

but it is merely further evidence of the worldwide trend toward internationalization of business activities. Governments may huff and puff but are not likely to try to do much about it. After all, one of the reasons which Canadian businessmen cite for investing in the U.S. is that there is less government interference there; if the Canadian government were now to try to discourage investment abroad, it would be merely further incentive to the businessmen to transfer more of their investments abroad, out of reach of Canadian regulations. The positive view of Canadian investment abroad is that it will eventually bring home profits which will at least help to offset the profits which foreigners send out of Canada. Perhaps more importantly, mature Canadian corporations with extensive operations abroad will be in a better position to compete with foreign corporations in Canada, and even to repatriate some business activities.

In conclusion, it becomes harder to maintain the fiction that we operate in Canada an economy distinct

from that in the United States which—when we have dealt with the temporary problem of foreign capital—can be made to reflect different social values and to develop according to different economic priorities. The truth is that we operate in a continental, or international environment which leaves little room for creating a distinctive Canadian economy or society. Through investment and other activities abroad, Canadians can hope to influence the international environment in which we live. The sooner we recognize that, for better or worse, we share not only a continent with the United States, but also an economy, a popular culture, and a society, and that nothing is likely to change the situation, the sooner we can set about creating with the United States the binational institutions which will give us a more influential voice in the development of the continent. The refusal to recognize our interdependence and the pretence that we can somehow regain economic sovereignty condemn us to a policy of drift.

### Sharing the continent

# Defence procurement contracts and industrial offset packages

by W.M. Dobell

The most expensive defence procurement contract in Canadian history — for the purchase of the new fighter aircraft (NFA) — was signed by the Canadian government last year. Although the winning fighter plane, the F-18A, had not surmounted all its aeronautical problems by the end of 1980, negotiations between the prime contractor, McDonnell Douglas of Missouri, and prospective Canadian sub-contractors proceeded apace. The subcontracting to Canadian companies of industrial offsets to defence procurement has become a major element of government policy. It was not always so.

The Minister of Agriculture of 30-odd years ago allegedly voted in Cabinet to purchase the aircraft carrier *Bonaventure* from the British on the unfounded expectation that they would reciprocate with a tinned meat and cheese contract. That illusory offset was not

a contractual obligation. During the 1950s, industrial offsets did not matter if Canada designed and manufactured even the most sophisticated military hardware. This strategy, however, depended on export markets permit extended production runs and low unit costs. Without such markets the world producer strategy collapsed. It was buried with the 1959 demise of the *Arrow* project.

Industrial offsets are the contracts placed in Canada by foreign corporations to offset the employment and foreign exchange lost to Canada as a result of the external procurement of major defence equipment. They may or may not be distributed regionally. The four *Mackenzie* class frigates were laid down in four different shipyards from 1958-60; the two *Annapolis* class frigates were laid down in two shipyards in 1960 and the four *Tribal* class destroyers were laid down in two shipyards in 1969. These industrial contracts were regionally dispersed by the government, but they were not industrial offsets. Canada can still design (but no longer within the Department of National Defence

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