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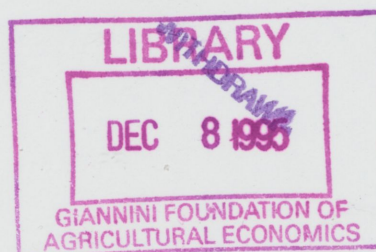
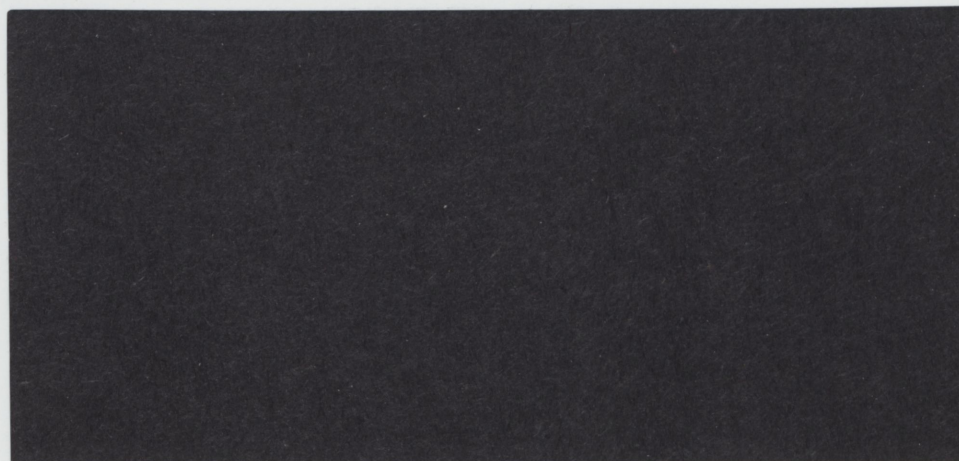


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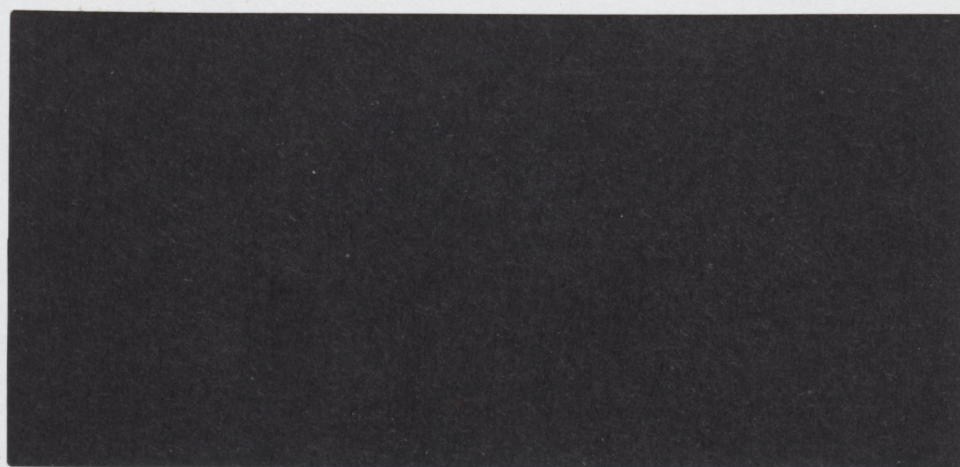
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**MULTINATIONAL FIRMS, INVESTMENT  
AND TRADE IN CANADA'S FOOD AND  
BEVERAGE INDUSTRY:  
POLICY IMPLICATIONS**

**Working Paper #7/95**

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## **Acknowledgements**

The authors thank Ken Ash for his suggestions and comments in the preparation of this paper.

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## Summary

1. Both globally and for Canada, FDI is larger and growing more rapidly than trade as a means of international commerce in the food and beverage industry. In addition, intra-firm trade is a major component of total trade.
2. The reasons for more FDI are both economic and strategic. In particular, FDI provides firms with more control over brand/market development than do exports.
3. Canadian subsidiaries of foreign firms are primarily oriented to serving the domestic market.
4. However, MNE's are increasingly taking a regional/global perspective. This means that subsidiaries have less autonomy and must be internationally competitive at home and abroad.
5. Based on this study, the economic benefits of FDI appear to outweigh its economic disadvantages. FDI brings production, management and marketing skills, capital, technology, access to international distribution systems and so on.
6. Basic economic conditions and firm strategies are usually more important than government policies in production location decisions.
7. Policy initiatives that would encourage foreign firms to enter or remain in Canada are not necessarily FDI-specific. Policies to upgrade resources, improve the functioning of domestic markets, assure access to foreign markets and so on help all firms in the Canadian industry to be internationally competitive and contribute to the perception of a positive investment climate.
8. Supply management and uncertain access to foreign markets are two of the leading concerns of MNEs.
  - Supply management is a concern not only due to its direct cost and supply effects but also as reflecting an inward, farm-oriented government policy perspective.
  - Assured access to foreign markets is increasingly important as MNEs take a more global approach to production and marketing. The concerns include the "harassment" of exports (e.g. uncertain enforcement of technical regulations at the U.S. border) and threats of change in access (e.g. extension of U.S. restrictions on imports of sugar containing products).

