

*Income Tax Act*

In speaking on this section relating to international income, I think it would be an understatement to say that this aspect of external international income and this part of the tax reform have undergone radical alteration since the white paper and even since the drafting of this bill. The effect of the United States surtax of August 15 most radically altered our concept of what changes in taxation of international income should occur. Although financial authorities throughout the world, including our own Canadian experts, have been warning that the United States balance of payments position had to be corrected at some time, still our own drafters of tax law completely forgot about the possibilities of changes in the outside world, especially in respect of such a great trader as the United States.

The whole thrust of Bill C-259 has been that we could demand of capital in our own hands, as well as that invested in our country, complete acquiescence, in the hope that capital would come in and be operated in a manner which we expect, and in the hope that the tax structure would be so arranged that all enterprise would be directed for the public good—whatever interpretation the government may put on that phrase—with the profit factor being of secondary consideration. In the matter of international income, the action of the United States government brought home to us that we cannot always have it both ways. They have served notice on us that we cannot expect the United States market to be open to us always and open to our multi-national companies without regard to their own position.

The ill-fated Gray report that would have set up a so-called screening agency is just an extension of what has already been happening to a large extent in our foreign capital transactions which affect our international economy. Altogether we have been screening foreign investment for some time; we prevented the sale of Dennison Mines to United States interests and we prevented the sale of Home Oil also to United States interests, presumably on the basis that some part of the oil industry should be Canadian owned. We have to consider the taxation of international income in light of all the things that Canada must do in international affairs. The government has not prevented the take-over of Supertest by B.P. Canada presumably because it is an English company and not a United States company.

Canada has to re-assess its international relations in the matter of foreign capital and trade. There is no more obvious fact than that Canada is situated on the North American continent and the flow of trade will increasingly revert to north and south as opposed to east and west. The severing of our links with Great Britain has set us in a period of drift and has inevitably forced us in matters of trade to the recognition that we are becoming more and more continentalists. Especially in western Canada, the north and south pull is enormous and all Canadians, especially those who feel that Toronto and Montreal decide for the Canadian nation what course it will follow, will encounter severe controversy and objection. The whole new course that Canada must chart in the matter of foreign investment is inevitably bound up with international taxation. Canada will have to assess its trade relations with the United States, and this will encompass all manner of arrangements from free trade, in some single

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commodities, such as the auto pact, to a customs union, which has been advocated by the Premier of British Columbia.

The problem of international taxation is bound up with the fact that the most urgent needs of Canada for the future seem to be those in which this government has been the least successful, that is, economic growth and some sense of effective Canadian participation in the world at large. As to the latter and its relation to economic growth, this is important to Canada since it is the sixth largest trading nation in the world and exports one-third of everything produced. It is now far more generally recognized than it was a few years ago that there is no alternative for Canada but to seek wider and more diversified access to markets, not only for our primary products but for our manufactured products as well. This will involve the necessity of exposing Canadian markets in return. Bill C-259 is going to lessen the chance of our companies competing in foreign markets because of these taxation proposals. It is acknowledged that since international markets are involved, a maximum Canadian productive effort will be required. Canada needs not only the opportunity to participate in new markets, particularly now that 65 per cent of our exports are going to one place, the United States, but what is needed too is the "carrot" of being able to keep more of what we make. This is an essential element to the production of a positive climate for aggressive effort and risk taking.

I think in Bill C-259 we have an example of the omission of the "carrot" which would induce our multi-national companies to proceed overseas to get a portion of the action. If we extend the carrot, it would mean the elimination of taxation proposals to make it possible for Canadian companies to expand overseas. No one really believes there is much likelihood of an over-all reduction in the Canadian tax burden in the near future, although that must be an ultimate goal.

There should be little reliance on artificial support or other gimmicks of a legislative nature as a means of achieving greater Canadian control of our manufacturing industry and a requisite export effort. Too much reliance has recently been placed in talking up Canadian participation and talking for or against foreign investment. What is essential is that capital should flow on the basis of market decisions arrived at by considering their economic merits. The answer to non-resident control does not rest with legal devices which counter the natural economic forces, but rather with the encouragement of Canadian enterprise in positive ways and the discouragement of non-Canadian enterprise regardless of its parentage.

In any discussion of international taxation on income, one of the great considerations we have to look at is the multi-national companies. Whatever we may feel about them they are indeed here. They are looked at by many as being companies which do not necessarily have the national interest at heart. In fact, they are companies that may not always be responsive to the desires or aims of the country which is their home. A year or two ago when the discussion of the drug issue was being carried on in this House it could be shown that Canada was not willing to promote drug companies which would have established us in the international market. If Canada is to retain any place in the international trading arrangements of the