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NOTES FOR AN ADDRESS
BY THE SECRETARY OF STATE
FOR EXTERNAL AFFAIRS,
THE HONOURABLE MARK MACGUIGAN,
TO THE UNIVERSITY OF
SOUTHERN CALIFORNIA COLLOQUIUM
ON CANADA,
LOS ANGELES, JANUARY 28, 1982

"CANADA AND THE UNITED STATES
IN THE 1980'S: PARTNERSHIP,
CONFLICT OR ...?"

I am very happy to be in Los Angeles tonight. I am told that Los Angelenos are among the most optimistic of Americans. It isn't hard to see why. As I worked on this speech in Ottawa in thirty below zero temperatures, I found it hard not to be envious. There is no truth to the rumour, incidentally, that I am here to negotiate with Mayor Bradley to make Los Angeles Canada's winter capital. To move Parliament Hill to Beverly Hills, so to speak. Nor am I here to try to trade Vince Ferragamo back to the Rams.

I was puzzled at first when I read the theme of this colloquium, "Canada and the United States in the 1980's: Partnership, Conflict or ...?". Partnership or conflict. Black or white. With us or against us. I am afraid that international life in the last years of the twentieth century promises to be much more complex, even among the closest of neighbours and allies, than the theme of this colloquium suggests. We are undoubtedly going to have partnership and conflict. Nevertheless, in these complex times, I do have a simple message.

I want to make three points. First, we are the best friend the United States has. Second, we are the most important business partner you have. Third, Canada is not a replica of the United States and won't always do the same things in the same way as you.

Some of you will hold all three of these propositions to be self-evident. Some others among you may doubt all three. Some will not have thought about Canada in these terms before. Nonetheless, this message is true and it bears repeating because these are dangerous times.

East and West are armed as never before.

Events in Poland confirm the lesson of communism: it does not free man's spirit nor satisfy his daily needs but rather concentrates the power of the state and represses dissent.

In the West, some Europeans, mindful of their past and fearful of the future, are tempted to try to opt out of this nuclear age.

Everywhere, the fabric of morality is frayed -- violence claims innocent victims in Tehran, El Salvador, Argentina, and in our own streets. Anwar Sadat is murdered, the Pope is attacked, President Reagan is the target of an assassin's bullet.

There is widespread dissatisfaction in the poor countries of the world--with their poverty, with their backwardness, with political and economic systems which preserve privilege, indignity and inhumanity.

Economic uncertainty matches political turbulence. Everywhere, protectionist tendencies abound; economic progress comes haltingly; the old solutions have become part of the problem. New solutions are as elusive as ever.

In the United States, old isolationist instincts stir.

These are indeed difficult times but these are not the worst of times. Soviet communism is not immutable. The desire for freedom burns as surely now in Eastern Europe as it ever has. If anything, the distaste for communism is stronger in Western Europe than ever before. Change will come to the world's poor countries. I am sure that the American people will embrace the challenges of the eighties, not shrink from them. And America will not be alone.

Two years ago almost to the day, our Embassy in Iran succeeded in spiriting six U.S. Embassy employees out of that unhappy country. It was the right thing to do and you would have done the same for us. What I found surprising about that incident was the strength of the reaction of the American people. Not their gratitude but their sense of isolation. The people of the United States felt alone.

You are not alone. On the fundamental security issues, the democracies do stand together. We may quarrel among ourselves. Our analyses may diverge. And even where they coincide our prescriptions may sometimes differ. Whether to impose sanctions on the Soviet Union or not is an example. But tolerance of dissent is the essence of freedom. It is freedom that separates the West from the East, that ennobles us and makes our way of life superior. It is the Soviets who expect unanimity from their reluctant partners. Unanimity amongst ourselves is not necessary, and in a sense is not even desirable. What is necessary is a collective resolve to defend our freedom. I can assure you that this resolve endures.

You are not alone. Our own two countries have not fired shots in anger at each other in more than a century. We have fought together in the defence of our ideals and values in two world wars. We were together in Korea. The defence of North America is our common responsibility. Your border with us is secure.

The second point I wish to make is that we are also your most important business partner. Two-way trade between our two countries is enormous -- your trade with us is double your trade with Japan, triple your trade with Mexico and almost as large as your trade with all ten countries of the European Economic Community combined.

