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Statements and Speeches

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FOREIGN INVESTMENT AND ENERGY -- AREAS OF VITAL CONCERN TO THE U.S. AND CANADA

A Speech by the Secretary of State for External Affairs, the Honourable Allan J. MacEachen, to the Center of Inter-American Relations, New York, March 19, 1975.

...Some Canadians may still think spontaneously of the relationship between the United States and the South American republics when they hear of "inter-American relations"; but I am well aware that we have substantial interests in common, since you have increasingly concerned yourself in recent years with relations between Canada and the United States. At a time when they are looking more and more outwards -- towards Europe, towards Japan, towards the Third World --, Canadians are, paradoxically, becoming more aware, in my view, of their North American identity.

I should like to talk to you about one of the great success stories of American diplomacy, a story that stretches well over a century, a story that is not much touted in books on world crises and long-drawn out conflicts for the simple reason that it belongs to quite a different category of history books -- I refer, of course, to Canada-American relations. At a time when many of you, like other Americans, may be in a questioning mood and even a mood of disillusionment about some of your country's involvements abroad, I take great pleasure, as Canada's Secretary of State for External Affairs, to remind you of this success story. Many Canadians get annoyed when their Government expresses such views, because there have been so many occasions to formulate them that they have become clichés; so I will not refer to the "longest undefended border in the world" and the rest of the folklore on Canadian-American relations.

Yet the fact remains that the United States has been for a very long time the very best of neighbours for Canada; and I believe that Canadians have reciprocated. What matters is that, as the relationship between our two countries appears to be going through a more difficult phase, both Americans and Canadians can derive hope and comfort from a quite remarkable record of friendly resolution of their grievances.

"Why is it, then," some of you may ask, "that, every time I pick up a newspaper, I seem to read about a new issue between Canada and the United States?" Sometimes the tussle is over an enviro mental question, sometimes over energy, or trade or some other economic issue -- the so-called "irritants" in Canadian-America relations. We Canadians feel that the real state of affairs between our two countries has been somewhat over-dramatized recently. There has been a lot of talk about those "irritants"; but little has been said about the wide range of "lubricants" that still ease to a very considerable extent the day-to-day interface between our governments and, indeed, every segment of our two societies.

But the problems are real. They reflect the high degree of interdependence between Canada and the United States. They also result from new policies and approaches in Canada flowing from process of national self-definition -- or redefinition -- and a reassessment of just what our national interests are. In pursui of our respective national interests, decisions are made in either Canada or the United States that have an impact on the other, sometimes a very serious impact. Yet for Canadians there is an important additional dimension to the situation; for, although they are interdependent, our two economies are not of the same order of magnitude.

Let us look at some basic economic facts that reveal the imbala between our countries. First, there is a ten-to-one ratio in yo favour, roughly, between the two countries' populations and gro national products. Second, the United States provides markets f about 67 per cent of Canadian exports, but these make up about quarter only of your imports. Third, the United States supplies about 69 per cent of our imports, but this is only a fifth of your overall exports. In fact, you absorb about 35 per cent of all goods produced in Canada; yet we buy less than 2 per cent o your output. The United States accounts for over 80 per cent of the total volume of foreign direct investment in Canada, while Canadian direct investors own less than one-half of 1 per cent your corporate assets.

The United States' large-scale involvement in Canada has been a major postwar phenomenon and had reached the levels I have just cited by the early Seventies. Consequently, we needed to reasse the impact of such a high degree of economic dependence upon a single country, as well as the attendant and similarly lop-side socio-cultural interaction between our two societies.

This was very much on our minds during the Canadian Government' 1970 foreign policy review; and the impact of an economic relat ship with the United States, which is too exclusive, was placed in even sharper focus by the economic measures adopted by the United States' administration in August 1971. Two things became gradually apparent to us.

The first is Canada's excessive vulnerability to the impact of the United States -- which, some Canadians felt, even undermined the rationale for the existence of Canada as a distinct political entity.

The second conclusion we reached was that, if the Canadian mouse so frequently found herself crowded in bed by the American elephant (to quote Prime Minister Trudeau's metaphor), it was largely because she had failed to seek out other bed-partners. Or, if I may be allowed to coin my own phrase, Canada had puritanically opted for strict monogamy in a polygamous world! We now realize the importance of the European Community. We are seeking to exploit the tremendous opportunities offered by Japan. We should do more in strengthening our relations with developing countries, with Eastern Europe, and with China and the countries of the Pacific basin.

