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# SWISS-CANADIAN RELATIONS

(Address to the Canadian-Swiss Businessmen's Association
Zurich, September 14, 1978)

Canada has witnessed considerable changes in the last ten or fifteen years. The country has literally come of age. Despite its relatively small population, it has become in terms of output the sixth economic power in the Western world, a position documented by the participation of Mr. Trudeau in the last three summits of heads of state or government. Canadians enjoy now a per capita income almost as high as their Southern neighbours. Although still based on raw materials, the economy has become more sophisticated. Canada is a major trading nation. Its external trade (exports and imports combined) has climbed from 22 to 85 billion dollars in the last ten years. Despite some difficulties - or well known internal tensions - which it is not my purpose to analyze today, Canada gives the world the example of an almost perfectly successful society with a remarkably stable economy and boundless opportunities.

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In the same period, Canada asserted itself on the international scene. Its foreign policy is much more active, it has more profile. The diplomatic service has been greatly expanded to make Canada present in almost every part of the world. Canada's role in the United Nations and in the U.N. agencies is highly regarded both as a major donor in development aid and as the promoter and supporter par excellence of peacekeeping operations. Ottawa is now more and more engaged in world politics. In short, we have been witnessing the emergence of a major mature power playing an active and useful role in the world community and enjoying a strong position among the industrialized countries.

This evolution, together with a parallel activation of Switzerland's foreign policy has further developed the ties between Canada and Switzerland.

New areas for contacts, exchange of views and cooperation have emerged in the framework of international conferences or organizations. Suffice it to mention here the Conference on International Economic Cooperation (also called the North-South Conference) in Paris last year, of which Canada, together with Venezuela, was co-chairman, the Geneva, Helsinki and Belgrade Meetings on Security and Cooperation in Europe or the Multilateral Trade Negotiations in GATT.

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An expansion is also noticeable in the field of bilateral relations. Both sides have expressed the desire for exchanges of views on political questions of mutual interest. Thanks also to associations like yours, the Swiss-Canadian Chamber of Commerce in Montreal, or the Swiss-Canadian Business Association in Toronto, economic ties are developing, as we shall see later. Cultural exchanges too, are on the move. In short, Canada and Switzerland are becoming still closer partners between whom relations are making further progress in an unusually friendly and confident way. Last but not least, the Swiss presence in Canada is well served by a dynamic and prosperous community that numbers now more than 20'000 persons.

The overall picture can therefore be regarded as highly satisfactory. There is no real issue between the two countries and the few problems we are encountering in the day to day intercourse are usually easily and quickly resolved. I am confident that the only case which has attracted public attention in Switzerland, namely the resumption of nuclear cooperation and in particular the resumption of shipments of Canadian uranium, is going to be settled in the near future.

Your kind invitation gives me a welcome opportunity to take a closer look at the Swiss Canadian

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economic relations and to share with distinguished members of the Swiss business community some of the conclusions I have personally come to in that respect, after a stay of nearly three years in Ottawa. Let us examine briefly in successive order the three components of these relations, namely trade, investments and loan financing.

To begin with trade.

Last year Switzerland exported goods for 465 mio Swiss francs to Canada. Our main exports are machinery and electro-technical equipment (144 mio fr.), pharmaceutical and chemical products (115 mio fr.), watches (33 mio fr.), optical and medical equipment (20 mio fr.), cheese and other dairy products (15 mio fr.) and various foodstuffs (15 mio fr). Despite the adverse currency situation, the Swiss exporters were able to more or less hold on to their markets. Machinery and electro-technical equipment seem, until now, to have been especially resistant to the recession and our watch industry might begin to regain some of the ground it lost to its American and Japanese competitors. In some instances ground was lost due to non-market factors, such as in polyester fibres, where a company lost a dumping case. Some difficulties arose with the import quotas on clothing and footwear which came into force in 1976. The Canadian Government recently announced that the global quotas on clothing will be abolished by the

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end of this year. It appears, however, that the quotas on footwear will remain.

Switzerland's imports from Canada amounted to 247 mio Swiss francs in 1977. The main items were wheat (84 mio fr.), furs (19 mio fr.), copper (15mio fr.), minerals (13 mio fr.), machines and equipment (11 mio fr). Canadian exporters of manufactured goods have done a remarkable job on the Swiss market. In the machine and equipment field, they were able to increase their sales by over 40 % since 1975. On the whole, Canadian exports to Switzerland have shown a rising trend since 1972. (In 1972 the figure was 180 mio fr.).

However, I do regard these figures as rather small. As far as Swiss exports are concerned, there has indeed been a constant if moderate increase. In relationship with our total exports, however, Canada's share has been steadily decreasing. Ten years ago, Canada absorbed a little more than 1.6 % of our exports. Last year, it was no more than 1 %. This downward trend is confirmed when we look at the respective growth rates of Swiss exports in general and of our exports to Canada. Total exports have increased almost fourfold during the last 15 years, our exports to Canada only two and a half times. As a consequence, Switzerland ranks today lower

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than before in the list of Canada's suppliers. It was in 13th place at the beginning of the seventies, in 15th place last year; two years ago it even dropped to 19th position. The explanation of this decrease is certainly to be found in the emergence of new powerful suppliers such as the oil producing countries or for consumer goods, countries like Korea. I suggest, however, that our performance is disappointing. In the last five years, Swiss exports have stabilized at a level around the 450 mio Swiss franc mark, a figure that bears in my opinion little relation with the potential of the Canadian market. I will revert to this point later.

We have a much brighter picture in the <u>investment</u> sector.

