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Crucial Lessons . . . continued from page 25

Connaught directors had a fiduciary duty to the shareholders to maximize the value of the company, so they could not recommend rejection of the Mérieux offer, about 20% above the highest price for which Connaught shares had ever sold. If they had, they probably would have been sued, but perhaps more important, they would not have been fulfilling their legally-defined directorial responsibilities.

At the same time, once the offer was made, Investment Canada was in a difficult position. If it refused approval, it would wipe out the immediate gains by private shareholders were receiving. Doing so would have created a political headache in that a regulatory body would have destroyed considerable personal wealth.

Investment Canada does not publish the reasons for its decisions, but because of the controversy surrounding the proposal, the agency made it clear that it had negotiated assurances from Mérieux that research and development (R&D) would continue in Canada and indeed would be increased. Moreover, it hired an American-based consulting firm to assess the future of Connaught as an independent company. Again, while the conclusions of that report have not been made public, it is understood the consultants felt that Connaught, because of its size and its research base, would have trouble maintaining its position in the market in the years ahead.

Assuming that they are correct, these conclusions are extremely sobering for Canadians. Every recent assessment suggests not only that our economic well-being depends on the maintenance of a high level of international trade but also that more of that trade must be in manufactured and high-technology products. But what are the chances of Canadian trade in such sectors increasing? If Connaught was deemed unable to survive on its own, it is hard to believe that there will be any really successful, in world terms, Canadian high-technology companies.

Were Consultants Wrong?

The consultants could be wrong. Many think they were, that Connaught, with aggressive management and appropriate acquisitions to strengthen its R&D base, could have become the premier vaccine company in the world. Although Connaught is gone, there are several lessons to be learned from the experience. The more important ones are that:

- Canadians cannot depend upon directors of private companies to keep them in Canadian hands when a premium is proffered. Regardless of how much they may wish to do so, the law will not allow it. Directors must fulfil their fiduciary duties to the shareholders, which the courts interpret as maximizing share value.
- We must expect that large multinational corporations always will be able to pay more for a domestic company than local investors. It follows that a large organization gains some economies of scale by acquiring the local firm.
- Any Canadian companies that achieve R&D breakthroughs probably will be sold to foreign owners. There is very little possibility of developing and maintaining high-technology companies without a clear ownership policy.
- Regardless of any claims that purchasers may make of maintaining employment, R&D activities, independent management and so on, there is always a net loss to the nation in that profits eventually flow out of the country. This, in turn, negatively affects the balance of payments' current account at some point.
- Investment Canada cannot, in practice, decide to deny sales of public companies after the fact. Once a price is set and shareholders agree, it is politically impossible for the agency to rule against the transaction.
- At the very least, Canada should consider permitting the sale of high-technology companies only when there is reciprocity with the home-country of the purchaser. Connaught could not have bought Mérieux; the French government would never have allowed it to be sold. Nor could Connaught have bought Ciba-Geigy, because the Swiss never would allow such a company to be foreign-owned.

The Connaught sale demonstrates that there will not, and cannot, be any effective policies for developing high-technology companies in Canada until foreign ownership policy is developed.

— James Gillies is a professor of policy in the Faculty of Administrative Studies, York University —

SIGNPOSTS

OTTAWA — Connaught Laboratories Ltd. has contracted through Canadian Commercial Corp. to supply up to \$7.5 million worth of vaccines to United Nations International Children's Emergency Fund over the next two years. It's the latest in a series of such contracts, the most recent having expired at the end of December. The wholly-owned subsidiary of Connaught BioSciences (see cover story) will manufacture polio, measles, diphtheria, whooping cough, tetanus and bacterial meningitis vaccines at its plant in Willowdale, Ont., for air delivery to wherever UNICEF requires them at short notice.

PARIS — As one of 17 signatories to the multinational Co-ordinating Committee for Multilateral Export Control (Cocom), Canada for years has blocked high-technology exports to Eastern Europe and to other strategically worrisome parts of the world. Recent indications that the United States is about to ease its restrictions is welcome at the Department of External Affairs and International Trade. "We have been pressing for liberalization of this kind for some time," a spokesman said. "We've already made proposals to Cocom.... Canada feels that the West has to recognize the need of the Eastern Bloc to modernize its industries. There's also a security benefit to ensuring that their economic reforms are successful." Cocom includes the 16 NATO countries except Iceland, as well as Australia and Japan. Its deliberations are routinely confidential, but the U.S. has said that it wants to relax restrictions on computers and other technology that is readily accessible to the public in North America. The proposal would not extend to what a U.S. State Department spokesman describes as "truly strategic" material, but American officials have already had preliminary discussions in London in preparation for a joint Cocom initiative that could facilitate exports to countries such as Czechoslovakia, Hungary and Poland. It is understood that the more relaxed policy would not apply for the time being to the Soviet Union.

