provided for long-term issues. We felt that, from a U.S. point of view, there was no reason why the Canadian balance-of-payments deficit with the United States should not be financed by direct investment just as well as by the sale of new issues of securities. Consequently, it seemed to us there was no certainty that the effort to restrict direct investment in Canada would, in fact, help the U.S. balance of payments at all in the final result.

We also pointed out that the inclusion of retained earnings of subsidiary corporations in the figures used to determine the voluntary quotas for direct investment worked a particular hardship on Canada. U.S.-controlled companies form such a large part of Canadian industry and have been so long established in Canada that they must be regarded as a basic and substantial part of the Canadian economy.

On the basis of these arguments, we suggested that the United States should continue a special exemption for Canada in their guidelines on direct investment or, if they could not see their way clear to do that, they should permit the investment of retained earnings to be outside the quotas.

My understanding is that the American authorities considered the points we put forward, as they said they would, but came to the conclusion that the guideline on direct investment had to be relatively simple and without special exceptions if it was to be effective in meeting the aims of their general programme. They did assure us, however, that these guidelines would not affect in any way the expansion necessary to achieve the purposes of the Canada-United States automotive agreement.

This guideline on direct investment is intended to restrict the outflow of capital from the United States parent companies to branches and subsidiaries in other countries. There is nothing in these guidelines, so far as I can see (and this is an important point), that would prevent Canadian subsidiaries of United States companies from borrowing like other Canadian companies by means of long-term issues in the United States market.

As I said when these guidelines were announced, they have come into effect at a time when capital investment by business in Canada has been increasing very rapidly and cannot be expected to go on increasing at the same rate. In some measure the restraints imposed by the direct investment guidelines will not conflict with the necessities of our own domestic situation. In particular cases they may, however, result in the delay or cancellation of projects that we might have preferred to see proceed. It is our general economic dependence on imported capital which exposes us to dangers of this kind.

In all the circumstances, we have been fortunate in making arrangements that enable us to finance our balance of payments without restriction on current trade or payments and enable us to secure foreign savings to supplement our own.