and income taxes on a global basis) (Rome 1992). Are Canadian and U.S. TNCs driven by internal factors, external factors, or some combination when choosing a transfer pricing method? Is income shifted between countries to minimize the TNC tax burden and deprive the tax authorities of their appropriate revenue? The findings of this study may have implications for U.S. and Canadian transfer pricing law and tax treaty conventions.

The next sections present the rationale for subsidiaries, and current Canadian and U.S. transfer pricing regulations. A summary of relevant literature is then presented, followed by a discussion of the variables and methodology of the study. An analysis of the data is then presented, ending with conclusions and the research and policy implications of the results.

Why Canadian/U.S. Cross-Border Subsidiaries?

Several motives drive TNCs to establish cross-border subsidiaries. Many Canadian-based TNCs "have firm-specific advantages in the production, distribution and trading of resource based products," which in the past were positively exploited by exporting, rather than by foreign direct investment (FDI) in the U.S. (Rugman 1986, 20). Geographic proximity is also an important factor in spurring cross-border activity by resource-based Canadian TNCs. However, a recent change in strategies from exporting to FDI is due partly to the need for TNCs "to retain knowledge about their firm-specific advantage within the network of the (TNC) rather than risk its dissipation on open markets," where this knowledge may be