9. FDI-specific policy issues relate to the perceived benefits and costs of FDI to the economy. They concern the effects of FDI on income distribution and the possible need for a multilateral approach in areas such as competition, the environment and taxation (transfer pricing).
10. The ability of foreign owned firms to access the international expertise and marketing infrastructure of their parents, and the preference of MNE's for ownership of production in the target market over trade could have implications for Canada's export marketing strategies.
11. R&D is typically done by MNEs in their home country or in large or specialized foreign markets. This is an added challenge to efforts to increase R&D in Canada.
12. Areas for further work include the the factors influencing investment and trade and the implications of more integrated world markets for public policies, especially trade, export market development and R&D. The need for more international coordination of horizontal policies also needs further analysis.

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## **I. Introduction**

The Canadian food and beverage industry has been undergoing major restructuring, much of it by the subsidiaries of foreign firms. Trade liberalization, the recession and other economic and technical developments have motivated these changes or at least the speed of change. This has also been true globally.

Agriculture and Agri-Food Canada undertook a study to document and better understand these changes, likely future developments and the implications for public policy. The study involved a review of the theories of foreign direct investment (FDI) and previous research, analysis of data on FDI in Canada and other countries, and interviews with multinational food and beverage firms. The firm survey was conducted in co-operation with the United States Department of Agriculture.

The objective of the meetings with senior executives was to get better information on the importance of international markets from the perspective of the firms involved, the methods they use to enter foreign markets, the factors influencing these decisions, and the implications for the structure and performance of the industry and for public policies.

Seventeen firms located in Canada and the United States were interviewed. In Canada, three interviews were with Canadian firms and seven with Canadian affiliates of foreign firms, mostly U.S.-based. Information on the firms' activities also was obtained from annual reports and other sources.

This paper provides a brief discussion of the findings and policy implications. Detailed results can be found in two Policy Branch working papers (Vaughan, Malanoski, West and Handy, 1994; and Vaughan, 1995).

The concluding section briefly identifies some areas for further work.

## **II. Findings**

### **1. Motivation for FDI**

Firms are going international because of slow growth in domestic markets and to capitalize on their production and marketing skills. This is leading to greater integration of markets through both trade and investment.

There are several theoretical explanations for why firms invest abroad. For this analysis, the most useful approach is to think of FDI as a means for firms to capitalize

location advantages of specific countries (e.g., resources, markets, government policies). Compared to exports, FDI can minimize transaction costs.

Firms can supply a foreign market with exports or local production. If local production is chosen, the options are licensing, alliances/joint ventures and ownership control (subsidiary). The factors influencing these decisions are discussed below.

## **2. FDI in the Food and Beverage Industry**

Globally, the value of foreign production by food and beverage firms through subsidiaries is well over twice the value of exports (Henderson and Handy, 1993). Also, at least for transactions with the United States, sales by foreign controlled firms in Canada greatly exceed food and beverage imports and sales of Canadian foreign affiliates exceed exports.

In Canada's food and beverage industry, foreign controlled firms account for about 34% of assets and 31% of sales. While these levels are down from their levels in 1975 of 41% and 37%, respectively, over the last decade they increased somewhat. In particular, over the 1989-1992 period, the assets and sales of foreign controlled firms increased in current dollar value by nine and six percent per year, respectively, while total industry sales grew at about one percent per year.

In 1990, U.S. firms had about 60% of the FDI and U.K. firms 35%.

## **3. Interview Highlights for Canada**

### **(a) International perspective**

As a result of trade liberalization and industry developments, multinational firms increasingly view their Canadian production and distribution activities from a North American or global perspective. This puts added pressure on subsidiaries to be internationally competitive with respect to price and quality.

The first goal of Canadian subsidiaries tends to be competitiveness in the Canadian market vis-à-vis other domestic producers and imports, including potential imports from their parent organization. To do this they rationalize production, modernize plants, improve products and so on. In achieving the goals of lower costs and increased quality, they often generate more capacity than is needed domestically. Exports are then sought as a way to use this capacity and thus further reduce unit costs as well as increase revenues.

