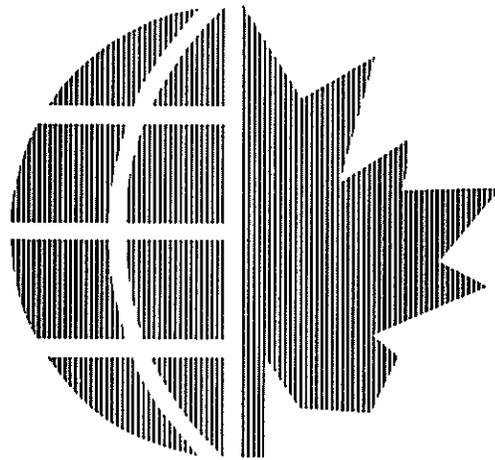

NATIONAL AND GLOBAL
PERSPECTIVES
NATIONALES ET MONDIALES



Canadian Business Leaders Speak
Les chefs d'entreprise du Canada s'expriment

BUSINESS COUNCIL ON NATIONAL ISSUES
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***Canada's Looming Debt Crisis
and How it Can Be Avoided***

**(A presentation to the First Ministers by the Business
Council on National Issues, February/March 1993)
The National Club, Toronto, March 2, 1993.)**

Clearly, Canada's public finances have been deteriorating for several years, and are now in danger of spinning out of control. We are entering dangerous territory.

As government and external debt burdens continue to grow, Canada's ability to borrow will eventually come into question. When this happens, the economic consequences will be far more painful than anything Canadians have endured so far. Canadians will be forced to contend with significantly higher borrowing costs. Business investment will fall off, which will bring higher unemployment and fewer economic opportunities. And governments will find it increasingly difficult to finance even the most essential programs and services.

Our external indebtedness makes every Canadian increasingly vulnerable to the discretionary actions of foreign investors -- investors who at any time could decide to

ball out of Canadian securities.

And we cannot ignore the fact that unless there is a dramatically different approach to public finances in Canada, future generations of Canadians will have to pay a heavy penalty for current failures.

To head off these threats, partisanship and blame must be cast aside and governments need to move in concert and quickly to get Canada's finances in order. Canadians must be informed of the risks facing the country, and the damage being done to our economic potential by mounting government and external debts.

We are convinced that public support for an effective action plan can and will be won if all key economic actors in the country face the fiscal challenge openly, honestly, and with a sense of urgency. Only in this way will Canadians avoid the full-scale debt crisis that now looms before us.■



Matthew W. Barrett

A Recovery...with Jobs

**(Speech to the Annual Meeting of Shareholders
January 18, 1993.)**

I think all Canadians must understand how bad our debt problem is. Consider this: at the end of 1992 our net public debts -- federal, provincial, municipal -- equalled 88% of our national income. By the end of this year, they will reach 94%.

Why is such high debt so bad?

Because massive government borrowing soaks up private sector savings -- money that could otherwise be invested to generate productive well-paid jobs. It drives up real interest rates, it makes investment capital expensive, it hampers just about every kind of economic activity -- and it kills jobs. That's why it matters. That's why it's bad.

And if we were borrowing all the money from ourselves, from domestic savings, it would be bad enough. But we are more and more making our country hostage to foreign lenders.

At the end of 1992, Canadians owed no less than \$300 billion to foreigners -- and \$200 billion of that had been borrowed by

governments. Is that situation serious? You bet it is.

In fact, as a percentage of income, Canada owes more to foreigners than any other major industrial country. And make no mistake -- attracting and holding those funds means higher interest rates.

What is the outlook, if we continue to overspend at the same rate? Here's a very sobering answer. Even if the Canadian economy moves to full capacity over the next five years, our federal and provincial governments combined would still run a deficit of a staggering \$60 billion a year. And we know we are not going to operate at full capacity for some time to come.

The public debt continues to grow and spread insidiously. In 1976, we owed almost \$9,000 for every household in the land. By the end of '92, it was \$60,000.

So this debt isn't some arcane concern of bankers and bureaucrats. This is our debt, owed by each and every one of us -- and we have to come to the end of the line. We simply can't afford it any longer. ■



Stanley H. Hartt
Visions of Canada

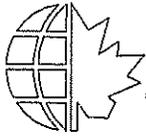
(Notes for an address to the Canadian Club
of Montreal, February 1, 1993.)

Should we be concerned with deficits and debt in the face of high levels of unemployment? Indeed! Even the Radwanskis and the McQuaigs must understand that it is the private sector which must generate new wealth in an economy based on free enterprise. If the wealth-generating private sector is to be relied on for the investment that will produce the growth and jobs we all want, attention needs to be paid to which policies will encourage investment and which others will inhibit that investment.

