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THE ECONOMIC PRICE OF CANADA'S INDEPENDENCE

The following is the text of an address by the Minister of Finance, Mr. Walter L. Gordon, to the sixth annual Industrial and Municipal Relations Conference, on the conference theme "United States Investment in our Communities and Industries":

...For some time this question of massive non-resident investment in Canada has been widely debated in academic, business and editorial circles. It was the subject raised most often in the briefs and submissions presented in 1955 and 1956 to the Royal Commission on Canada's Economic Prospects, of which I was chairman. That Commission, in its reports dated December 1956 and November 1957, was unanimous in pointing out both the great benefits of foreign investment and also some of the dangers. Referring to foreign-controlled subsidiaries and branch plants, the Commission suggested:

"(a) Wherever possible, they should employ Canadians in senior management and technical positions, should retain Canadian engineering and other professional and service personnel and should do their purchasing of supplies, materials and equipment in this country.

(b) They should publish their financial statements and make full disclosure therein of their Canadian operations.

(c) The larger Canadian subsidiaries should sell an appreciable interest (perhaps 20 to 25 per cent) in their equity stock to Canadian investors and should include on their boards of directors a number of independent Canadians."

The Commission said that it was desirable that Canadian control of the Canadian chartered banks and life-insurance companies should be maintained.

It suggested that appropriate action be taken to prevent any substantial measure of control of these institutions from coming into the possession of non-residents.

Now, seven years later, we are just beginning to come to grips with the proposals of that Royal Commission. Not everyone agrees with them. And yet most of us can agree, I think, upon the importance of the subject. That is why I am happy to see you have chosen this theme for your discussions. I hope many more organizations will follow your example. The views and conclusions which Canadians form on this subject, and the resulting decisions which they and their governments take, will have a vital bearing on the future of our country.

Let me begin by saying that I have no fears about the kind of foreign investment that can be paid off at some time in the future, out of profits or from rising incomes. After all, the United States economy got its real start in the last half of the nineteenth century with foreign capital - mostly British capital. But the great bulk of that capital was in a form which could be paid off at maturity and, in fact, this was what happened.

LITTLE-NOTED TAX CONCESSION

One change that was made in the Canadian tax laws in the summer of 1963 which did not attract as much attention as I believe it deserves, was the relief from withholding tax on interest paid on Canadian bonds and debentures sold to non-resident institutions that are exempt from tax in their own country.

(Over)

For example, most American holders of Canadian bonds pay U.S. taxes. They can offset most or all of the Canadian withholding taxes on the interest they receive from the taxes they pay to Uncle Sam, so they are not out much, if anything. If we were to drop our withholding tax in such cases, the only effect would be to reduce the revenues of the Canadian Treasury in order to benefit the United States Treasury. That would be an act of generosity which this country cannot afford and which our American friends are too affluent to need.

But the fast-growing pension trusts in the U.S. do not pay taxes in that country. That being the case, it has not been in their best interests to buy Canadian bonds on which the interest was subject to Canadian withholding tax. It was to secure access to this new and great potential market for our bonds that the change in our tax laws was made last year. Now, after obtaining the necessary certificate from the Department of National Revenue, the city of Peterborough, for example, is in a position to sell its debentures to a U.S. pension trust without being required to deduct the 15 percent Canadian withholding tax from the interest payments. Not only will this make Canadian bonds more saleable but it will help to keep interest rates as low as possible.

ABSENTEE OWNERSHIP

But what worries some people, myself included, is that so much of the foreign capital invested in Canada is not in the form of bonds or other fixed-term securities, which can be paid off some day, but instead is in the form of equity investments that can never be paid back if the foreign owners do not wish to sell. The most recent figures available show that at the end of 1961 our total foreign liabilities had reached \$27.8 billion, and nearly half of that amount, \$13.7 billion, was in the form of direct investment in foreign-controlled branch plants and subsidiaries. This means that much of Canadian industry — certainly a very great deal of our big industry — is controlled by absentee owners and could continue to be controlled by absentee owners more or less indefinitely. I do not believe this to be healthy.

