STATEMENT
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Notes for an Address by
the Honourable Gerald Regan,
Minister of State
(International Trade),
to the New England-Canada
Business Council,
Boston, Massachusetts,
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It is a pleasure and an honour for me to have this opportunity to address this, the first regular session, of the New England-Canada Business Council.

As premier of Nova Scotia I had many opportunities to travel to the New England states and meet New Englanders and I can personally attest to the warm reception Canadians receive when they travel to this area of the United States. My new role in the federal government as Minister of State for International Trade, carries with it the responsibility, and a pleasant one at that, to visit many regions of the world and address numerous groups. I can truthfully say that I feel a considerable degree of pride that one of my first official visits outside of Canada is to Boston and New England.

The flow of tourists between New England and Canada, particularly our eastern provinces, dramatizes the relationship. New Englanders can often be seen in the streets of Montreal or Quebec City or driving through Nova Scotia and the other maritime provinces; and Canadians by the score flock to the ski hills of Vermont or the beaches of Maine and Massachusetts. Everywhere they go, tourists from both regions marvel at the similarities which can be found in living habits, interests and indeed their ancestry.

Our bilateral trade adds yet another dimension to this shared relationship. Two-thirds of Canada's total exports are destined for the United States and of that amount Canadian $4.2 billion, or 7.8% was exported in 1981 to New England. The New England states exported approximately Cdn. $3.2 billion or roughly 6% of total U.S. exports to Canada. The U.S. Department of Commerce estimates that each billion dollars of U.S. exports accounts for 30,000 jobs. In other words, 96,000 jobs in New England depended on the trade with Canada and an equally important number in Canada depended on trade with New England.

Trade with this region covered the full gamut of products from lumber, newsprint and fish to aircraft engines, sophisticated telecommunications, and transportation equipment, and reflects much of the total trade which took place between our two countries. While Canada held a slight merchandise trade surplus last year, the U.S. enjoyed a slightly larger surplus in the non-merchandise account.

We in Canada are fully cognizant of the importance of trade to us as a nation. Exports account for one-third of our total GNP and it is estimated that 20% of our total work force, or 2 million people, are directly involved in the production of goods for export. As I have mentioned, two-thirds of that export trade is with the United States.

The realization, of the importance we have as markets for one another is now becoming better known among

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Americans. For years Americans knew the trade was significant yet assumed that there were other markets offshore which were more important. That is until the last few years, and in particular last year when our two-way trade reached $108 billion Canadian. This was far larger than your trade with Japan, and almost as much as your trade with all the countries of the EEC taken together.

However, this recognition comes at a time when each country in the world is looking anxiously at its trading partners in order to protect its domestic market and enlarge its export opportunities. Even the best bilateral relationship between countries cannot remain unaffected by the tremendous overriding domestic pressures caused by persistent inflation, the recent record-high interest rates and rising unemployment.

The Canada-U.S.A. relationship, as good as it is, is not immune to differences of opinion. In the New England context, I'm sure you are well aware that we have not always seen eye to eye on such commodities as potatoes and fish. For our part we have had difficulty with a wide range of actions taken or proposed by the United States, including: proposed limitations on imports of uranium; suggested domestic content requirements for automobiles; the recent U.S. trucking legislation; the extraterritorial application of certain U.S. laws, particularly that relating to the export of oil and gas technology to the Soviet Union; and the countervail case recently brought by U.S. industry against imports of Canadian softwood lumber.

To a certain extent, what we are dealing with at the moment is a manifestation,a reaction, to the tremendous economic pressures felt by all countries and a general sense of frustration at the way the world is going.

In this context, Canadians can understand the U.S. preoccupation with fair trade and the consequent desire to ensure that other countries carry out their internationally agreed commitments; we do have some concern, however over certain of the measures taken in this regard, including much of the so-called reciprocity legislation. This applies particularly to the tendency to seek reciprocal treatment in a narrow sectoral basis. Such an approach could reduce trade to significantly lower levels and play havoc with the existing international trading system that has served both our countries so well since the end of World War II.

Because of our great dependence on external trade, we know that there is much to lose and little to gain from long term policies which adversely affect the free international flow of goods. For our part, we will remain receptive to the comments and suggestions of U.S. businessmen about our domestic policies. From recent conversations with officials of your administration, it appears that the U.S.

Administration's priorities regarding a free and open trading system are in almost every case similar to our own. Canada and the U.S. may not share the same sense of urgency on every issue, nor do we necessarily agree on the approach to be taken. However our objectives are much the same and our mutual support and continuing dialogue will be important factors in our efforts to maintain the world trading system.

