

*Foreign Takeovers Review Act*

newspaper articles and reports from Washington that he was wrong. He thought he was able to operate on a straightforward basis with these corporations. The bill before us reflects the known concerns and attitudes of the minister. We have known for some time that he wanted to take very little action to control the activities of foreign-controlled firms in Canada.

I wish to review briefly some of the loopholes in this legislation which must be examined very closely. I do so within the context of the suggestion that even in this limited area where the government is proposing to take action, that action will not be effective and will not do the job. I find that clause 2 of the bill is quite ironic. It sets out in grandiose terms the purpose of the act in these words:

This act is enacted by the Parliament of Canada in recognition by Parliament that the extent to which control of Canadian industry, trade and commerce has become acquired by persons other than Canadians and the effect thereof on the ability of Canadians to maintain effective control over their economic environment is a matter of national concern, and that it is therefore expedient to establish a means by which measures may be taken under the authority of Parliament to ensure that—

I ask hon. members to note this passage:

—in so far as is practicable after the enactment of this act, control of Canadian business enterprises may be acquired by persons other than Canadians only if it has been assessed that the acquisition of such control by those persons is or is likely to be of significant benefit to Canada, having regard to all the factors to be taken into account under this act for that purpose.

This is a very grandiose statement but we have this one catch, "in so far as is practicable after the enactment of this act". We find, as well, various factors which the minister says will have to be taken into account in assessing mergers or takeovers in the future. This, of course, is very difficult to assess at this stage. It is not so much a question of the words in the bill but, rather, the manner in which the bill is put into practice once it is enacted.

I have another concern. It appears from examination of the bill that there are certain types of business which for tax purposes might be classed as non-profit. For example, there are some foundations which carry on industrial operations, the profits go for charitable purposes and they are exempt from income tax on that account. The fact is they only carry on a subsidiary operation in Canada. I know of one large, international drug company where this is the case. Most of their research and development work is carried on in England. They do some final testing work in Canada but do none of their basic research work here. They operate in Canada through various subsidiaries but they do not carry on the basic part of their operation here. Such business is exempt from the purview of this legislation.

Another matter that concerns me is that this bill is to be applied to any purchase of shares of a corporation where 5 per cent or more of the voting rights attach. That has to do with a corporation whose shares are traded publicly. It is not a public corporation as such but a corporation whose shares are publicly traded. There are many corporations incorporated as public companies or public corporations but their shares never reach the stock market; they are never traded as such. They would not be involved at this 5 per cent level but, rather, at the 20 per cent level which concerns private corporations. When 20 per cent of

the shares of a corporation are exempt from the purview of this legislation, the situation becomes serious.

• (2110)

There are other clauses in this bill which require further examination, but I do not intend to discuss them at the present time. However, when I was reading this bill, on several occasions, since provision is made for certain things to be done and certain things not to be done, I wondered what penalties were set out. What happens if a person or group of persons fails to take the action prescribed or takes action which is prohibited?

At the end of the bill I found that penalties have indeed been provided. Intentional failure to report a takeover is punishable by a fine of \$5,000. Now, \$5,000 means a good deal to some people but I doubt it would mean very much to a large corporation which felt it might be advantageous to go ahead with takeover arrangements without reporting them, and then to go through the motions if the government ever caught up with what was happening. The corporation might well be ahead by a good deal more than \$5,000.

The bill deals with takeovers and mergers. But what about the expansion of firms already existing in Canada and the establishment of new enterprises? Members might be interested to take note of the pattern of foreign investment in Canada over the last several years. I have here a set of figures obtained from "Survey of Current Business", for November, 1970, published by the United States Department of Commerce.

One of the tables sets out the sources of funds of United States subsidiaries in Canada, giving a percentage breakdown. The percentage obtained from United States parent companies and other United States sources in 1968 amounted to only 6 per cent. Funds obtained from retained earnings amounted to 25 per cent, from depreciation and depletion 41 per cent, from borrowings in Canada 24 per cent, from equity sales in Canada 2 per cent, and from other sources 2 per cent. Only 6 per cent came into the country from abroad. Most of the money was generated internally to provide for the expansion of foreign-owned firms here.

I have another table also taken from "Survey of Current Business" for October, 1970. This shows the inflow of new United States capital investment in Canada compared with the outflow of payments to parent firms. In the period between 1960 and 1969 the inflow of new United States investment amounted to \$5,497 million. The amount paid out in interest and dividends flowing back to the United States amounted to \$6,252 million. The amount paid out in royalties and fees totalled \$1,770 million. So the total for these two items flowing to the United States amounted to \$8,022 million, which means that the net outflow during the ten-year period was \$2,525 million. These figures should be kept in mind. In addition, there are fees paid out in royalties and in respect of franchise arrangements, sales contracts, and so on, which contribute to the picture.

At the present time there is an absence of policy for dealing with this situation. As I said, a grandiose phrase appears in clause 2 of the bill describing the government's intentions but it has not been followed up by any means

[Mr. Burton.]