## *Letters to the Editor*

# Limits of sovereignty. . . .

Sir,

The article "Sovereignty over Natural Resources: Reality or Illusion" by Chambers and Reid published in the November-December 1977 issue raises some interesting points.

If the word is taken literally in the sense of supreme power, then each nation does have sovereignty over its natural resources, in that basically it is free to produce or not to produce. The situation is, of course, somewhat different when we consider such factors as control over economic viability. A nation will have less than complete control over economic viability as outside parties become involved in one or more stages of the cycle – from financing to production, marketing and consuming. Each party in the cycle, including the nation itself, will only agree to proceed if economic gains – whether in the form of cash profits, more employment, etc. – are foreseen.

Thus, while the nation state does have supreme power in the sense that it is the party that has the final say on whether or not a particular project proceeds, its control over the economic gain it receives from the project is a function of the number of outside parties involved and the terms they impose to take part in the project. These outside parties may be, of course, not only multinational enterprises but also international institutions, other nations, etc.

The developing countries are particularly vulnerable to this situation because, of necessity, they must involve outsiders in several of the stages of the cycle.

It is worth while noting, and of particular importance to the world supply/demand situation, that, once production is under way, there is a definite resistance to cut-backs or shutdowns in the face of low- or zero-profit levels, because the nation state is often measuring the "profit" in many different ways – such as foreign-exchange earnings, maintaining employment levels, etc. This situation appears to exist right now in the world copper and nickel industries.

In all of this there is a considerable danger for the Canadian mineral industry. Continuing low levels of metal prices will result in the closing of some of Canada's higher-cost mining operations and the diversion of investment either to other countries or to other sectors of the Canadian economy. Is much of the problem due to the fact that Canada has failed to some extent to move along in the natural order of economic development – from an initial dependence on natural-resource exports to the building of a manufacturing sector, until a broad-based economy evolves? Is it fair to say that we have used natural-resource export revenues to pay for consumer imports, rather than for the building of a broader-based economy? At present the Canadian mineral industry is being threatened as the least-developed countries maintain or increase their mineral production and reach trade agreements with our traditional trading partners, but isn't this problem likely to get worse as the LDCs integrate downstream into basic manufacturing?

What are Canada's alternatives in this situation? It seems to me that basically we have a choice between (a) resigning ourselves to the fact that at present a large portion of our domestic mineral industry is not competitive and allowing it to struggle on as best it can, and (b) attempting a basic change in strategy, to one of definitely encouraging those sectors in which we still have some underlying advantages, such as mining, and using the resulting benefits to encourage a change in the structure of our economy – rather than merely to maintain a high level of consumer imports.

At present we appear to be folllowing course (a), although there are signs of a partial change towards (b). Course (b), while difficult to follow, particularly in view of the federal-provincial dialogue over the sharing of tax revenues, appears the logical route and probably entails not only an increase in the level of tax incentives but also some direct government involvement, at least initially. Perhaps we should think of such things as permitting a portion of exploration and development expenditures to be written off against other types of income at the same rate as is at present permitted against mining income. Perhaps a portion of mineral-industry tax incentives should only be permitted if the money is reinvested in the mineral industry, or in selected higher-technology industries. For example, earned depletion could be on a \$1-for-\$2 basis, but with only half being eligible for write-off against mining income and only half being eligible for write-off against selected higher-technology income.