I recently had the opportunity along with the Prime Minister and several of my Cabinet colleagues to participate in a series of discussions, held in Ottawa, with the Chief Executive officers and Presidents of some of the most important and influential U.S. companies. At these meetings a number of Canadian domestic policies which concern American businessmen were openly discussed and addressed. The issue which commanded the most attention was Canada's policy concerning foreign investment.

Successive Canadian governments have traditionally had to face the challenge of strengthening control by Canadians of their own economy, while attempting to improve the performance of Canadian industry, including foreign controlled firms, without discouraging the flows of capital needed for our development. We recognize that foreign capital has an important and positive role to play in Canada in the future, as it has in the past. Therefore, we will continue to welcome foreign investment that brings significant benefit. But since we also know that foreign direct investment has costs as well as benefits, so too must we retain the capacity to deal with this kind of situation.

Canada has long had the highest level of foreign ownership and control of industry among industrial nations. Currently almost 29 per cent of our industry is foreign controlled and in certain specific industries this figure is much higher. This compares to 3 per cent for the United States and an even lower figure for Japan. In some other industrialized countries foreign control of industry is so insignificant that it is not officially recorded.

Because of the magnitude of foreign investment, Canadians have had to ensure that new foreign investors conduct their affairs in a manner not detrimental to Canadian economy as a whole. I've explained to you the importance which exporting has for Canada's economy. Let me give you an example of how foreign control over Canadian industry can hinder Canada's capacity to export. There have been cases where foreign-owned businesses have abstained from pursuing export opportunities in circumstances where their Canadian-owned competitors experienced considerable success in selling abroad. Such export inactivity by foreign controlled firms, if practised on a large scale, could have a significant adverse effect on Canada's merchandise trade balance and economic performance. This is one of the concerns which the Foreign Investment Review Act is designed to address, in relation to new direct investment coming into Canada. I should emphasize that FIRA applies only to direct foreign investment and covers only the establishment of a new business in an unrelated field or to the takeover of an existing Canadian business. Expansion of existing investment, new investment into a related area, and portfolio investment are not covered by the Act. In fact, FIRA review applies only to between 5% and 10% of the annual growth of foreign investment in Canada.

The Act is not designed to prevent foreign investment from entering Canada, but to maximize the benefits therefrom. The fact that over 90% of cases reviewed to date have been approved demonstrates that this is not only the intent, but also the result of the Act.

While Canada has a formalized foreign investment screening process administered by a single agency, most other OECD countries, including the United States, have a variety of investment restrictions, approval processes, requirements, and informal administrative practices, which control or restrict foreign direct investment. Generally, they are diverse and diffused in a variety of legislation and a range of formal and informal administrative procedures. The diffuse approach of most other industrial countries compared with the more comprehensive administrative system in Canada reflects a distinction more of form than of substance, with little difference in the impact or restrictive effect upon incoming foreign direct investment. For example, while the United States is relatively open in terms of foreign investment, there are a number of sectors where foreign control is prohibited or regulated - e.g. coastal shipping, domestic air carriers, radio, television and telecommunications, nuclear power generation, and many defence contracts. Numerous states have restrictions on foreign investment in specific sectors. Apart from outright prohibitions, the USA also has indirect controls on foreign investment, including anti-trust laws, congressional lobbying, and monitoring by such bodies as the Committee on Foreign Investment. My point in mentioning the practices of other countries is to emphasize that it is important to keep FIRA in perspective.

While we have no apologies for the existence of FIRA, we recognize that there has been much criticism leveled at the Administration of the Act. Since we in Canada are as concerned about ensuring that Canada remains in fact, as well as in perception, an attractive market for foreign investment, we are attempting to render the approach more positive without sacrificing the principle. We are making it work better.

My predecessor, as Minister of State for International Trade and now the Minister of Industry responsible for FIRA, Ed Lumley, is carrying out a review of the administration of the Act and is taking steps to ensure that administration is both efficient and timely. In the

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meantime measures are being taken to provide greater clarity in interpreting the Act and to simplify internal decision making procedures. These include raising the threshold for review of small businesses from $2 million and 100 employees, to $5 million and 200 employees, for new investment or direct acquisition in Canada; and to $15 million and 600 employees for indirect acquisitions when a foreign controlled Canadian company is acquired in the course of the merger of its parent with another foreign controlled company. This will mean that 80% of such cases will be eligible for the shortened procedures as opposed to 45% before. These changes are already having an effect: more cases are being processed more expeditiously.

The Canadian Government does not, nor does it wish, to discourage foreign investment. We recognize that we have a country to build and that foreign capital has major role to play in building it.

The energy sector is no exception. What we are trying to do in that highly foreign controlled sector, is to increase Canadian participation relative to foreign participation.

However, it is important to underline the fact that, not only is foreign capital welcomed in Canada's energy sector, it continues to be encouraged by the prospect of attractive returns based on a generous incentive system and, some extremely favourable prospects for major new supply developments.