OTTAWA — Maurice Strong is Canada's nominee as chairman of a special UN conference on the environment scheduled for Brazil in 1992. UN Secretary-General Javier Perez de Cuellar

was formally advised of the nomination by Yves Fortier, our ambassador to the UN who points out that Canada played "a major role" in orchestrating the conference. Mr. Strong, a former head of the Canadian International Development Agency, has impressive credentials for the job, including heading the 1872 UN conference on the environment in Stockholm and, more recently, as a member of the so-called Brundtland Report by the UN Commission on Environment and Development. Mr. Fortier was unabashedly supportive of Mr. Strong's candidacy, saying that he is "the best qualified person, bar none, in the world."

NEW YORK — Canada has lauded the adoption by the UN General Assembly of a resolution calling for a moratorium on all driftnet fishing, an indiscriminate and extremely wasteful practice in that it kills not only fish species not being sought but also seabirds and mammals. "A positive breakthrough," is External Affairs Minister Joe Clark's reaction. "Canada's sponsorship and efforts at securing wide consensus reflect our commitment to international co-operation in curtailing... driftnet fishing." Fisheries and Oceans Minister Tom Siddon says Canada now must build on the resolution by seeking "enhanced" monitoring and enforcement agreements with Asian countries that still use driftnets.

OTTAWA — Moves by the United States to increase wheat export subsidies is seen as a threat not only to Canadian grain producers but also to successful renegotiation of the General Agreement on Tariffs and Trade. The proposal to spend \$900 million (U.S.) in the 1990-91 fiscal year, up from \$566 million in the current year, is outlined in President George Bush's latest budget submission to Congress. Ottawa has repeatedly said the programme depresses grain prices, but Washington counters that it is necessary to counter the effect of subsidies available to grain producers in the European Economic Community. The U.S. and the EEC have been scrapping for several years, trapping countries such as Canada in the process. Vic Althouse, agricultural critic in Parliament for the New Democratic Party, points out that

when the U.S. boosted its subsidies in 1986 and 1987, Canadian wheat prices nosedived by 40%. Sales to China and the Soviet Union, two traditional markets for Canada, are especially vulnerable. Agricultural subsidies have been a major impediment to smooth progress in the GATT talks and Mr. Althouse echoes market analysts' fears that "this could scuttle the negotiations" completely.

BEIJING — Canada's Department of External Affairs has formally advised the Peoples Republic of China (PRC) that a new attitude would be helpful if Beijing wants to find Hong Kong in sound economic health when the Crown colony is handed over by Britain in 1997. The message was delivered last month by Jean McCloskey, Assistant Deputy Minister (Asia and Pacific) and Howard Balloch, Director (North Asia Relations Division), during a Canadian delegation's meetings with senior Chinese officials that included four within the Ministry of Foreign Affairs: Vice-Minister Liu Huaqiu, Hong Kong Director Chen Ziyin, Assistant Minister for International Organizations Li Daouy and Assistant Minister for Asian Affairs Xu Dunxin. They also met with Deputy Director Lu Ping of the Hong Kong and Macao Affairs Office of the PRC State Council and paid a courtesy call on Vice-Minister Shen Juren of the Ministry of Foreign Economic Relations and Trade. Canada feels that its intervention is justified by the rising tide of visa applications that has inundated consular officials in Hong Kong after Beijing rejected demands for representative government and human rights guarantees after 1997. "This is a special diplomatic situation where other countries do have a right to express their interest and concern"; a Canadian spokesman explained. "We... stressed our view that a viable democratic system is the best assurance of Hong Kong's viability and prosperity." The delegation also had talks in Hong Kong with the Governor, Sir David Wilson.

OTTAWA — The Conference Board of Canada's latest national forecast is for persistent economic deceleration through 1990-91, but it says this will not degenerate into a recession, the risk of which is expected to be greatest in the first half of 1991. In the meantime, the in-