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THE ISSUE OF FOREIGN INVESTMENT

Part of a Speech by the Honourable Jean-Luc Pepin,
Minister of Industry, Trade and Commerce, to the
Chamber of Commerce, Victoria, May 8, 1972:

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British Columbia, like the rest of Canada, has generally welcomed, as we shall continue to welcome, the addition from the outside of capital, technology, and management to help develop Canadian resources.

Partly because of that "open-door" policy, Canadians have come to enjoy... and take for granted... many advantages -- including our high standard of living.

Quite naturally, concern over our ability to direct our own economy has risen along with the degree of foreign ownership.

Most Canadians remain ambivalent on the subject, but, according to one recent survey, almost 44 per cent of us view American ownership of Canadian companies as having an adverse effect on our economy. This compares with 41 per cent two years ago, and 34 per cent three years ago.

Strangely enough, while Ontario is normally considered Canada's centre of "economic nationalism", the same survey found that the greatest anxiety actually exists in British Columbia, where 53 per cent of the public said U.S. ownership was a "bad thing" (University of Windsor, International Business Studies research, sample 5,000 Canadians).

The Federal Government shares this concern -- hence the thorough examination, hence the announcement of May 2.

Screening, Another Step

Canada has, in the past, adopted a number of measures to maintain and foster Canadian control.

Foreign investment in banks and other key financial institutions, broadcasting facilities, newspapers and magazines is subject to specific laws effectively keeping them under Canadian control.

On the positive side, the present Government has set up the Canada Development Corporation, which will play an active role in developing strong Canadian-controlled businesses. The previous Government had set up the very successful Panarctic [Panarctic Oils Limited].

The tax reform of last year contained several measures deliberately designed to reach the same objective. I refer, for instance, to the 10 percent limit on investment abroad by Pension Funds, and to small-business tax advantages available to Canadians only.

Now another step is taken: the screening of takeovers.

The Policy

Foreign companies seeking to buy out or take over an existing Canadian business above a certain size will be screened.

The purpose will be to examine the proposals; to approve those that, on balance, will bring "significant benefits" to Canada; to negotiate with the proposed acquirer in those cases where he can reasonably expect to make a greater contribution to Canadian development; and to refuse to allow those takeovers that would not bring significant benefit to Canada.

Five factors will be taken into account:

- (1) the effect of the acquisition on the level and nature of Canadian economic activity and employment;
- (2) the degree and significance of participation by Canadians;
- (3) the effect of the acquisition on Canadian productivity, industrial efficiency, technological development, product innovation and product variety;
- (4) the effect of the acquisition on competition within Canadian industry or industries; and
- (5) the compatibility of acquisition with Canadian industrial and economic policies.

Some commentators have expressed regret at the generality of these factors. We couldn't help it. Right or wrong, criteria would have had to be too general; if made specific, they could be counterproductive (e.g. money inflow).

Why the Executive Branch?

Some have wondered why screening by the executive branch and not an independent tribunal?

The question to be answered in the screening process is not a legal one at all; it's basically an economic one -- with social and political considerations.

Two ways of doing it were left -- screening by a board or commission, or by a department. In both cases, the Minister and Government are "responsible", with different degree of autonomy for the instrument. We compromised -- there will be an office of takeovers in the department, with a "registrar" leading it.

The office will use the knowledge and judgment of the nine specialized branches of Industry, Trade and Commerce and of other departments, Energy, Mines and Resources, Finance, etc. Had we set up a semi-independent commission, it would have had to create another centre of competence, bringing about costly and unnecessary duplication.

Why not More than Takeovers?

Why not extend the screening process to all forms of foreign investment, for example?

It was not judged to be politically practical and economically realistic -- in principle by some, or at this time by others.

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There was also the problem of administration. The complexities of screening 150 cases a year for "significant benefits" should be easy to imagine.

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And there is no single way to increase the control by Canadians on their economy; just a few weeks ago, for example, my Department announced support for management training and for export marketing which will be used mostly by Canadian-owned firms.

How Important is the Decision to Screen Takeovers?

It has been observed that takeovers represent a fairly small portion of foreign investment, between 5 and 20 per cent, only, annually.

I suggest that the establishment of the principle and of the apparatus for the screening of takeovers is a major development. The "standards" applicable to the screening of takeovers will sooner or later influence all foreign ownership. I call that the "exemplary value" of the new system.

Some have argued that the takeover law means little, because foreign firms can still enter the country directly and run a Canadian company

out of business. Yes, but this would be done by direct competition, which means that the new company has out-performed, to the advantage of Canadian consumers, the existing Canadian operation. In most cases, there will be room for both.

The Interim Period

Questions have been raised over a possible flood of foreign take-over occurring before the policy becomes law.

I hope this will not happen. Foreign investors are now well aware of the Government's intentions. Even in recent months, the Government has been voluntarily informed of many proposed acquisitions; I trust that companies contemplating important takeovers during the interim period will keep the Government advised.

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While there will always be a wide range of opinion among Canadians about the actual balance between the benefits and costs of foreign investment, there is certainly no disagreement with the proposition that foreign direct investments should work in our best interests. The main purpose of the screening process will not be to block -- though there will be some refusals -- but to optimize the Canadian interest.

S/A