Accordingly, we have sought to pursue in recent years national economic policies that would help to secure greater control over our own economic destiny; and we have devised a diplomatic strategy to diversify our international relations. For example, the Prime Minister of Canada returned only this weekend from a European tour that enabled him to explore areas of mutual interest, both bilateral and multilateral, with the leaders of five member-states of the European Community.

But I want to stress that our foreign policy seeks to supplement, and not to supplant, Canada's long-standing relations with the United States. Similarly, the ultimate goal of our economic policies is to strengthen the Canadian economy and enable us to become more mature, capable of holding our own in a more balanced, healthier relationship with the U.S.A. For the basic fact of Canada's geopolitical situation is that its links with the United States will always remain the single most important dimension of its foreign policy. Nor do we deplore this fact; despite the greater national awareness of recent years, the Canadian Government is very conscious of the quite extraordinary advantages resulting from Canada's proximity and traditionally close relations with the United States.

Let us consider one specific area of mutual interest and concern -- it has to do with investment. I am aware that concern is being voiced in the United States about our foreign-investment review measures. Equally, we are very conscious that Americans are at present by far the largest group of outside investors in Canada. I should like, therefore, to explain the background to, and the nature of, our foreign-investment review measures.

The rapid growth in direct foreign investment in Canada is largely a post-1950 phenomenon. In the period 1950-1970, the book value of direct foreign investment rose from $4 billion to $26.5 billion. Ten per cent of this total investment is held by residents of Britain. Another 10 per cent, roughly, is held by other European countries and Japan. The United States accounts for about 80 per cent.

It is estimated that close to 60 per cent of our manufacturing industries, about half of our mining and smelting, and just over three-quarters of our petroleum and natural gas industries are controlled by residents of other countries. In certain sectors such as chemicals, automobiles, computers, transportation equipment and machinery, the degree of foreign control runs from 80 per cent to over 90 per cent. In fact, the degree of foreign control of industry is much higher in Canada than in any other industrialized country.

Canada's traditional policy towards foreign investment has been an open and receptive one. Unlike many countries, we did not have machinery to monitor and check investment flows. Indeed, Canada encouraged foreign investment as much as possible, recognizing that it was absolutely essential for its economic development.

Today, Canadians are much more aware than they were in the past of both the costs and the benefits of foreign investment. They want to minimize the costs and maximize the benefits to Canada. At the same time, they recognize that, as in the past, foreign investment has an important and necessary contribution to make to future economic growth.

It is against this background that the Foreign Investment Review Act was conceived. It represents an effort to establish more effective control over the economic environment and to obtain greater benefit for Canada, but on a basis that recogni: our need for foreign investment and our obligations to our economic partners in the international community.

The Foreign Investment Review Act applies across the whole economy and provides the Canadian Government with the authority t screen:

(1) acquisitions of control of Canadian businesses by foreigners;

(2) investments from abroad to set up new businesses; and

(3) expansion of existing foreign-controlled firms into unrelated businesses.

The first part of the Act, concerning foreign acquisitions or takeovers, came into effect in April 1974. The other provisions, dealing with the establishment of new foreign-controlled businesses and expansion of existing foreign-controlled firms into unrelated business, have not yet been brought into effect. It may be noted that the powers and interests of the provincial governments are a factor of importance in this context.

The test that any foreign investment faces is whether it is, in the judgment of the Government, likely to be of significant benefit to Canada. The assessment is made on the basis of five criteria:

(1) the impact on economic activity, including such factors as employment, the processing of Canadian resources, and the development of exports;

(2) the degree and significance of Canadian participation in ownership and management;

(3) the effect on productivity, efficiency, and technological development;

(4) the effect on competition; and

(5) the compatibility with national and provincial industrial and economic policies.

These criteria indicate that the Government is seeking to encourage improved economic performance. That is the main thrust of the review process.

Each case is reviewed on its own merits, every effort being made to be fair and reasonable to the potential investor. The record on the handling of applications supports this view.

Since the coming into force of the Act in April 1974, 121 certified takeover applications have been considered. Of this number, 52 have been allowed, nine disallowed, and 15 withdrawn. The remainder are still under review.