Canada is a close second to Japan as California's principal trading partner. California's exports to Canada were worth about \$3.1 billion last year. Forty-thousand jobs in the L.A. area depend entirely on trade with Canada. Another 100,000 jobs are dependent on that trade to some degree. When lobbyists try to persuade you about the fairness of "Buy America", or about the logic of reciprocity, remember that Canada has run current account deficits with the United States every year since World War II.

Americans have more money invested in Canada, more than \$70 billion in direct and portfolio investment, than anywhere else in the world. Canadians have more money invested in the United States, more than \$13 billion, than anywhere else. Canadian investors are literally changing the face of urban America.

Canada and the United States grew out of the freedom to choose a way of life. For hundreds of years, men and women have chosen to come to our two countries. The many thousands of Poles who are migrating to Canada and the United States now are testimony to the hold our freedom still has on people's imaginations everywhere. Out of these recurring waves of humanity have grown two diverse societies with similar ideals and hopes -- democracy, human rights, freedom. Our values have grown in a common ethical landscape.

We clearly have much in common. We are not, however, identical. The United States was born in revolution. You have emphasized the melting pot and have given a vast new culture to the world. You have become truly a super-power.

Canada is smaller and younger. We have been independent for only 114 years. We have evolved gradually and the last steps of nation-building are only now being taken. We have striven to preserve our diversity. Thirty percent of Canadians speak French as their mother tongue and our new constitution will safeguard this duality.

More than 200 years ago your path and ours diverged, although our goals remained much the same. The parting of the ways led to different political institutions and even a different attitude towards government.

Canadians, unlike their American counterparts, expect their governments to participate in national economic life, to help knit together and develop a huge, under-populated and geographically unforgiving land. So Canadians have no objection in principle to government intervention. They are comfortable with government-owned television and radio networks, national airlines, the Canadian National Railway family of companies, Petro-Canada and a host of other government undertakings.

But neither is government intervention a principle. It is a pragmatic Canadian response to a particular set of circumstances, and by no means reflects any philosophical discomfort with the role of private enterprise. The private sector has been and will remain the driving force behind Canada's economic development. We feel strongly, as do you, that a free society is not possible without a free economy.

The structure of our two economies is very different. Canada's economy is a tenth the size of yours, and is more heavily dependent on primary resource industries. Our manufacturing base is narrower. Although in many respects Canadian and U.S. economic interests are parallel, in some important specific ways they diverge. In the past twenty years, the public debate in Canada on the degree to which such a divergence was desirable or possible has centred on the question of foreign ownership.

Canada is coming of age. Just as you were when you were at our stage of development, Canadians are not satisfied with having so many economic command centres outside the country. A certain core of national economic independence is necessary even in this interdependent world.

While Canadians readily acknowledge the benefits which foreign investment has brought them, they are aware that there are very significant costs as well.

You are probably asking yourselves, "What costs? What does it matter where the money comes from?". Canadians accept that capital has no flag, but they see that the corporations spending it have national identities and are integral parts of the political process in their home countries. I could not help noticing, for example, that U.S. multinationals took their complaints about our National Energy Programme to Washington far more so than they did to Ottawa. I think even the term "multinational" is misleading. Sometimes I think it would be more accurate to call these firms multi-based enterprises.

Let me be more specific about some of the costs. The operations of many foreign-controlled subsidiaries are characterized by restrictions on decision-making power, low

levels of research and development, limitations on their ability to export, a propensity to import even when competitive domestic sources are available, and short, inefficient production runs in some industries. A foreign take-over of an already existing industry can lead to less rather than more competition. And so on.

In 1974, after a decade of study, the government established a Foreign Investment Review Agency (FIRA) whose task is to screen foreign investment for "significant benefit" to Canada. I would add parenthetically that this response is not unique. All governments, including the U.S. Government, limit the freedom of foreigners to invest in their countries in one way or another.

You will notice that for FIRA I used the word "screen" foreign investment, not block it. As of August 1981, after seven years of FIRA the approval rate for applications by American investors was 90.5%. These are hardly grounds for suggesting that American investors have been subjected to harsh treatment.

We have heard the complaints businessmen have made about FIRA and we are reviewing the Agency's procedures to ensure that they are timely and efficient. We shall reform FIRA but we shall not abolish it. It remains an essential instrument of Canadian economic policy. Even now, foreign ownership figures in Canada are at a level which I am sure you will agree would simply not be tolerated in the U.S. For example, according to latest available figures (1978), foreign investment in the United States accounted for 5% of the mining sector and 3% of the manufacturing sector. The comparable Canadian levels are 40% and 48%. The contrast is stark. You will all recall the recent furor here in the United States over foreign ownership of farmland -- and foreigners own less than 1.0% of that land. Not to speak of the commotion caused by Seagram's attempted takeover of CONOCO and St. Joe Minerals last year.