We hope that with time and careful reflection Americans will realize that the inter-related general problems we are trying to solve (security of supply, the distribution of windfall profits and foreign ownership in an important industry) are problems which the U.S. has in common with us, to varying extents. We also hope that Americans will realize that Canada's chosen policy in pursuit of its own interests is legitimate and that most assuredly, the N.E.P. was crafted with great concern on our part that the important energy trade, investment and technology flows between the two countries in particular, and the bilateral relationship in general, not be harmed.

The need for an aggressive energy supply development policy is fundamental to our desire to expand our capacity to supply energy to the domestic market over the long term. However, we also have a long-standing policy to export energy surplus to domestic needs.

The major opportunities in the years ahead for mutually advantageous new energy trade between Canada and the U.S. and in particular with New England, are in electricity and natural gas.

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The historical record of electricity trade between Canada and the U.S. shows a remarkable stability in the relationships that have been built up. It is a stability based on the scrupulous honouring of commitments. Canada has made, and will make, every effort to preserve its status as a reliable supplier of electricity to the United States.

International trade in electricity between Canada and the United States had its origins in the Niagara region at the turn of the century. The Canadian Niagara Power Company, a subsidiary of the Niagara Falls Power Co. in the United States, began construction of its plant in 1901 and power was exported from the plant to the system of the American parent in order to supply Buffalo. This trade has developed substantially since that time to the mutual benefit of both countries. For long periods of this relationship, Canada has been a major net importer. In the '60s, imports and exports were about in balance. The last few years have, however, seen a substantial increase in net exports from Canada. In 1981 net exports reached nine percent of total Canadian generation. While significant, these figures do not signal an extraordinary degree of dependence by the US on Canadian sources of electricity, representing only about one percent of total US electricity supply, and only a slightly higher share in particular regions. A large part of these exports are short-term economy sales of energy rather than firm continuous sales of power.

A recent development of interest is the approval by the National Energy Board and the Government of Canada of the export of firm power from the Lepreau Nuclear Station in New Brunswick for a 7 to 10 year period. Lepreau will be up to 50% power this week and is expected to begin supplying power to New England later this year or early next.

Large additional hydro-electric resources exist in northern Quebec, Manitoba and Newfoundland. In Ontario, the nuclear option is seen as the answer to expanded needs for electricity. In Alberta coal and hydro choices exist. In the Maritimes nuclear, coal and in the longer term, tidal options exist.

I am aware of discussions between New England and both Quebec and New Brunswick and I am following them closely. I see no obstacle to expanding this trade to our mutual benefit.

I would like to turn now to the subject of natural gas. Exports of Canadian natural gas to the U.S. have had a brief, but quite spectacular history since the early 1950's. Natural gas exports rose from a total of 110 billion cubic feet exported in 1960 to 790 billion cubic feet in just 20 years, and now stand at 760 billion. The New England states received abut 4.5 billion cubic feet or less than one per cent of our total exports, last year. As reliance in natural

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gas increases in New England, it is clear that there is potential for significant growth in these volumes. I am aware of applications before the National Energy Board for the import into New England of approximately 1.5 trillion cubic feet of gas. I understand also that New England is interested in participating in the Sable Island Project. I might add that this would be the first east coast hydrocarbon development. These potential developments are of special interest to me as a Maritimer and I take a personal interest in them.

A number of important steps have been taken which enhance the prospect of gas exports to new markets in the United States. The National Energy Board has recently revised its formula for calculating the amount of gas that is surplus to Canadian needs. The overall effect of the new NEB approach will be to provide assured protection for Canadian needs, while opening up new opportunities for gas export. One of the basic attractions of Canadian natural gas is its long-term supply reliability. We have had an extremely successful natural gas industry which is currently hampered not by any inability to find gas, but by the difficulty in marketing it.

Recent experience has tended to confirm the longer-term outlook that Canadian natural gas will be discovered in roughly twice the quantities of oil in energy equivalent terms. Canada's long-term supply capability is clearly impressive, and it provides a strong base for confidence in our long-term ability to be a secure source of natural gas.

The gas and electricity projects I have mentioned are major projects with long gestation periods. Realizing them will require long term commitments on the part of federal, state and local authorities as well as private interests on both sides of the line. We, for our part, are prepared to consider such long term commitments. Our National Energy Board is authorized by existing legislations to consider exports of up to 25 years.

The New England-Canada relationship predates Confederation. We in Canada share much of the culture and heritage which have been so important to and so characteristic of this unique region of the United States. At times such as these when the citizens and governments of both our countries are taking a close look at the relationship, it is indeed fitting that a council such as the New England-Canada Business Council should come into being to further promote the dialogue between our two nations so that we can continue to enjoy a partnership which is without equal between nations anywhere in the world.

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