Investment and trade strategies can be initiated by the subsidiary but need to be consistent with those of the parent firm. Exports typically are handled through the parent organization.

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### (b) Competitiveness

In many cases, the major cost factor to be overcome is size of operation. Economies of size are important at the output levels of many Canadian plants and enterprises.

Experience and technologies suitable for shorter production runs in multi-product plants, developed to meet needs of the small Canadian market, are seen by some firms as an advantage in producing for domestic and foreign specialized/ small market segments. Other firms, however, discount this ability with the claim that higher volume plants can efficiently switch production among products, containers and/or labels requiring short runs. The determining factors presumably are the nature of the products and production processes and the definition of "short" runs (e.g. may be true for spices and flavours but not some bakery products). In some cases, product formulations must be adapted to local tastes.

Input quantities, qualities and prices were a concern for firms sourcing domestically, especially as related to supply management; dairy and poultry products are ingredients in a range of products. In one case, can costs also were an important concern. Input costs were not a concern for firms sourcing supplies on international markets.

For most firms, labour compensation rates in Canada were not a concern and, indeed in some cases were seen as an advantage. The need for flexibility by unions with respect to hours of work was noted. Labour costs typically are a relatively small part of total costs.

Government policies and programs clearly influence cost and product competitiveness. This applies to domestic markets and trade. For Canada, this includes supply management and the application of technical regulations both domestically and on imports. As at least one firm indicated, the concern was not only, or even so much, with any particular policy/ program/regulation as uncertainty with respect to coverage and change. Uncertainty with regard to trade policies and border restrictions can be especially damaging when investment decisions are being made.

### (c) Method of Participating in Foreign Markets

With one exception, among the firms interviewed, foreign owned Canadian firms participating in foreign markets do so exclusively with exports. Exports are made to or through the parent company, e.g., the parent firm decides which subsidiary will supply a given market. The goal of each firm/plant is to be the parent's (and buyer's) preferred supplier for that product or market.

Canadian owned multinational companies (by definition) own plants in other countries. They also use exports, joint ventures, alliances and licenses, to supply foreign markets. The following points, based on all interviews in Canada and the U.S. and other sources, would be expected to apply to Canadian based multinational firms in choosing

how they supply a foreign market. They also would apply to the choices foreign firms have for entering or remaining in Canada. The relative importance of these considerations and the choice of method will differ somewhat by firm, product and country. For example, a U.S. multinational could well take a different approach to doing business in Canada than in China.

Exports are often the first mode of entering a new country. Its attractiveness depends on transportation costs and duties, relative to product value, cost of alternatives and market/business strategy. It is the least expensive and least risky way to gain some knowledge of the market and begin to build consumer/buyer recognition. However, in many cases exports are the least profitable option given a substantial long term market. (Most larger firms only consider entering a country on an on-going basis if they can anticipate achieving a substantial market share).

Production cost considerations include the relative availability, quality and price of raw products and other inputs and economies of size. Marketing factors include distribution costs, the ability to respond quickly to buyer needs and possibly consumer resistance to buying imports. Where these factors favour the use of exports, the firm often will want to have its own distribution system or at least have a joint venture/alliance with a distributor. The goal is to have more control over physical distribution, brand development and pricing.

Whether a specific country/market is served in whole or in part by exports on an on-going basis clearly depends on the above factors (relative costs, size of market, control). If exports are used, the source is the parent firm or a better located subsidiary. The proximity of the U.S. to Canada and the similarities of cultures puts added emphasis on relative costs as the determining factor. Views on the ability of the Canadian industry to prosper in the freer trade environment ranged from pessimistic to optimistic.

Production. In those cases where economics or strategy dictate preference for local production, the alternatives are licenses, joint ventures/alliances and (full) ownership.

- Licenses are widely used in foreign markets by the food and beverage industry. Among the firms interviewed, however, this method was typically not favoured. Some firms have changed from using licenses on a long term basis to at most using them as a shorter term tool for testing the market, obtaining brand recognition, and obtaining access to production capacity and/or distribution systems at a relatively small cost and risk. They are often used for beverage and confectionery products where barriers to entry such as privately or publicly controlled distribution systems and entrenched producers tend to be common.
- Joint Ventures typically provide more control over production and marketing activities than licenses. (Joint Ventures were defined to involve

joint ownership whereas "alliances" only involve an agreement that "goes beyond" normal production or distribution arrangements. In this sense, few alliances were identified in the firm interviews).