In the early fifties, at a time when a broad expansion of Canadian industry in all sectors was under way, but most importantly in the resource sector, one could begin to point to key Canadian industries in which a relatively few companies controlled by non-residents pretty well dominated the industry. The role of non-resident firms was pre-eminent, for example, in the oil-and-gas industry. Foreign-controlled firms were dominant also in aluminum, iron ore, asbestos, in most sectors of the chemical industry, and in at least three important secondary manufacturing industries — automobiles, electrical apparatus and appliances, and rubber products.

Since the early fifties, direct investment from abroad has continued to flow into Canada in significant volume. In certain key sectors of our economy, foreign ownership and control has reached very high proportions. The latest figures available, which are for 1961, indicate that non-residents control almost 70 per cent of the value of investment in petroleum and natural gas, 59 per cent in mining

and smelting, and almost 60 per cent in manufacturing. This means not only that the key decisions respecting Canadian industry are made by people who live outside our borders but also that our industrial companies are affected directly by events and conditions that prevail elsewhere. For example, the largest company in Ontario was closed down recently because its parent company in the United States was strikebound....

There are those who say the advantages we gain from these relationships far outweigh the disadvantages. Certainly, foreign investment in the key sectors of the economy I have mentioned has helped the development of our country faster than it might otherwise have happened. It has given us access to technological, scientific and managerial skills that otherwise it would have taken us longer to acquire. And, in the case of some of our great producers of industrial raw materials, it has provided the assurance of markets without which some of the developments would not have been able to proceed.

Nevertheless, no other economically-advanced nation has such a large proportion of its industry controlled from outside its borders. Let us not pretend the advantages I have mentioned have been an unmitigated blessing.

CURRENT-ACCOUNTS DEFICIT

Some of our greatest difficulties in Canada have been caused by the fact that, year after year, we have bought more goods and services abroad than we have sold abroad. The difference is known as the current-account deficit in our balance of payments with other countries. This current-account deficit has been offset by capital inflows — including both the capital we have borrowed, which we hope to pay off in the future, and the capital invested here in Canadian subsidiary companies and Canadian resources.

This situation — the incurring of a deficit in our transactions with other countries — has been going on for years. In good times it hasn't seemed to matter so very much. The capital inflow has helped to develop the country quickly and borrowing for this purpose can properly be justified. It is more questionable, perhaps, when it means transferring to non-residents equity investments and the right to make decisions that affect our lives and interests.

But in bad times it makes no sense whatever for Canada to buy more goods and services abroad than we sell abroad. From 1958 to 1962, for example, we had unused resources and great numbers of idle people in this country. And yet we kept on going into debt to foreigners and selling off our Canadian companies to them in order to pay for the things we wanted to import. This did not make sense. In effect, we were importing unemployment.

The situation is much better now than it has been for some time, but we have a considerable way to go before any of us can feel satisfied. We are still running a substantial deficit on current account in our balance of payments — and, while unemployment is lower now (on a seasonally-adjusted basis) than at any time since 1957, there are still too many people unemployed in some parts of the country.

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PROBLEMS AND TECHNIQUES OF PEACE KEEPING

On November 2, Prime Minister Lester B. Pearson opened the meeting in Ottawa of military experts assembled to consider the technical aspects of United Nations peace-keeping operations with the following address of welcome:

I am pleased to welcome you to Ottawa on behalf of the Government of Canada. I am doubly pleased because your meeting to consider the important aspects of United Nations peace-keeping operations is the result of a proposal which I put forward to the United Nations General Assembly last year. At that time, speaking for the Canadian Government, I said:

We would be happy to share our experience with others who have participated with us in UN peace-keeping operations in the past, as well as with those who might wish to do so in the future.

To this end, we propose that there should be an examination by interested governments of the problems and techniques of peace-keeping operations.

