, 800 Hornby Street, Vancouver, British Columbia, Canada V6Z 2C5; or, Assistant Deputy Minister, Program Implementation and Coordination Division, Ministry of Industry and Small Business Development, Parliament Buildings, Victoria, British Columbia, Canada V8V 1X4.

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 Square, 200 Granville Street, Vancouver, British Columbia, Canada V6C 1S4.

Statistical tables

REVIEWABLE ACQUISITION CASES*

Table 1 — Outcome or status					First Six Months	
	1977	1978	1979	1980	1980	1981
Reviewable new cases	261	360	380	337[r]	179	173
Carryover from previous period	65	73	106	114	114	123
Total of above	326	433	486	451[r]	293	296
Total resolved	253	327	372	328[r]	183[r]	113
Allowed	231	282	320	249	151	91
Disallowed	12	28	24	37	19	13
Withdrawn	10	17	28	42[r]	13[r]	9
Carried over to next period	73	106	114	123[r]	110	183
Allowed cases as percent of resolved (%)	91	86	86	76	83	81
Value of assets, all cases ($000,000)	1,145	4,489[r]	4,049	3,988[r]	1,134	1,648

Table 2 — Country of control					First Six Months	
	1977	1978	1979	1980	1980	1981
Total	261	360	380	337[r]	179	173
United States	171	243	248	197[r]	101	115
United Kingdom	40	47	52	53	30	23
Other Europe	41	52	68	65	34	28
Austria	-	-	1	-	-	-
Belgium	2	1	2	1	-	-
Denmark	2	1	1	1	1	1
Finland	-	-	2	3	1	-
France	6	5	9	12	4[r]	4
Germany, West	15	17	22	20[r]	9	10
Greece	-	-	1	-	-	-
Italy	3	1	2	2[r]	2	-
Liechtenstein	-	1	1	2	1	-
Luxembourg	-	1	-	-	-	-
Netherlands	4	8	6	7	5	3
Norway	-	1	-	1	-	-
Spain	-	-	1	-	-	-
Sweden	2	7	13	6	4	6
Switzerland	7	9	7	10	7[r]	4
All other	9	18	12	22	14	7
Australia	1	-	3	4	3	1
Bermuda	-	-	1	1	1	1
Japan	3	7	2	2	2	2
Others	5	11	6	15	8	3
Allowed cases as percent of resolved	%	%	%	%	%	%
United States	91	87	85	74[r]	80[r]	76
United Kingdom	95	78	87	79	86	77
Other Europe	90	89	88	78	89	96
All other	80	80	93	76	92	83

Table 3 — Industrial sector					First Six Months	
	1977	1978	1979	1980	1980	1981
Total	261	360	380	337[r]	179	173
Primary	20	30	29	17	9	9
Agriculture, fishing and trapping	4	5	4	1	-	1
Forestry	1	1	-	2	1	-
Mines, quarries, oil wells	15	24	25	14	8	8
Manufacturing	108	162	178	141[r]	72[r]	71
Food, beverage and tobacco	15	15	14	14	6	4
Rubber, plastic and leather	6	12	5	6	3	6
Textiles, knitting and clothing	5	4	14	7	3	2
Wood, furniture and paper	12	14	10	8	3	7
Printing, publishing, and allied	2	4	5	4	2	4
Primary metal and metal fabrication	12	20	34	24	11	9
Machinery and transport equipment	14	28	43	23[r]	15	13
Electrical products	12	16	20	17	12	6
Non-metallic mineral products	5	8	4	6	2	4
Petroleum and coal products	1	1	1	-	-	1
Chemical	10	22	17	12	6	10
Miscellaneous	14	18	11	20	9[r]	5
Construction and services	133	168	173	179	98	93
Construction	3	1	6	6	2	7
Transportation, communication, utilities	10	10	9	9	3	4
Trade	72	101	93	93	58[r]	38
Finance, insurance, real estate	15	19	12	27	9	9
Community, business, personal services	33	37	53	44	26	35

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

REVIEWABLE NEW BUSINESS CASES*

Table 4 — Outcome or status

	1977	1978	1979	1980	First Six Months 1980	First Six Months 1981
Reviewable new cases	328	331	379	398r	199	213
Carryover from previous period	58	52	64	70	70	129
Total of above	386	383	443	468r	269	342
Total resolved	334	319	373	339	182	145
Allowed	297	273	323	287	160	106
Disallowed	12	21	22	27	14	17
Withdrawn	25	25	28	25	8	22
Carried over to next period	52	64	70	129r	87	197
Allowed cases as percent of resolved (%)	89	86	87	85	88	73
Planned investment, all cases ($000,000)	803	323	202	1,005	339	471

Table 5 — Country of control

	1977	1978	1979	1980	First Six Months 1980	First Six Months 1981
Total	328	331	379	398r	199	213
United States	184	192	205	223r	114	120
United Kingdom	30	26	45	37	15r	23
Other Europe	85	80	82	111	58r	37
Austria	–	3	–	3	1	–
Belgium	–	1	5	1	–	1
Denmark	6	4	2	7	4	2
Finland	1	1	7	1	1	4
France	17	16	15	23	6	6
Germany, West	26	18	19	25	12	11
Gibraltar	–	–	–	1	1	–
Greece	1	1	–	1	1	–
Ireland	–	1	1	–	–	1
Italy	10	10	6	14	10	3
Liechtenstein	–	–	–	1	1	–
Luxembourg	–	1	–	1	–	–
Monaco	1	–	–	–	–	–
Netherlands	3	1	4	12	6	4
Norway	3	3	1	3	2	–
Portugal	–	1	–	–	–	–
Spain	–	2	1	2	2	–
Sweden	9	5	6	9	7	2
Switzerland	8	12	15	7	4	3
All other	29	33	47	27	12r	33
Australia	3	3	2	3	2	–
Hong Kong	3	3	4	6r	3	16
India	1	1	1	–	–	–
Japan	10	6	17	3	1	7
Others	12	20r	23	15r	6r	10
Allowed cases as percent of resolved	%	%	%	%	%	%
United States	88	86	86	84	92	73
United Kingdom	82	85	92	83	88	77
Other Europe	95	87	88	89	90	71
All other	81	79	83	75	61	71

Table 6 — Industrial sector

	1977	1978	1979	1980	First Six Months 1980	First Six Months 1981
Total	328	331	379	398r	199	213
Primary	22	27	16	42	22	14
Agriculture, fishing and trapping	6	2	–	7	4	2
Forestry	2	2	1	2	1	–
Mines, quarries, oil wells	14	23	15	33	17	12
Manufacturing	94	99	100	126	60	61
Food, beverage and tobacco	7	6	11	11	5	4
Rubber, plastic and leather	5	5	9	11	6	3
Textiles, knitting and clothing	9	5	8	6	3	7
Wood, furniture and paper	5	6	9	14	5r	5
Printing, publishing, and allied	–	4	5	4	1	3
Primary metal and metal fabrication	19	12	13	24	15	10
Machinery and transport equipment	19	19	20	18r	5	13
Electrical products	5	7	8	13	10	2
Non-metallic mineral products	5	6	1	5	2	3
Petroleum and coal products	–	–	–	1	–	1
Chemical	3	6	7	9r	5r	4
Miscellaneous	17	23	9	10	3	6
Construction and services	212	205	263	230r	117	138
Construction	4	14	12	12	6	10
Transportation, communication, utilities	5	11	11	7	5	4
Trade	133	103	156	129	63	72
Finance, insurance, real estate	16	11	14	7	3	7
Community, business, personal services	54	66	70	75r	40	45

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

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