Switzerland is the 5th largest direct investor in Canada after, in that order, the USA, Britain, France and the Netherlands. We estimate that equity and long term capital holdings in Canadian firms controlled by Swiss interests have reached the 500 mio dollar mark. Direct investments in the Canadian statistics include real estate corporations but not private land holdings, on which we have no information. The trend is difficult to ascertain. On the one hand, it is too early to determine if the recent coming into force of the double taxation agreement is having a stimulating effect. On the other

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hand, the recession in Switzerland, the present situation of the Canadian economy and above all the uncertainties surrounding the political future of Quebec where many investments are located, are inhibiting.

Some doubts have also been expressed lately in business circles about the policy of the Canadian government regarding foreign investments. Mr. President, you mentioned this in your address to the Swiss Canadian Chamber of Commerce in Montreal last February. May I say that the events of the last six months have confirmed the accuracy of your remarks which have met with great interest in the Canadian business community. Positive developments can be registered in many areas of governmental interference in the economy that affect investments. In the first place the Foreign Investment Review Agency (FIRA) seems more and more inclined to approve projects rather than to turn them down. The procedure has been somewhat simplified and the applications are processed more quickly. With the high rate of unemployment prevailing in the country, foreign investments are obviously more welcome than ever. Since January 1976 about 30 Swiss projects have been approved. In the second place, the elaborate and often cumbersome anti-inflation regulations have gradually been lifted, beginning in April of this year. In future, the Economic Council of Canada will monitor price and wage movements

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but without enforcing powers. Thirdly, the draft for a new patent law has been shelved after having met with strong resistance from almost all business sectors, especially the Canadian manufacturing industry. In the same vein, one could mention the recent report of the Royal Commission on corporate concentration (Bryce Commission) that came out a little unexpectedly, much to the satisfaction of the business community. It advises among other things against new regulations on foreign investments or limits to the dimension of enterprises and it recommends inter alia the removal of the capital gains tax. What the government is going to do with this report remains to be seen. The new Bank Act to be enacted next year is, in my view, another indication of more liberal government policies. As you know, it will allow foreign banks to operate within certain limits in Canada. Mr. Trudeau, in a speech to the nation on August 1st, has announced a budget cut of 2 billion dollars and a zero growth policy for the public service. I can join you, Mr. President, in your own conclusions that Canada enjoys a very favourable image as far as attractiveness for foreign investors is concerned.

Next, <u>loan financing</u>.

All figures regarding trade and direct corporate investments are positively dwarfed by the flow of capital

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in the form of long term borrowings by provincial governments, municipalities or provincial public utilities. In the last six years alone, the Swiss financial market has supplied Canada with almost 5 billion Swiss francs. Thus, Canada seems to have become one of the principal partners of the Swiss banks for capital exports. Among the main borrowers I shall only mention Hydro Québec, the largest public utility of the province of Quebec in charge of the giant project of the James Bay (total capital requirements of about 15 billion dollars) and its counterpart in Manitoba.

The National Bank, as you know, is compiling some figures on Swiss portfolio investments abroad. The results may throw some light on the total value of Canadian securities owned by our institutional and other investors.

This short review suggests a few concluding remarks :

- For the Swiss economy the importance of Canada clearly lies more in the finance and investment sectors. Trade has been superseded by capital outflow.

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- Swiss exports remain below our capacities and below the potential of a market of almost 25 mio customers, enjoying one of the highest standard of living. An expansion of our sales would entail far less difficulties and certainly none of the risks that some new markets present to our industry. No doubt, there is fierce competition, to begin with from the United States which, with approximately 70 % take the lion's share in Canada's external trade. In this respect one should however remember that the Canadian government openly pursues a policy of diversification of its commercial relations. The agreement on economic and industrial cooperation entered upon with the European Economic Communities in 1976 (the so-called Contractual Link) as well as a similar arrangement with Japan, aim, if not at a reduction, at least at a stabilization of the US component in Canada's foreign trade. Switzerland should benefit from such a policy. We are not without valuable assets. The reputation of our products is outstanding as well as our reputation for reliability in punctual deliveries. Such assets cannot be wiped out by exchange rate considerations. Indeed, between May 1971 and December 1977, a period during which, according to Vorort figures, the Canadian dollar dropped by 109 % in relation to the Swiss franc, our exports have shown a steady but moderate increase.

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The Western provinces of Canada in particular, have not yet been given all the attention they deserve. Cities such as Vancouver, Edmonton or Calgary, indeed the two provinces of British Columbia and Alberta, have been going through a real boom for the last ten years. Swiss exports always tend to concentrate in Quebec and Ontario. These two provinces with the large cities of Montreal and Toronto are no doubt going to remain the backbone of the Canadian economy. However, the West is playing an increasingly important role. The weight is slowly shifting towards the Rockies. British Columbia and Alberta together have a population equal to that of Quebec, with a higher standard of living and a more dynamic economy. Huge projects such as the tapping of the Alberta tar sands or the gas and oil of the Mackenzie River delta, or the construction of the pipe-line to carry out the natural gas from Alaska, all due to take place in the next years, all requiring tremendous investments, are bound to generate smaller spin-off contracts. The Swiss industry will no doubt be able to find its place.

The Swiss Office for the Development of Trade (OSEC) has just completed a study on additional possibilities in Canada in general and in Western Canada in particular. You may find it useful to contact the

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office in Lausanne so that it may share with you its experience. Do not hesitate to contact also the Embassy which, together with our Consulates general and Consulate is eager and ready to give you whatever assistance we may provide.

And finally, may I tentatively suggest that some sort of closer cooperation could be established between the banking community and industry. The imbalance, the disproportion between exports of goods and exports of capital is really striking. While fully realizing that linkages are out of the question, I wonder if the banks could not give more support to industry in helping it to introduce Swiss goods on the Canadian market.

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*Avec les compliments*
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