AN EARLIER PROPOSAL

When I made this proposal, I hoped that such an examination might lead to closer co-ordination of stand-by forces for UN service, as well as to better mutual understanding of the techniques of peace keeping. As long ago as 1957, it was my view that we should "pool our experience and our resources so that the next time we, the governments and peoples whom the United Nations represents, will be ready and prepared to act". This is still my view.

I realize, nevertheless, that in these matters we must advance with all deliberate speed. Dag Hammarskjold once put it in these terms:

World organization is still a new adventure in human history. It needs perfecting in the crucible of experience, and there is no substitute for time in that respect.

It is this "crucible of experience" which brings you together today. Your purpose is to exchange views on the basis of common experience in peace keeping, on the vital technical and military aspects of UN operations and, as a result, to put yourselves in a better position to respond to possible future demands for action under the blue flag of the United Nations.

MOTOR-VEHICLE SHIPMENTS

Factory shipments of Canadian-made passenger cars and commercial vehicles increased 30.0 per cent in September, to 49,862 units from 38,353 in the same month last year. With a lone decrease in July, shipments in the January-September period climbed 19.1 per cent, to 515,614 units from 432,755 in the first nine months of 1963. Shipments of vehicles imported from the United States advanced in the month to 1,784 units from 620 and, in the cumulative period, to 9,049 units from 4,143.

September shipments of Canadian-made passenger cars increased to 39,732 units from 30,963 a year earlier, comprising 37,425 units against 30,009

Needless to say, no government commits itself to respond to such possible future demands by the United Nations just because it has participated in this meeting. That is a decision for governments to make in the light of all the circumstances at the time. But a government which does so respond will have benefited, I know, from the presence of its representatives in Ottawa this week. So, too, will the United Nations have benefited, and I am glad to note in this respect the presence here today of a distinguished representative of the Secretary-General.

GOVERNMENTS MUST TAKE INITIATIVE

Too often, in the past, we have been unprepared to meet peace-keeping emergencies. Nor is it reasonable to believe that such emergencies will not happen again, perhaps without warning. The United Nations itself may be prevented by circumstances from taking action to prepare for such emergencies. We all know the difficulties that lie in the way of such United Nations action. But member governments can, indeed must, do a great deal on their own initiative. And who is more aware of this need than those of us who have made major contributions to peace keeping in the past, or who have made it clear we are prepared to be of assistance in the future?

May I say, in conclusion, that Canadians take pride in the fact of your meeting here? Canadians have participated in every United Nations peace-keeping operation since 1948. Successive Canadian governments have always sought to strengthen the capacity of the United Nations to preserve the peace. I myself have been privileged to be associated with these efforts for many years.

We do not expect miracles. As Secretary-General U Thant pointed out in his address to the Canadian Parliament on May 26 last, what we can expect is "a sound and gradual development of thought and action at the national and international levels, if, in this matter of peace keeping, we are to profit from the lessons of the past and plan and act for a more stable and happier future". But that is also the least we should expect. I am confident that the meeting which begins today will carry us forward yet a little closer towards that goal.

for sale in Canada and 2,307 units against 954 for export. January-September shipments climbed to 429,944 units from 361,506 a year ago, the number for sale in Canada rising to 406,208 units from 351,690 and for export to 23,736 units from 9,816.

Factory shipments of domestically-produced commercial vehicles rose in September to 10,130 units from 7,390 a year earlier, reflecting more for sale in Canada, at 9,552 units against 6,992, and also more for export at 578 units versus 398. Nine-month shipments advanced to 85,670 units from 71,249 a year ago, comprising 81,298 units compared to 68,213 for the domestic market and 4,372 units against 3,036 for export markets.

McKEE AVIATION TROPHY

Presentation of the Trans-Canada (McKee) Trophy for meritorious service in the development of aviation during the past 40 years was made to Frank A. MacDougall, Deputy Minister for Lands and Forests for Ontario, on November 2. The award was presented by Mr. Arthur Laing, Minister of Northern Affairs, at the annual meeting of the Air Transport Association in Victoria, British Columbia.