Joint ventures are used mostly in entering countries with a culture or industry significantly different to that of the parent firm's experience (e.g. Asia, Eastern Europe, the Former Soviet Union). They are a cost effective way to obtain local knowledge of the production and marketing systems and the market and/or access to processing and/or distribution systems. They also help to gain acceptance from consumers. Many firms, however, are wary of joint ventures unless they have a controlling interest. Fifty-fifty joint ventures often either dissolve or lead to one firm taking control in due course.

Joint ventures also can occur between well established firms in familiar markets. In this case, each firm is contributing some specialized resource such as a product/trademark or distribution network.

- Ownership (wholly-owned affiliate) is generally the preferred method of local production and distribution because it offers the most control over all aspects of the business, including brand names, technology and skills. It is often the most profitable in the long term.

In those cases where ownership is the chosen mode, acquisition of an existing business is typical. An acquisition provides immediate access to facilities, people, knowledge, etc. and some market share. Compared to greenfield investment (or exports) it reduces the likelihood of generating excess capacity or lower market prices.

#### 4. Benefits and Costs of FDI

- The gains from FDI have the same potential sources as those from trade: comparative advantage, increasing returns to scale and increased competition. In fact, a component of FDI is the export of intangible assets such as production, marketing and management skills. Firms invest in countries with location specific advantages to the firm which presumably helps countries to obtain gains from specialization of production.
- FDI minimizes transaction costs with respect to trade. In the mid-1980's, about 55 % of total Canadian imports of food and beverage products were by subsidiaries of foreign owned firms and 35 % of these were intra-firm transactions. In 1989, over 75 % of the imports by U.S. subsidiaries in Canada's food manufacturing industry were from their parent group and over 75 % of their exports were to their parent group.



- On average, the subsidiaries of foreign firms have a higher propensity to import than Canadian controlled firms. The higher import propensity reflects the internalization of transactions, specialization (imports to round out product lines) and possibly a relatively higher proportion of further processed product production using imported ingredients.
- At the same time, the average propensity of the subsidiaries of foreign firms to export is lower than that of Canadian controlled firms. The lower export propensity reflects in part the mandate of many subsidiaries to serve primarily the Canadian market. Exports are becoming more important to these firms, however, as MNE activities become increasingly organized on a regional and global basis.
- Whether FDI increases or decreases competition is not clear. Most investments are by acquisition and even globally a number of food markets are served by relatively few firms.
- Foreign-controlled firms spend more of their revenue on R&D than do Canadian-controlled firms. This spending contributes to the competitiveness of the Canadian industry directly and indirectly through spillover effects. However, most R&D is done at headquarters and in large, specialized markets.
- In addition to investment capital and technology, foreign firms contribute a range of technical, management and marketing skills to the subsidiary that also spillover to the rest of the industry and economy. There is little evidence that the more highly skilled jobs are kept in the home country.

### **III. Policy Implications**

The increasing international integration of the food industries through foreign direct investment and trade has focussed attention on the ways that government policies and programs might be developed or redesigned to maximize the benefits to Canada. This section looks at the policy implications as they relate to inward FDI, imports, exports and outward FDI. The implications for trade policy and other specific policies also are noted briefly.

#### **1. Inward FDI**

Inward FDI tends to have a positive effect on economic growth because MNEs bring capital, technology, global marketing and distribution systems, quality products and brands, and production, marketing and management expertise. Their broad success indicates their typical superiority in one or more of these areas.

Firms will choose to locate or remain in Canada if Canada provides location specific advantages, other things equal. As discussed earlier and in the following section on imports, many factors influence the decision of whether to serve a market with exports or local production. They include characteristics of the market such as its size and potential for growth, access to basic and advanced factors of production, supporting industries and market structure. These are location specific conditions which typically will have an important influence on this choice. In addition, however, public policies are important in so far as they influence the attractiveness of these competitiveness factors and, more generally, contribute to or detract from a favourable investment climate.

The range of policies which could be influential in investment decisions is broad; they include trade policies, macro and horizontal policies in areas such as taxation, labour, environment and science and technology and more specific sectoral policies such as market regulation, technical food regulation and agri-food R&D. Their relative importance varies by industry segment or product category.

The key consideration is the overall net effect on the "business environment" from the firm's perspective. Comments made by firms interviewed as part of this overall study indicate that such policy differences would have to be substantial to offset the influence of the market-resource-industry location competitiveness factors noted above, and, as applicable, the potential advantages of internalizing firm specific advantages.