It may be a new-fangled breach of our traditions to allow the investor to decide when and on what terms his investment risk decision will be made, but an escalating cycle of deficits and debt will effectively turn off that investment tap, whether domestic or foreign. Investors aren't against spending for the relief of poverty. They are, however, against spending in excess of government resources because they foresee this leading to higher levels of taxation and/or of inflation in order to recoup the lost resources or diminish the real value of the debt. In either case there is an after-the-fact confiscation of expected return, and no investor will be motivated by that prospect. [...]

In the same vein, the outmoded vision sees consumption taxes as allegedly regressive. The truth is that we have had sales taxes in this country for decades, and the GST with accompanying credits, is much more progressive than the predecessor taxes. Moreover, a consumption tax is the only way for Canada, with 75% of its exports sold to the U.S., to fund the more generous social contract which we Canadians cherish. If incomes are taxed to raise the differentials in per capita tax revenues required to pay for income support, health and education, the prices of goods and services are affected before they enter into trade, because businesses look to their after-tax net returns when they price.

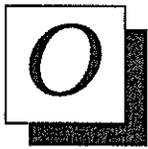
If consumption is taxed, the prices of goods and services are affected after they have been traded internationally, whether their origin is in Canada or the United States. We thus keep ourselves competitive in trade while assessing ourselves to pay for the things we hold dear. This is why a VAT of at least 15% is a condition of membership in the European Community. McQuaig and company have to make up their minds: either it is bad to force taxes down to U.S. levels or it is bad to have a tax the U.S. doesn't yet have in order to pay for things Canadian. They can't have it both ways. ■



George A. Peapples

The Benefits of the NAFTA

**(Remarks to the Financial Executives Institute
The National Club, Toronto, March 2, 1993.)**



[...] ne of the most important features of the NAFTA is the opening of the Mexican market, which will ultimately allow us to export duty-free to this region. [...]

This is particularly true for the automotive industry where virtually all of Mexico's auto products are allowed duty-free into Canada, but Mexico's 1989 auto decree does not offer reciprocal treatment for Canadian automotive products. But under the NAFTA, that barrier will be removed.

Another benefit of the NAFTA: the rule of origin language has been strengthened and clarified. The 50 percent FTA content level will increase to 62.5 percent over eight years beginning January 1, 1994, which is certainly sufficient time to adjust.

And the calculation of originating content is now based on a less ambiguous and more logical "net cost" approach as opposed to the "direct cost of processing" rules under the FTA. This will address the U.S. custom audit issues which surfaced in the recent Honda case.

In addition, the NAFTA dispute settlement mechanism -- which has worked exceptionally well for Canada since its inception under the FTA -- has been

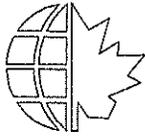
improved, as well as expanded to include Mexico.

As long as there are separate countries within a regional trading bloc, there will be conflicts. It is imperative that companies have access to an independent adjudication process to provide fair and equitable solutions to trade disputes.

I realize there is a great deal of speculation on how Canadian automotive parts suppliers will fare under NAFTA. Won't all Canadian parts production move to the lower labour cost base of Mexico?

I personally don't believe we need to be concerned about that.

As GM's Vice President in charge of worldwide purchasing said recently in Toronto, and I quote: "It is not necessarily true that companies will automatically lose contracts to lower-cost competitors in countries such as Mexico if the quality and service of those companies are superior. It is not so easy to compete in all three areas -- quality, service and price. If it was, we would buy parts from India, where the labour costs are very low. But we don't buy any there. And we do buy parts for our North American products from Germany where labour costs are among the highest in the world." ■



Pierre Desjardins

Les pâtes et papiers : le défi de la concurrence

**(Notes pour une allocution devant les membres de
La Chambre de commerce du Montréal métropolitain
Le 16 février 1993.)**



[un des mythes qui affligent l'industrie des pâtes et papiers veut que] les papetières ne se préoccupent pas suffisamment de la qualité de l'environnement.

Entre 1988 et 1992, l'industrie a réduit de 97% les émissions de dioxines et de furannes et de 63% les organochlorés. D'ici la fin de 1995, les dioxines et les furannes auront complètement disparu.

Des cinq milliards que l'industrie canadienne a prévus dans son plan 1989-1995 pour accroître ses performances en matière de protection de l'environnement, \$2,8 milliards ont déjà été investis, dont \$750 millions pour l'année 1992. En 1995, alors que plus d'\$1 milliard sera consacré à l'environnement, nous serons parvenus à un point où les fonds destinés à la protection de l'environnement dépasseront ceux consacrés à la modernisation des installations.

À cet égard, je tiens à réitérer que l'industrie des pâtes et papiers ne remet nullement en cause la pertinence des règlements sur

l'environnement s'ils sont basés sur des preuves scientifiques. [...]

