



STATEMENTS AND SPEECHES

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"AMERICAN INVESTMENTS IN CANADA"

Excerpts from an address by Mr. C.D. Howe, Minister of Trade and Commerce, to The Canadian Club of Chicago, October 15, 1956.

....These remarks are addressed particularly to United States businessmen who have investments in Canada or who contemplate making investments in Canada. At the outset, let me make one thing quite clear: the Canadian Government and, I have reason to believe, the vast majority of the Canadian people have welcomed, and will continue to welcome, investment from the United States. We are not allergic to outside capital.

It is well understood in Canada that to put obstacles in the way of capital imports would involve a cut-back in the Canadian rate of development. This is so partly because our need for capital exceeds our rate of savings, and partly because of the Canadian pattern of investment.

At the present time Canadians, individuals and corporations, are saving a higher proportion of their incomes than Americans. But even so, they are not saving enough to finance the current rate of capital investment, which is quite fantastic. The face of Canada is literally being transformed.

Since Canada is the freest of free countries and there are no obstacles to capital movements, inward or outward, some Canadians have chosen to invest abroad, as well as at home. It may come as a surprise to you to learn that, on a per capita basis, Canadians have invested more in the United States than Americans in Canada. The proportion in favour of Canadians is two to one.

The net result is that about three-quarters of Canada's current capital investment is being financed out of domestic savings, and the balance by imports of capital, mostly from the United States.

As I have said, we welcome this inflow of capital from south of the border. We welcome it the more because it has brought with it managerial enterprise, production and

marketing experience, engineering and technical know-how and research, modern equipment, and perhaps most important, skilled American men and women who have helped to build up our own country more rapidly than we could have done ourselves.

Both the United States and Canada have benefited. The United States has found new markets and obtained new sources of raw materials. A goodly proportion of earnings of United States controlled corporations in Canada--something like one-half in recent years--has been reinvested in Canada. The rest has been freely transferred in the form of dividends to American parent companies and shareholders.

Canadians have been able to speed up their own economic development. New resources have been proven up, our northern frontier has been pushed back, and new factories have been opened, providing more opportunities for employment and the improvement of earnings.

If both countries have benefited from this flow of capital northward, is there anything more to be said? I think there is.

I am going to make a number of suggestions to United States business men who operate branch plants in Canada or are considering doing so. You may not accept them; you may not agree with them. You may have better methods of achieving the same result. I do wish you to know, however, that these suggestions have one purpose and one purpose only, namely, to underpin the friendly and harmonious economic relations that now exist between Canada and the United States.

Because of our closeness to the United States, our similar institutions and habits and the way we do things, Americans often treat Canada, for business purposes, almost as a part of the United States. In a sense this is a good thing, a tribute to common sense. But it has its dangers if it leads American business men to treat branch plants in Canada just as if they were located in the United States.

In my judgment, this is not likely to be the most successful method of conducting a subsidiary business enterprise in Canada. Certainly, it is not the method calculated to make the most friends and influence the most customers in Canada.

I suggest to you a very simple rule. Other things being equal, it is good business for a Canadian subsidiary of a foreign company to become as Canadian as it can, without losing the benefits of association with the parent company. In many countries, of course, there are rigid laws applying to foreign controlled companies, requiring them, for example, to give local inhabitants a share in the enterprise and requiring them to employ a minimum proportion of local labour and so forth.

There are no such laws in Canada. I hope there never will be. I believe that those who are prepared to share with Canadians in the risks of developing our country should be as free as Canadians themselves in deciding how to conduct their enterprise.

Nevertheless, anyone who does business in Canada should reckon with the pride and the legitimate pride of Canadians in their country. In other words, they should reckon with the normal feelings of nationalism which is present in Canada, just as it is in the United States. Canadians do not like to be excluded from an opportunity of participating in the fortunes, good or bad, of large-scale enterprise incorporated in Canada but owned abroad. They may not buy many shares, but they resent the exclusion. They do not like to see large-scale Canadian enterprises entirely dependent upon foreign parents for their research and top management. They do not like to see the financial results of large-scale Canadian enterprises treated as if they were the exclusive concern of the foreign owners.

I make bold therefore to offer three suggestions for the consideration of United States corporations establishing branch plants in Canada or searching for and developing Canadian natural resources:

(1) Provide opportunities for financial participation by Canadians as minority shareholders in the equities of such corporations operating in Canada.

(2) Provide greater opportunities for advancement in U.S.-controlled corporations for Canadians technically competent to hold executive and professional positions;

(3) Provide more and regular information about the operations of such corporations in Canada.

I am pleased to say that an increasing number of American companies are now giving Canadians an opportunity to participate in the equity holdings of Canadian-operated enterprises. This is an encouraging trend. Canadians welcome this development, not just because it is in Canada's national interest, but also because we think it makes good business sense from the point of view of the American parent corporation.