The McKee Trophy, which dates back to 1927, is presented annually for service in the advancement of Canadian aviation. Emphasis is placed on continuing performance rather than a single brilliant exploit, and special consideration is given to the application of aircraft and aviation equipment to new and useful purposes.

The McKee Trophy was donated by the late Dalzell McKee of Pittsburg, a wealthy aviation enthusiast who made the first Trans-Canada flight by seaplane in 1926. Mr. McKee established the trophy in recognition of the welcome and assistance given him by the Royal Canadian Air Force during the flight.

Since 1941, when Mr. MacDougall was appointed to his present post, he has developed and extended the air services of his department, particularly for the detection and suppression of fire from the air. His department was directly responsible for developing water-bombing tanks to equip its aircraft.

In addition, Mr. MacDougall developed the use of aircraft for the administration of game and fisheries regulations and for wild-life surveys, in the movement of department personnel on forest management duties, and in the restocking of lakes and streams with game fish fingerlings dropped from department aircraft.

CANADA UPS UNICEF CONTRIBUTION

The Prime Minister announced on October 30 that Canada's annual contribution to the United Nations Children's Fund would be increased by \$200,000 to \$1 million for 1965-66.

One factor in the Government's decision, the Prime Minister said, had been the support throughout Canada for the work of UNICEF, as demonstrated in the Hallow'en and Christmas Greeting Card campaigns carried out through the Canadian Committee for UNICEF, which had raised over \$730,000 the previous year. Mr. Pearson appealed for continuing public support for the two campaigns. "The need of the world's children," he said, "is very great and it is fitting that Canadians should respond to the greatest extent possible."

CANADIANS IN UNICEF

Canada has had a close connection with UNICEF since its establishment in 1946, and has been represented on its Executive Board on many occasions. Dr. Joseph W. Willard, the Deputy Minister of Welfare, is at present Chairman of the Board's important Programme Committee. Many distinguished Canadians have been employed by UNICEF, including Mr. Milton Gregg, former Minister of Veterans' Affairs, and

Mrs. Adelaide Sinclair, who, following a distinguished career in the Royal Canadian Navy and the Civil Service, has served UNICEF since 1957 as its Deputy Executive Director.

The increased grant, the Prime Minister said, "is an additional affirmation of Canada's support for the United Nations and its agencies, and a contribution to the children of the world, which I am sure all Canadians will welcome".

AID FOR CEYLON AIRPORT

The Secretary of State for External Affairs, Mr. Paul Martin, recently announced that a sod-turning ceremony would be held on November 15 at Katunayake Airport, near Colombo, Ceylon, to mark the beginning of construction there under the Canadian Colombo Plan. The Canadian Government is meeting a request from Ceylon for assistance in developing the airport to international standards, in order to accomodate the new long-range jet transports that are to be introduced there next year.

Mr. Martin said the provision of a modern airport at Katunayake is considered by the Ceylon Government as one of the most important projects in the country's long-range economic-development plans. Local construction costs are being met by Ceylon from rupee counterpart funds generated by Canadian Colombo Plan shipments of flour. Canada is supplying design, engineering and construction services. The total cost will be \$5,500,000, of which the Canadian contribution in foreign exchange will be \$3,600,000.

MINERAL RESEARCH GRANTS

Grants amounting to \$50,000 have been awarded by the Mines Branch of the Department of Mines and Technical Surveys to seven Canadian universities (Alberta, Dalhousie, McGill, Queen's, Saskatchewan, Toronto, and Western Ontario) for research in rock mechanics and mineral processing. "Investigation in these two fields," says Mr. William Benedickson, the Minister of Mines and Technical Surveys, "should lead to more efficient mining operations, to cheaper methods of extracting ores, and to the training and retention of graduate students in Canada."