Si l'on prend la peine de jeter un coup d'oeil sur les nombreux traités internationaux que le Canada a signés en matière de protection de l'environnement et du patrimoine forestier, on peut constater que le Canada et le Québec ont pris une position très avant-gardiste à l'échelle mondiale.

Il est à noter que le Canada a pris l'engagement de consacrer 12% de son territoire à des parcs alors qu'il n'existe pratiquement plus de forêts à l'état naturel dans certains pays européens.

De plus, l'Association canadienne des pâtes et papiers est la seule organisation, au niveau mondial, à promouvoir une vérification externe et indépendante de ses activités forestières. Il faut également rappeler que le rapport de la Commission mondiale sur l'environnement et le développement (la Commission Brundtland) a cité l'industrie forestière comme un exemple d'industrie qui soutient et développe la ressource forestière. ■



Allan R. Taylor

Ideas: The New Wealth of Nations

(An address to shareholders of Royal Bank at the 124th Annual Meeting January 20, 1993.)

We must understand that ideas, innovation, inventions and entrepreneurship -- supported by appropriate education and training -- are the real engines of growth in creating the wealth of nations.

Economic competition between nations is becoming less dependent on natural resources -- lumber, minerals, crops -- and more and more dependent on human resources -- skills, knowledge, ideas, invention, innovation, entrepreneurship.

As this trend accelerates -- and it will -- the quality and effectiveness of our education and training become the most crucial factors for success. International competition is competition between peoples.

If we understand that ideas are becoming the real engines of growth in the wealth of nations, we realize that Canada must invest more effectively in education and training. [...] To understand growth, we need to understand how big ideas such as high temperature super conductors are discovered and put to use -- and how millions of small ideas, such as better ways to make shirts or lawnmowers, are discovered and put to use. [...]

Clearly, Canada must do more to encourage

the discovery of large and small ideas at home and speedily bring innovations to the global market.

To do this, some say that massive government intervention is needed. On the contrary, I believe that a major challenge today is to create a public policy framework that supports a high level of idea-based innovation in the private sector.

Gains from applied research are largest when not dictated by government priorities. They are greatest when integrated into the operations of a company and motivated by the problems and opportunities that the company faces.

We must also appreciate that there is as much scope for improvement through large numbers of small innovative changes as there is in laboratory research aimed at big-bang discoveries.

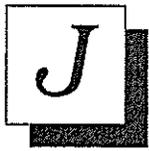
Companies that succeed in the next century will be companies that promote employee participation and the wide acceptance of innovations coming up from the workplace. At Royal Bank we encourage our people to come forward with new ideas, both big and small, for improving what we do for customers and how we do it. We know that the best ideas come from the front lines.■



Guy Saint-Pierre

La formation : l'urgence de s'adapter

**(Notes pour un discours à la Chambre de commerce de Laval
le 24 février 1993)**



e voudrais maintenant aborder le problème de la formation en entreprise. En ce domaine, le Canada et le Québec souffrent toujours d'un certain retard.

Je soupçonne, quant à moi, que ce retard a pu être réduit au cours des trois dernières années, mais aucune étude récente ne me permet de le démontrer.

En 1991, les grandes entreprises canadiennes consacraient en moyenne environ 500 \$ par employé, annuellement, à la formation. Cette somme n'était que de 350 \$ pour les grandes entreprises du Québec.

Or, au Japon et en Europe, la formation en entreprise ou la formation de type coopératif impliquant entreprises et gouvernements représentait à ce moment là de 1000 \$ à 1500 \$ par travailleur.

Nous devons donc réagir immédiatement et très vigoureusement afin d'en arriver à court terme à doubler le niveau de la formation professionnelle donnée en entreprise et offert selon les besoins du marché dans le secteur public. En fait, toutes les entreprises canadiennes ou québécoises devraient en venir à consacrer de 2 à 3 % de leurs revenus en moyenne, à la formation de leurs employés.

On doit souhaiter sur ce plan que les gouvernements envisagent d'étendre les avantages fiscaux à tous les éléments de formation développés par les entreprises.

Je sais que les avantages fiscaux ne peuvent être illimités. Un congé fiscal est toujours, dans une certaine mesure, une ponction dans le trésor public qui éprouve déjà de sérieuses difficultés à produire des budgets équilibrés.

Mais si l'on additionnait des investissements tels que les investissements en formation, en R & D et en développement de marchés internationaux, on en arriverait à libérer d'impôts moins de 10 % des revenus des entreprises. En revanche, ces trois activités méritent d'être puissamment stimulées car elles se traduiront rapidement par d'importants gains fiscaux pour les gouvernements.

Il reste encore beaucoup de travail à faire pour compléter l'arrimage des contenus de formation aux besoins des entreprises et des organisations offrant de l'emploi.