Our policy is to strike a balance between our continuing need for direct foreign investment and our desire, indeed our need, to exercise greater control over our economic environment. Foreign investment is still welcome in Canada; but we want to ensure that this investment will bring significant benefits to our economy. For we believe Canada can offer significant benefi to foreign investors.

I should like now to turn to another field of great and common concern to the United States and Canada: energy, specifically oil and natural gas. I should like to explain the background and direction of Canadian policy in this field.

First, let me speak about our imposition of a tax on Canadian oil exports to the United States. Although there is now a great understanding of the Canadian position on the part of the Unite States Government, there continues to be much public confusion on this matter. When the export charge was instituted in Octobe 1973, Canada was criticized for taking unfair advantage of the sharp rise in world oil prices that began at that time, and of the United States dependence on imported oil. What critics failed to realize is that our self-sufficiency in oil is more apparent than real. We are importers as well as exporters of oil in more or less equal proportions. About half our productio is exported to the United States and the other half supplies th part of Canada west of the Ottawa Valley. Consequently, our Eastern provinces are totally dependent on imported oil purchas at world prices. With the increase in world prices, we could hardly continue to export oil to the United States at less than the going price. Also, one of the cardinal principles of our energy policy is that sales abroad must be at world prices. This is essential for an economy that relies to a large extent on the export of natural resources. Consequently, we imposed a tax on oil exports that reflects the difference between the domestic price and the world price. It is intended to ensure that we receive fair market value for our oil. As the domestic price moves upwards in line with the Government's objective of encouraging further exploration and energy conservation, the export charge will be correspondingly reduced.

A problem that has concerned people in the United States is the future volume of oil exports. It recently became evident that the extent of Canada's known reserves was not as great as had been previously estimated and that, at the current rate, production would be depleted within a short time. At the same time, it also became apparent that alternate sources, in particular the Athabaska oil-sands, would probably come "on stream" at a slower rate, and a much higher cost, than we had assumed. The Canadian Government, therefore, decided, in the absence of new supplies becoming available, to gradually phase-out oil exports over the next ten years -- which means, in effect, oil exports to the United States.

We recognize that this policy involves some difficulty for the United States. The decision to phase-out our oil exports gradually reflected our awareness of the problems posed for some areas of the United States. But I think you will agree that it would be both economically and politically unsound for the Canadian Government to continue to supply markets beyond its borders at the expense of domestic requirements.

We also recognize, however, that there is a special problem for the oil-refineries in the northern Mid-West states -- the so-called "northern tier" --, which are completely or mainly dependent on Canadian oil. We remember that these refiners were the first customers for our oil in the Sixties. We certainly want to minimize the impact on them of changes in our export capability. We have told the United States Government that we are ready to explore possible ways of alleviating this problem, and indeed discussions are under way. We feel that some accommodation should be made for these refiners.

Natural gas poses another potential problem in our bilateral relations.

On January 1 of this year, the Canadian Government raised the export price of Canadian gas to $1.00 a thousand cubic feet. This step was taken because it was found that Canadian gas was substantially under-priced in United States markets. The Canadian position is that gas exports should be priced in a competitive relationship to other energy commodities in the United States. Also, it has to be understood that inordinately low prices lead only to wasteful use and future shortages. The United States Government has recognized the need for a rise in price. The two governments appear to have adopted similar policy objectives.

The question of volume of export is more difficult. At present Canada sells about 1 trillion cubic feet of natural gas a year to the United States, which amounts to about 40 per cent of Canadian production. The problem is that, given the availability of known reserves, Canada could experience shortages in the nea future unless other sources can be brought into production. The National Energy Board is studying this and will be reporting to the Government.

This whole situation shows how complex and, at times, difficult our bilateral relations have become. In these circumstances, it is all the more important that both sides strive to maintain what is fundamentally a healthy, friendly and mutually-benefici relationship. It is essential that, as appropriate, prior notif cation, discussion, consultation and negotiation play a central role in the management of relations between the United States a Canada. To this end, it is vital that each country have an accu understanding of what the other is trying to accomplish, and th each have the opportunity to put forward its own concerns for consideration by the other. That is why I have sought to explai to you Canadian policies on foreign investment and energy, two areas of vital interest to Canada and the United States.

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