LIGHT ON SERIOUS PROBLEMS

Rapid production expansion in the Canadian mining industry has brought serious problems in mine stability. The subject of rock mechanics, which is concerned with the strength of rock under stress, has a direct bearing on these problems. The instruments and techniques developed for research in this field are of use to the geologist and the geophysicist alike. In the mineral-processing field, these grants-in-aid are assisting in grinding research, flotation and the development of hydro cyclones.

The grants, first made in 1962, have helped some 20 graduate students in the mineral industry obtain higher degrees in Canada.

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THE ECONOMIC PRICE
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(Continued from P. 2)

The best way of correcting this situation is not to restrict imports but to expand our export trade. In practical terms, if we are to be successful in doing this, we shall have to increase our exports to the United States. (We have a surplus on current account with other countries and a huge deficit in our transactions with the U.S.). Furthermore, we shall have to increase very considerably our exports of processed and fully-manufactured goods. This must be a major goal of Canadian economic policy.

But, as I have said, some 60 per cent of Canadian manufacturing industry is controlled by non-residents, mostly Americans. And most of their wholly-owned subsidiary companies were established here to service the Canadian market - and, at one time, to take advantage of Commonwealth preferences. We know there must be greater rationalization, greater concentration, greater specialization, all aimed at mass production, and a greater share of the North American market. In other words, we know we must increase our exports to the U.S. That is why so much stress has been laid on the automobile programme. It is imperative that we obtain for Canada a fair share of total North American production. Our difficulty is to persuade the absentee owners of these Canadian subsidiary companies to reorganize them, to streamline their production and to permit them to export to other countries, including the United States, if necessary, in competition with their parent companies.

If the basic decisions for so many of our manufacturing companies continue to be made in the United States (and in other countries), we may not be successful in bringing about the kind of reorganization, the kind of expansion and the kind of new thinking that will be needed. This is the crux of the problem we are faced with.

MEASURES TO INCREASE CANADIAN CONTROL

That was the reason why last year's Budget contained measures to encourage wholly-owned subsidiary companies controlled abroad to take in Canadians as partners in both the ownership and direction of their affairs. This was done in two ways - by a lower withholding tax on dividends paid to non-residents and by very valuable tax incentives for industrial expansion. The purpose is to bring more Canadians into the decision-making processes of these companies, from the boards of directors on down through the lower management levels. Such a development will greatly increase the likelihood that these firms will be sensitive and responsive to Canadian interests and Canadian objectives.

Several firms have acceded to the expressed wishes of the Canadian Government in this matter, the most recent being Union Carbide of Canada, Limited. The Government has made it very plain it expects other companies to follow these examples.

More recently, the Government has proposed a further step in its programme of retaining and gradually increasing Canadian control of key sections of the economy. Legislation affecting future foreign ownership of federally-incorporated life-insurance, trust and loan companies has been introduced in

Parliament. It has been announced that a similar policy will apply to chartered banks. The legislation will provide for continuation of existing Canadian control over these financial institutions. The importance of this step is obvious. It will ensure that the direction of the investment of the huge pools of savings in the hands of these companies will rest with Canadian boards of directors and managements - not with people in other countries who do not have the same close knowledge of, and interest in, Canadian development.

The legislation will also widen the investment powers of insurance, trust and loan companies, including the ability to invest a greater proportion of their assets in common shares. It is hoped and expected that the easing of present restrictions will encourage these institutions to use their funds to increase the degree of Canadian ownership in the enterprises in this country. The new measures should reinforce the policy begun last year to encourage Canadian partnership in foreign-controlled companies.

FAIR AND REASONABLE POLICIES

These new policies which have been introduced by the Government in the last year and a half are fair and they are reasonable. They do not constitute, as some have suggested, a harsh and repressive climate, in which foreign investors cannot develop with and profit from our country's growth. We should not - and have no desire to - penalize established companies which have invested in Canada in good faith. And we must bear in mind that for some time to come Canada will need foreign capital in one form or another.

