legislation that has drawn as much attention from those in financial circles as this withholding tax provision. It was unfortunate that the government did not see fit to send this bill to the banking and commerce committee so that these firms could present briefs to the committee. However, this move was voted down the other day. I feel that we should review first the details in the resolution concerning this withholding tax. Discriminatory tax treatment of foreign investors in Canada was proposed in the budget of June 13, 1953, and it disregarded one of the most fundamental principles of Canada-United States fiscal relations, namely the capital flowing between the two countries. The minister, in his zeal to expand export markets and help solve the balance of payments problem, took into consideration the fact that so much of our export industry is owned by United States parent companies that United States subsidiaries would be competing with their own products in their own domestic market. The minister believed that their problems would be eased if the Canadian subsidiaries were owned, at least in part, by Canadian investors.

He proposed two things, as I see it, in this regard. First, as an incentive, he is attempting to make the sale of Canadian bonds in the United States easier by cancelling out the withholding tax on interest. He would also reduce the dividend withholding tax from 15 per cent to 10 per cent for foreign companies which have made a reasonable proportion of their equity shares available to the Canadian public by 1965.

The second step might be referred to as a fine or penalty. For those companies which do not choose this incentive, the withholding tax will be increased to 20 per cent for foreign controlled companies which do not make such shares available by 1965. The original budget proposal, which called for a degree of Canadian ownership or control, stated that 25 per cent of the shares of foreign subsidiaries were to be held by Canadian residents. The amazing thing is that the minister himself has conceded there is simply not enough Canadian capital available in Canada to buy 25 per cent of all foreign owned companies.

The *Globe and Mail* under date of October 2 stated:

> The test will not be whether a company is 25 per cent owned in Canada, but whether at least 25 per cent of its shares are available for public subscription... It is one thing to ensure that shares in foreign owned companies will be available to Canadians, and quite another to ensure that Canadians will buy them.

In addition, there is an acute reluctance on behalf of Canadian businessmen to invest in anything other than a sure bet.

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The overriding objection to the minister's scheme, however, is that it is punitive. In so far as the United States is concerned he is taking a gamble in that the United States-Canadian tax convention specifically provides that the paragraph of the agreement setting the 15 per cent withholding tax on dividends paid by United States subsidiaries to Canadian parent companies may be terminated without notice, by either country raising the rate of withholding tax above 15 per cent. Furthermore, the United States internal revenue code makes allowance for a 30 per cent withholding tax if this paragraph is terminated. It looks as though the finance minister seems to hope that he can persuade the United States to leave its withholding tax at the present 15 per cent, but it is a pretty shaky hope at best.

In addition, the normal procedure a country follows when adopting restrictions of this nature is as follows: A company seeking incorporation is required to meet specific standards relative to domestic equity participation. At that time the company has the advantage of being known and accepted by the foreign investor before he has made a commitment. It is believed that the adoption of such a policy as announced by the minister will be regarded by foreign investors as an act of bad faith, because Canada is attempting to change the rules after the non-resident has invested his capital in the country.

Because of these budget proposals, together with the United States proposal of imposing an interest equalization tax, the Canadian and American committee, at its regular semi-annual meeting on September 27 and 28 stated:

> For the first time in their histories, the Canadian and American governments have each proposed to institute a measure which—however different in their origin and nature—will have much the same effect: impairment of capital flows between the two countries.

The committee discussed the damage already done and the further harm these proposals will inflict if put into effect.

> First, they would have both direct and indirect effects on the cost and efficiency of capital for industrial development in both countries.
>
> Second, they will tend to inhibit and to complicate the development of closer and freer trading relations between the two countries.
>
> Third, the tensions and uncertainties produced in financial relationships will undoubtedly spread —indeed, are already spreading—to other aspects of Canadian-American economic relations.
>
> Fourth, non-discriminatory treatment of foreign investment has long been a principle which Canada and the United States have been endeavouring to induce other nations to apply in their treatment of Canadian and American investors in their economies. If Canada or the United States now breach this principle, they can hardly expect other countries to honour it.