Ce travail est déjà largement amorcé, mais il mérite des efforts accrus impliquant les gouvernements, les entreprises et les syndicats[...].■



Richard A. Goldstein

Investing in Brands

**(An address to Unilever North America
Regional Management January 13, 1993.)**



would like to spend some time talking about international brands. They have much to tell us about both marketing and advertising in today's world. I am sure you are all

familiar with the underlying trends -- the trends which point the way to global business and global markets.

As trade barriers are eliminated, it's becoming more and more possible to rationalize production. We can take increasing advantage of new technology -- including communications technology -- and seize the economies of scale, that are relatively easy to identify. We have worldwide access to modern retail and distribution channels, although building partnerships with retailers has its hazards these days too. There's more logic in the logistics than there used to be. Supply chain management supported by sound total quality principles is transforming our businesses.

Moreover, there are well-defined and genuine consumer constituencies developing -- groups of people in different countries and cultures who share common tastes, interests and needs. Constituencies that we -- with

our global scope -- can cater to. While we celebrate our differences, we do well to focus on our similarities. The first thing to understand is that any direction which does not start with the consumer is a road to ruin. You get on to this road when you let the consumer slip out of focus, and allow your own priorities to dominate the consumer focus. [...]

We understand economies of scale and are excited by them. We know that they are not optional. But our focus is firmly on the consumer. And we understand that within the commonalities lurks diversity.... And what we find when we listen creatively -- when we focus once more on the consumer -- are exciting, growing, genuine opportunities which are truly international in scope. Needs which grow out of patterns of life. Needs and aspirations, which, being international, give us the opportunity for truly international brands.

If this is our approach -- we start from the outset with the expectation of creating great brands. We see the opportunity for brands and advertising concepts with universal appeal. But we never forget that a global brand is merely a personal, local brand, replicated many times.■



**J. Edward Newall
Thomas P. d'Aquino
Charles H. Hantho**

***Building a New Century Economy:
The Canadian Challenge***

**(A working paper of the Business Council on
National Issues, March 1993)**

Improving Canada's capacity to sustain a superior standard of living is the principal challenge facing the country as we prepare to enter the 21st century. Canadians must learn to adjust to the realities of an increasingly dynamic and technology-intensive global economy. We must make the shift to a more innovative and entrepreneurial economy, one based on higher skills, stronger investment, greater technical literacy, a shared commitment to quality, and more active participation in international markets. (...)

Invoking the need to be internationally competitive is not to argue for some form of "business agenda" intended to transform the Canadian way of life. Instead, it is simply to acknowledge the obvious fact that a competitive economy is the foundation upon which good jobs, a fair society and a high quality system of social support necessarily rest.

Canadian businesses, public sector institutions and citizens have the capacity to

marshall this country's incomparable assets to build an economy of unrivalled strength. In looking to the future, our collective aim should be nothing less than having the best-performing economy of all the major industrial countries by the end of the 1990s. While some may find this goal ambitious, Canada's impressive past economic record suggests that becoming the best is within our grasp. All Canadians -- not just those who own and manage businesses -- have an interest in seeing our industries become more competitive and more successful in both domestic and world markets. (...)

To succeed, however, we need a commitment to excellence, flexibility and innovation from all our major institutions. Above all, we need superior performance on the part of the Canadian private sector. While governments can have a positive impact through sound framework policies and strategic investments in infrastructure and human resource development, ultimately, competitiveness depends on companies selling their goods and services successfully to increasingly demanding customers both in Canada and abroad.■



Shinji Teshima

Understanding the Origins of Japan's Corporate Culture and Business Behaviour

**(An address to the Canada-Japan Society
Toronto, March 9, 1993)**

T [here is] considerable discussion today on the issue of raising Canada's competitiveness. It is often said that the strength of Japanese competitiveness rests upon their having the world's best education system, a high level of technology and a diligent work force. These are, to a degree, valid points. At the same time, [there are] deeper historical and cultural forces that have shaped the fundamental Japanese character.

It's obvious that Canada must raise its level of international competitiveness. But I do not believe that such improvement will materialize simply by emulating the Japanese experience, especially since the characteristics emerging out of Japan's historical development have been an important influence on its more recent performance.

In my view, Japan's much-discussed strong competitive position is supported by surprisingly few selected industries and companies with good potential. Although accurate statistics are not available, it is believed that the value of exports by 30-40 top manufacturing companies has a share of more than 50% of the total enormous exports of Japan. I might add that even these competitive industries and companies are going through substantial structural changes in keeping with the changing times.

Canada can perhaps follow Japan's lead by establishing which of its own industries and companies are currently leading performers and which are likely to be the main engines of growth in coming years. It can also seek to identify the impediments to competitiveness. Once these key players are identified, they should be encouraged to take the initiative in a leadership role in removing obstacles to productivity improvement. ■