

*Foreign Control of Canadian Industries*

It is in this context that I should like to focus attention on two particular areas which are of concern to me, and I hope of concern to all members of this House, perhaps to millions of Canadians. I wish to talk about two areas in which the thrust of our Canadianism is seriously threatened. I shall discuss the area of corporate initiative, of attitudes toward innovation and risk-taking which have been influenced over the years by the prevalence of licensing agreements. In that connection, I wish to mention the attitudes in respect of developing foreign markets, developing new processes and developing new products. All these attitudes, in my view, have been distorted by the prevalence of and the terms of the manufacturing agreement.

Secondly, I wish to talk about the thrust which may be muted in our schools and universities. May I say that I am very much aware of our economic dependence on the United States, and not just in terms of ownership. Perhaps 70 per cent of our manufacturing industry is controlled by the United States interests, but our dependence extends to exports, to capital and to technology. United States purchases are of the order of 75 per cent or more of our manufactured exports. In terms of imports of capital it supplies perhaps 80 per cent of our foreign capital or more and the figure has been much higher. Perhaps most important of all is our import of technology from the United States. I would estimate that this is in the order of between 75 per cent and 80 per cent. That is the more important aspect of foreign ownership.

Let us put the manufacturing licensing in context. Many foreign owned firms are Canadian branch plants. Many have licensing agreements with their parents. This provides access to technology. What is equally important is that a very large part of the remaining 30 per cent—that is the 30 per cent of Canadian industry which is not controlled by foreign corporations, have foreign licensing agreements. What is a foreign licensing agreement? Briefly, it is an undertaking between two parties whereby one, the licensor, who has the proprietary know-how licences the other, the licensee, to manufacture and market a product or service in exchange for royalty income. There are several aspects of the licensing agreement with which I should like to deal.

• (8:30 p.m.)

First of all, the research and development which is made available to Canadian operations is important. It is made available at an

[Mr. Gillespie.]

attractive cost. It is risk free, and it is instant know-how, if you like, or packaged technology. It is predictable as to cost and it is "closed-ended" rather than open-ended. It is also variable because it is usually related to so much per unit of production or a percentage of sales dollars.

Secondly it has the major advantage that it gives exclusive, or usually exclusive access to the Canadian market—a non-competing advantage to the Canadian firm. There is no close competition with a similar product.

Thirdly, and perhaps in many ways the most important from the point of view of developing Canadian outward-looking attitudes, the Canadian licensee undertakes to devote himself usually to his own market. Usually he restricts himself from selling in foreign markets. I should like to read you a clause from a typical licencing agreement:

The licence herein granted is for the country of Canada and specifically excludes any rights to manufacture, assemble, distribute, or sell in or export to any other country or countries.

This tends to cause inward-looking attitudes on the part of Canadian entrepreneurs. Equally, it provides little or no incentive to Canadian entrepreneurs to improve the process, although he may have acquired the knowledge to do so as a result of the licence agreement. I should like to read another clause from a typical licencing agreement.

All technical information relating to the process licensed hereunder in the possession of the licensee shall be made available to the licensor without charge.

In other words, you may ask the question, as many Canadian manufacturers have asked, what incentive is there for the manufacturer, as a party to such an agreement, to spend money on research and development or to use his originality if all the benefits of the improvement go to the licensor? In my view the licence agreement has played, and is playing, an important part in the development of our country by providing us with the know-how we do not have, by developing skills and employment, but the time I think has now come to convert this know-how into more outward-looking attitudes.

I should like to mention something that occurred in Toronto today which was sponsored by the Department of Trade and Development of the Ontario government. The name of this particular conference was "Joint Ventures and Licencing Agreements". It was convened precisely to engage the attention of