U.S. Domination is all but complete

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Of the total proportion of Canadian industries under non-resident control, a very high proportion are controlled in the United States. At the end of 1963, 46 per cent of Canadian manufacturing, 62 per cent of Canadian petroleum and natural gas, and 52 per cent of Canadian "other mining and smelting were controlled in that country". If one to disaggregate these figures, he would find that in some industries, such as the automobile industry, United States domination is all but complete.

Thus it can be seen that Canadians have gradually been losing control of their own economy. This has occured quietly, with little if any protest from Canadians. The judgement of whether this has been a bad thing for Canada (on balance) depends upon how and to what ends that control has been exercised. It is to these questions that attention must now be turned.

IMPACTS OF FOREIGN CONTROL ON CANADA:

There seems to be a number of intertwined issues in the current Canadian controversy over foreign ownership and control. Many of these hinge on whether or not foreign controlled firms are acting in the best interests of Canada. There have been allegations to the effect that foreign laws and government policies, especially those of the United States government, have been exported to Canada through the operations of subsidiaries. There have been suggestions that the subsidiary company, particularly in the area of export competition, has tended to operate in the interest of its parent corporation rather than in the best interest of Canada. The performance of foreign-owned firms located in Canada has been questioned. And finally there is the all embracing question of whether Canadian resources are presently being used in the best interest of Canada. These are all serious questions, involving not only the economic future of this country but also its future as a viable political entity.

Since the performance issue is the simplest to deal with, it will be considered first. It has been suggested that the branch plant, given the protection of Canadian tariff barries, set low targets with consequent unfortunate side effects for Canada. This argument has been offered by Professor Dehem in the Canadian Journal of Economics and Political Science (Nov. 1962). More recent studies suggest that the performance of foreign owned firms is, on the average, no better and no worse than Canadian owned secondary manufacturing industries. This point of view was suggested by the Watkins Report. A.E. Safarian, in his Performance of Foreign - Owned Firms in Canada, is of the same opinion. Safarian goes further, suggesting that:

"While Canadians have worried too much the effects of private decision-making within international firms, they have not given sufficient thought to the serious questions raised by the extraterritorial extention of U.S. laws and government regulations to Canada through medium of subsidiary firms. Subsidiary performance is affected and, more important, Canadian independence is impaired, by restrictions on exports by subsidiaries to certain countries, by the mandatory balance of payments guidelines applied to Canada for several months early in 1968, and by the extention of U.S. anti-trust decisions to subsidiaries in Canada. If satisfactory multilateral or bilateral solutions are not bound to these and similar problems, the stakes may eventually be considered sufficiently important that governments will resort to unilateral and probably second-best solutions."

Safarian suggests, then, that the major area of conflict lies not in the realm of economic performance by subsidaries but rather with the extraterritorial application of U.S. land and policy to Canada through the subsidiary corporations. The extraterritorial issue is a basic source of conflict between the interests of the foreign-owned firm and the interests of the Canadian nation.

American firms are restricted in their dealings with Communist countries by U.S. policy. A key component of that policy is the Export Control Act of 1949 and amendments to it. The Act states in part:

"The Congress further declares that it is the policy of the United States to use its economic resources and advantages - in trade with Communist dominated nations to further the national security and foreign policy objectives of the United States."

Under the Act the President of the U.S. has the authority to prohibit or curtail the export of goods to Communist countries. Penalties for the violation of the Act are severe - a fine up to $10,000 or a prison sentence of up to a year, or both for first offenders. Other aspects of the policy are in the form of the Foreign Assets Control Regulations which are applied extraterritorily in any situation where American citizens have actual or potential control of business. The Watkins Report states that these regulations:

"Apply to the exports of United States subsidaries EVEN IF THE COMMODITIES MAKE NO USE OF AMERICAN COMPONENTS OR TECHNOLOGY." (p. 318, emphasis supplied).

In view of the fact that Canada (and many Western Eurpoean nations) have a much more liberal view of trade with Communist countries, including China, it is apparent that serious problems and disagreements could arise.

The Watkins Reports also suggests that there are a number of cases on record where Canadian subsidiaries have declined to full orders from Communist countries because of the Trading with the Enemy Act. Perhaps the most famous of these involved the proposed sale of automobiles to China during the 1950's.

Closely related to this has been the reported application of American antitrust legislation extraterritorlly. An example such action is the Radio-Patents Pool case where "the complaint alledged that a Canadian patent pool controlled by the Canadian subsidiaries of American corporations prevented the importation into Canada of radio and television sets manufactured in the United States." Watkins Report - page 327). This led to the so-called Fulton-Rogers agreement which provides that were either country undertakes legal action concerning monopoly where the interests in the other are involved notifications will be given. The basic issue involved is the same in both aspects extraterritoriality - actions, laws, and policies of the U.S. government contribute to a loss of Canadian sovereignity. In examining the question, the Watkins Report comes to the conclusion that:

"It is necessary, if Canada's sovereignity is not to be eroded, national independence diminish, that positive steps be taken to block the intrusion into Canada of the United States law and policy applicable to American owned subsidiaries with respect to freedom to export to Communist countries anti-trust laws and policy and balance of payments policy". (page 407) One cannot help but agree with such a conclusion. The choice lies in the hands of the Canadian policy-makers and it appears that the choice must be made very soon.

Other issues could be raised at this juncture. One might examine the research and development efforts of subsidiaries compared to Canadian controlled corporations. Or, one might inquire whether the foreign - owned subsidaries is making its fair contribution to support private welfare and other projects in Canada. One might examine management hiring policies, pricing policies, or purchasing policies of foreign - owned companies. These, however, are issues of secondary importance. The basic issues are who shall control Canada's resources and to what ends should they be put period. These are questions which Canadians must answer now. If we opt for Canadian involvement in the economic affairs of the country. The alternative is, to employ the title of Kari Levitt's book, A Silent Surrender.

TABLE 4

Ownership and Control of Selected Canadian Industries, Selected Year Ends, 1954-63.

Enterprise classification	Foreign ownership					Foreign control				
	1954	1957	1959	1961	1963	1954	1957	1959	1961	1963
	per cent									
Manufacturing:										
Beverages	29	28	26	26	26	20	13	13	14	17
Rubber	78	84	86	88	87	93	97	98	99	97
Textiles	21	21	22	24	20	18	19	23	23	20
Pulp and paper	51	53	52	51	52	56	55	49	46	47
Agricultural machinery[1]	37	37	43	45	49	35	38	55	50	50
Automobiles and parts	78	78	89	90	91	95	95	97	97	97
Transportation equipment n.o.p.	34	47	58	57	59	36	67	73	70	78
Primary iron and steel	16	24	25	..	..	6	26	23	..	..
Iron and steel mills	..	..	..	30	20*	..	..	..	25	14*
Electrical apparatus	70	70	74	73	70	77	77	81	78	77
Chemicals	64	62	61	62	63	75	75	77	76	78
Other manufacturing	46	50	52	56	59	52	57	61	66	70
Sub-totals (excluding petroleum refining)	47	50	51	54	54	51	56	57	59	60
Petroleum and natural gas	60	63	62	63	64	69	76	73	72	74
Mining:										
Smelting and refining of non-ferrous native ores	59	54	56	55	52	55	66	66	55	51
Other mining	55	56	59	64	66	49	59	59	60	62
Sub-totals	56	56	58	62	62	51	61	61	59	59
Totals of above industries	51	54	55	57	59	55	61	62	63	64

[1] Includes enterprises also engaged in the manufacture of other heavy equipment which tends to overstate foreign-owned and controlled proportion of capital actually engaged in the manufacture of agricultural implements only.