I was told that Canadian taxation discouraged Canadian participation in Canadian subsidiaries. If it did, that particular obstacle has been removed, at least insofar as Canadian law is concerned.

The agreement for the avoidance of double taxation between the United States and Canada provided for certain tax advantages for parent companies controlling 95 per cent or

more of the equity of the subsidiary corporation in the other country. Last summer the United States and Canada reached an agreement, subject to ratification by your Congress and our Parliament, whereby the percentage of share ownership, entitling the parent company to a reduced rate of 5 per cent on dividends from its subsidiary operating in the other country, has been reduced from 95 per cent to 51 per cent. This amendment of our taxation agreement with the United States has since become law in Canada. It is still awaiting ratification by the U.S. Congress. Our Government made it quite clear, in proposing this amendment to the Canadian Parliament, that the new tax arrangement was designed to encourage U.S. parent corporations to give Canadian investors opportunities to buy share ownership in their subsidiary companies in Canada. Hence, as far as Canada is concerned, the tax disadvantage that used to exist for a U.S. corporation offering Canadian minority equity holdings in U.S. branch plants has been removed.

Undoubtedly, there are other difficulties, difficulties about exchange of reasearch between parent and partially-owned subsidiaries, difficulties of control of subsidiaries with minority shareholders. That these are very real difficulties, I would be the first to admit. I ask only that they be weighed in the balance against the advantages in terms of goodwill of giving Canadians a sense of identity with the United States-controlled enterprises.

My second suggestion is that Canadians should be given greater opportunities for advancement in subsidiary enterprise controlled by United States parents. I am pleased to report that more and more U.S. corporations operating in Canada are hiring Canadians for responsible positions, when well-qualified people can be found, and that young Canadians are being advanced as rapidly as their ability and experience will warrant. Responsible Canadians are being invited to sit on Boards of Directors. If this trend continues, there will be little for Canadians to complain about.

My third suggestion is that U.S. corporations should report the results of operations of their subsidiaries in Canada. As you are aware, the S.E.C. requires regular reporting by all the large corporations in the United States. We do not have similar regulations in Canada. Nevertheless, the Canadian public is interested in knowing how these large Canadian corporations are getting on in Canada. Since many of our large corporations are U.S.-controlled, the demand for the release of such information at regular intervals, say in the form of annual reports, has been increasing.

One U.S. corporation, with a 100 per cent controlled subsidiary operation in Canada, added a supplement to its last annual report outlining the extent of its operations and its

achievements in Canada. This endeavour to let Canadians know how this company is doing with respect to operations in Canada was well received. It could serve as a useful guide to those who feel as I do that it is good business to treat branch plants in Canada as thoroughly Canadian enterprises.

These are my three specific recommendations. I believe they are worth careful consideration. I believe their adoption will be in the interests of United States corporations with subsidiaries in Canada. There may be other ideas equally good which serve the same purpose. Be assured of one thing, that my purpose is to improve business relations between the United States and Canada by giving Canadians a greater interest and a greater stake in the success of United States companies operating branch plants across the border.

Before leaving this subject, there is one other point very close to my heart as Minister of Trade and Commerce which I put before you for consideration. Branch plants are usually established to do business in the area they serve. But I ask you again to bear in mind that a branch plant in Canada is not the same thing as a branch plant in California or Louisiana. A Canadian branch plant is situated in a country that depends for its very existence upon international trade. It is situated in a country which maintains an external trade service which others tell us is second to none and which is ready to serve any Canadian enterprise, whoever owns it.

Too often, I regret to say, our trade representatives abroad turn up export opportunities for a subsidiary company operating in Canada only to find that the United States parent does not permit the export business to be done from the Canadian plant. Mind you, we do not object to doing occasional export promotion for United States corporations, but you will agree that it is rather difficult to justify the expense to the Canadian taxpayer!

Once again I recognize that there are problems. But I do plead for a careful re-examination of export policies affecting Canadian branch plants. Canada as a nation is an efficient producer. Given sufficient volume, Canadian plants can often produce as cheaply as United States plants. Sometimes, too, Canada has an advantage in duty in supplying goods to countries of the British Commonwealth; indeed, many plants have been established in Canada just to take advantage of this preference. I am not suggesting that United States corporations should act contrary to their interest. I am suggesting that they may be overlooking a good bet by not allowing their Canadian plants to take on more export business. By being prepared to accept export business United States-controlled subsidiaries will also act more like good, solid Canadian enterprises.

Mr. Chairman, that is the burden of my message to the Canadian Club of Chicago on this occasion. It has been a delight for me to be here and to meet such a distinguished group of men and women. No other two peoples get along better than Americans and Canadians. But no two other people have been thrown together so closely by geography and history and have a greater stake in mutual understanding. It is in that spirit that I lay before you my views and suggestions on one important phase of our mutual relations.

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