Furthermore, the measures we have taken are far from being unusual or unique. Other industrialized countries have acted to influence and direct the nature and degree of foreign investment in their industries. Among them are such countries as Switzerland, France, Sweden and Japan. Other countries have taken the further step of ensuring that their financial institutions do not pass into non-resident hands. And yet none of these countries is in quite the same situation as Canada, where the extent of foreign control is much greater and where the bulk of it rests within a single, very powerful and vigorous, though friendly, next-door neighbour.

Let us be realistic about this question. There is a price to be paid for Canadian independence. So far in our strenuous but for the most part successful history, Canadians have been willing to pay that price when the issues were made clear to them. In this case the issue we have been discussing is not easy for most people to comprehend....

POLITICAL AND ECONOMIC INDEPENDENCE

There is no country in the world that can make any pretense of being independent if it does not control its own communications media, its own financial institutions, and, in one way or another, the general nature of the decisions made by those who direct its basic industries. We Canadians must place ourselves in this position if we wish to retain our national identity and a reasonable amount of national independence. In this, to a large extent, we should equate political independence with economic independence. I say this because no nation, including Canada, can pretend to be independent politically if

it surrenders too much economic power to the residents of other countries.

Sir Wilfrid Laurier said the twentieth century belonged to Canada. That may have been a bit of an exaggeration. Perhaps Sir Wilfrid, if he had lived, would have avoided some of the mistakes that have been made by those who followed in his footsteps. Nevertheless, I believe it is not too late for Canadians to be the ones to benefit the most from the great things that can be achieved in our country in the decades ahead. To do so, we shall have to be prepared to insist upon our national independence and all that this entails. Let's not settle for an easy life and second place. Let's be willing to make some hard decisions. Let's take full advantage of the tremendous future that can be ours if we have the courage and the will to take advantage of it, Let's do whatever we must do to be proud to call ourselves Canadians.

FOREST-FIRE FIGURES

Fire damage to Canada's forests continued to taper off in September as the end of the dry season approached, statistics released by the Department of Forestry indicate. The totals both for the season so far and for the month were still higher than those for last year at the same time.

The seasonal estimate showed damage to 1,820,000 acres caused by 6,314 fires, of which 187 occurred in the Yukon and Northwest Territories, affecting some 584,000 acres.

By the end of September 1963, there had been 6,891 fires, which damaged some 420,500 acres, including 31,500 burned over by 112 fires in the Yukon and Northwest Territories. During September

of this year, it was estimated that 33,450 acres had been damaged by 265 fires; most of the damage involved about 32,800 acres swept by five fires in the Yukon and Northwest Territories. The tally for September 1963 showed some 5,300 acres damaged by 428 fires, of which five in the Yukon and Northwest Territories accounted for 850 acres.

In August 1964, damage was estimated at 201,000 acres burned by 523 fires; 31 of these fires occurred in the Yukon and Northwest Territories, where they devastated 190,000 acres.

MORE HEAVY WATER NEEDED

Atomic Energy of Canada Limited has issued invitations to five Canadian companies (British-American Oil, Deuterium of Canada, Dynamic Power, Imperial Oil and Western Deuterium) to submit proposals for the further production of heavy water in Canada. Alternate proposals have been requested for plant capacities of 200 and 300 tons per annum. While no undertaking has been given that any proposal will be accepted, the proposals may be predicated on the assumption that the sale of heavy water produced over a five-year period would be underwritten by the Federal Government. The proposals are to be received by AECL not later than January 29, 1965. Commencement of the delivery of heavy water is required on or before July 1, 1967.

The heavy water produced by the plant of Deuterium of Canada Limited now under construction at Glace Bay, Nova Scotia, will be insufficient to meet the increasing need for heavy water. The requirements of the new Ontario Hydro 2 x 500,000 kilowatt nuclear-power station cannot be met in time from the present Glace Bay plant.