The opportunities ahead in Canada are enormous. From now until the year 2000, \$440 billion will be invested in megaprojects in Canada. Most of that capital will be mobilized in Canada. But we shall still need substantial amounts of capital from abroad. Foreign companies and individuals will continue to do business profitably in Canada. No less a firm than Price Waterhouse has said "...there are still relatively few restrictions in Canada if the country is compared to other industrial countries". And by comparison with other countries, I can think of no more secure place to invest money than Canada.

Let me now turn to the vexed question of energy. In the energy field, the cause of much recent anxiety has been Canada's

National Energy Programme (NEP). One aspect of the NEP which has been much misunderstood is "Canadianization". The "Canadianization" objective is really very simple: it is to increase the share of the oil and gas industry owned and controlled by Canadians -- to 50% of the industry a decade from now. The emphasis is on making room for Canadian oil and gas companies, not on forcing foreign companies out. There is no question that we do intend to give Canadian companies the opportunity to grow more quickly. What we do not intend to do, and will not do, is make the operations of large international oil firms unprofitable. In fact we know of no investment regime in any other major producing country which is as attractive as ours -- including the United States'.

In Canada, we are dealing with an extraordinary situation. Throughout the 1950s and 1960s, foreigners owned nearly 80% and controlled over 90% of Canadian oil and gas assets. They also controlled nearly 100% of refining and marketing operations. Resource-rich Canada was not "home" to a single multinational oil company, not even a small one.

Before the NEP, an unintended by-product of government policies was increased foreign ownership. New windfall profits from huge increases in oil and gas prices favoured the firms with the largest production. The pre-NEP policy framework virtually guaranteed that the big, mostly foreign-owned, firms would get bigger. By 1980, almost a third of all the non-financial sector profits in Canada went to the foreign-owned and -controlled oil and gas industry.

No other developed country faced this predicament. No other country, the U.S. included, would tolerate it. Without changes, enormous power and influence in Canada would have been destined to fall into a few foreign hands. We saw that we had to act and act promptly.

I want to dispel any impression that the NEP has suddenly made the role of foreign firms in the Canadian hydrocarbon industry uncertain and unpredictable. The rules of the game have, indeed, changed because the situation has changed. In fact, the oil and gas industry everywhere has been transformed since the early seventies. But the changed rules in Canada are clear. They can be ignored to the detriment of future balance sheets. Or they can be used advantageously by foreign companies who are sensitive to the Canadian environment.

Many foreign-owned companies are quietly rearranging their affairs in Canada to take advantage of the NEP. According to the U.S. Department of Commerce, affiliates of U.S. oil

companies plan to increase their investment in Canada this year by 32 percent. That figure makes one wonder what all the fuss is about.

Canadian energy and investment policies command broad national support. We are prepared to discuss the international effects of these policies and to try to deal with them in a way which safeguards the legitimate interests of our economic partners. We have amended certain provisions of the NEP, for example, and, as I said before, we are reviewing the administration of FIRA to make it more efficient. We are not prepared, however, to negotiate the direction of these policies. They are in the mainstream of a larger, wider current of Canadian economic and political history.

Let me be clear about this. Canadian policies in investment and energy are not the product of short-term political expediency. The genesis of these policies can be traced back through at least two decades of intensive national debate. No Canadian government would be willing or able to resist the historical momentum of our country's growing determination to make its own way in the world.

After an exhaustive constitutional debate we Canadians are united as never before. We are excited by our country's economic development prospects, which are truly breathtaking. We have emerged dynamic and self-confident from a fractious period in our history. The United States has an enormous stake in a strong, united Canada. Canadians will prosper and American business will continue to find co-operation with us profitable. More importantly, when the chips are down the United States will continue to find Canada a reliable ally.

We have been the best of neighbours for more than a century. We are each other's most important economic partner. We have much in common but our interests are not identical. To return to the theme of this colloquium, we are going to have partnership and, inevitably, some conflict too. But, so long as we both remember that our most basic common interests transcend our temporary differences I am confident that relations between our two countries will continue to set the standard for civilized international behaviour.