

The home market is crucial, yet it is being eroded. A variety of policies will be necessary. Let me illustrate the variety. In textile fibres, where scale is important, retained tariffs and vigorous anti-dumping action will be one component of appropriate policy. In apparel, where scale is not important but low-cost imports are, quotas are the only way. For selected industries or sectors of industry, tariffs should be retained and related to minimum threshold size or base load as one part of over-all industrial policies.

A policy objective, therefore, for Canadian policy-makers and trade negotiators is to ensure that greater home market interaction and complementarity between and within industries in Canada is supported in accord with industrial strategies by selective tariffs and quotas. Protection or support should reduce after a reasonable transition and development period.

Assuring the home market for Canadian producers requires recognition that the industrial process is made up of many interdependent links from raw material to the finished product. This means that some intermediate stages in manufacturing processes, for example plastics producers, makers of components for other enterprises, constitute the crucial domestic market for raw material producers. In turn, such intermediate products need further home market outlets in the form of derivative or other products. Good examples are found throughout the manufacturing sector and are easily illustrated in the petrochemical industry, where large-scale production of basic materials requires domestic markets for base loads, which in turn require further home markets for processing derivatives—for example, ethane, ethylene, polyethylene, polyvinyl chloride.

These linkages and interdependencies throughout the home market are often denied in Canada by the impact of U.S.A. tariffs escalating against the export of such processed intermediate products surplus to the Canadian market. European and Japanese tariffs have a similar impact on Canadian industrial expansion.

A "Buy Canada Act" should be adopted for a transition period of at least ten years, to require in some instances, and encourage in others, the purchase by governments of Canadian products. The industrial policy purpose here is to collect the market or aggregate it in chosen sectors and within criteria to ensure optimum scale and specialization, thus supporting employment and providing the base for product innovation. Such an act should be based on federal-provincial agreement in order to include, for example, provincial hydro systems, and be patterned on the present policies of the U.S.A., Great Britain, Switzerland, Japan and others. This is an objectionable, though necessary, non-tariff barrier designed to support the transition period during which the strategic goal is an expanded, technically efficient, innovative and internationally competitive manufacturing sector.

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A further major policy objective for us should be to encourage more Canadian multinationals, like the success stories

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represented by Massey-Ferguson, ATCO Industries, Northern Telecom, Noranda, Polysar, McCain Foods, Wajax Industries, Dominion Road Machinery and Electrolyser Corporation. What is the point of encouraging Canadian-based multinationals? It is partly to attain scale, partly for the broad base upon which to specialize production by plant and by country, and partly to expand production through trade based on this successful form of industrial organization.

The most important lesson to be learned from these Canadian multinationals is that they do their research and development and their resulting engineering for product innovation here in Canada. In fact, all multinationals reserve their principal research and development and product innovation for the home country, thus giving the parent company a world edge in new products as well as weight and influence in determining world market shares for its subsidiaries. On the other hand, subsidiaries are starved of technological development capability and, like much of Canadian industry, become trapped in the cul-de-sac of technological dependency at the very time when domestic ability in product innovation turns the key to international competitiveness. The source of success of Canadian multinationals is their Canadian-based capacity to innovate.

The recent Senate hearings make this point in case after case. ATCO, for example, established a new world industry for remote region housing and other buildings during what Ron Southern calls "a great innovative period" in that company. Northern Telecom became a world leader in telecommunications technology and innovative manufacturing based on Canadian research and development when court action in the United States forced it to separate from its U.S. parent and sink or swim in Canada.

Massey-Ferguson lead the world as the result of innovations in the design and construction of combine harvesters; the Canadian steel companies lead North America through innovations based on their domestic research, development and engineering. Dominion Road Machinery of Goderich, a Canadian-owned firm, is the world leader in motor road graders, based on its own research and development, on its innovations in design and manufacturing and on strict product specialization. All do not merit roses. The subsidiaries of a few foreign multinationals in Canada do well, but most do not because of dependency on parent company technology. This weakens Canadian capacity.

The testimony is clear. It takes size, export markets and, above all, an assured sizeable domestic market to succeed. But it is the related research and development and the entrepreneurial innovation that is central to the whole industrial process in today's conditions. The critical weakness in much of Canadian manufacturing is its lack of capacity to innovate. The branch plants of foreign parents are useless so far as innovation goes. The more developed subsidiaries of foreign parents have mixed records. Canadian strategy must, therefore, promote Canadian-based multinationals in order to ensure a home base for research and development and for innovation. Without this, general incentives for research and development will prove ineffective.