With respect to domestic policy, a general desire appears to be for a well defined, reasonably stable policy environment with time provided to adjust to policy change. Compared to most countries, Canada is highly regarded in this respect. However, open access to input and product markets also is a key concern for some and in this respect there appears to be at least the perception by some firms that the Canadian economy is more regulated than that of the U.S. In particular, supply management and marketing boards were often mentioned not only in terms of their specific commodity areas and their effect on costs in other areas. They also were seen as indicators of a willingness of government to use the regulatory approach to issues, to favour the farm over the processing levels and to have an inward rather than international orientation.

At least one Canadian firm suggested that the U.S. provides more effective policy support to processors; the Export Enhancement Program was an example. Several firms mentioned specific market regulations, subsidies, trade barriers, etc. as problems in one country or the other. Few concerns were expressed about non-sectoral policies; unreliable access to the U.S. market was the main concern. Labour regulations also were mentioned.

As indicated above, policies to encourage foreign firms to remain in or come to Canada are primarily those that improve competitiveness. These include FDI-specific policies. For example, information on Canadian markets and investment opportunities can be provided to prospective investors (as is done by Investment Canada). Although large

investment proposals are still reviewed to deal with concerns about the possible conduct of MNEs, the process has been streamlined and the primary goal of Canada's FDI policy is to encourage foreign investment.

## **2. Imports**

The alternative to producing in Canada to serve the Canadian market is to export to it. As discussed earlier, there are a number of reasons for firms preferring local production. However, exports can be the most profitable long term option depending on demand characteristics, product characteristics related to the logistics of supplying a quality product in a timely manner, transfer costs, relative production costs, risk, and so on. Given the similarities of consumer preferences between Canada and the U.S., the proximity of Canadian markets to U.S. plants, the significant presence of MNE's, especially U.S. controlled MNE's in the Canadian food industry, and trade liberalization (but continued trade irritants), the option of using imports is likely to be more attractive for more products than it would be for such firms supplying more distant markets with distinctly different demand characteristics. The importance of policies that will improve Canada's competitiveness/investment climate and thus favour production in Canada is clear.

This is not to say that imports are necessarily bad for the economy. Imports can contribute to economic growth in that they allow specialization, i.e., reduce costs of primary, intermediate and final products, both those produced in Canada and imported. Alternatively, imports could lead to inward FDI. However, governments seldom facilitate imports and often discourage them (with tariff and non-tariff barriers, subsidies to the domestic industry, etc.) because the short term effect is often to displace domestic production. In a free trade environment, targeted support is less acceptable internationally. Adjustment programs could be appropriate in those cases where an industry/industry segment was not expected to be competitive even with feasible improvements.

## **3. Exports**

Exports generate economic activity and earn foreign exchange. They are especially important to Canada's agri-food sector given the modest growth potential of the domestic market.

One of the government's goals is to increase agri-food exports to \$20 billion by the year 2000, about a 60 percent increase over current levels. A related goal is to gain a 3.5 percent share of world trade. In addition, the government would like to diversify among export markets; at present some 55 percent of agri-food exports and 75 % of processed food and beverage exports are to the U.S.

Canada's ability to export is influenced by the competitiveness-related policies discussed above. In addition, Canada, like most countries, has policies and programs

specifically aimed at increasing exports. They include market information, market promotion, export credit and so on. The success of such programs will be determined in part by the way that international trade fits into the marketing and growth strategies of firms, including multinational firms.

The export strategies of firms can cover a wide range. Some firms apparently just export on an ad hoc basis, either to dispose of temporary surpluses or to respond to ad hoc sale opportunities such as requests from brokers. Others actively search for export opportunities, short term and/or long term. MNEs also use exports as a first step to production in a target market.

Both domestically-owned and foreign-owned firms might use one or another government program to further any of these strategies. In this regard, the relevant findings of this study and their policy implications are:

- Many Canadian subsidiaries of MNE's are primarily focussed on serving the domestic market.
- Increasingly however, their parent firms see them as part of a global operation and less as diversified miniature replicas of the parent charged with supplying the domestic market with more or less all of the firm's products. They are becoming more specialized and increasingly expected to export, that is, to compete on the basis of cost and quality with their parent and sister companies to supply various markets, including the Canadian market. This is both an opportunity and a challenge for export policies, especially given Canada's proximity to the U.S. and the tendency to integrate the management of North American operations.
- Canadian subsidiaries of MNEs and Canadian MNEs would be expected to draw on the services and financial support offered by export programs. Given the international expertise, distribution systems and resources of the larger MNE's, however, these programs would typically have less influence on their decisions and success than would be the case for smaller and medium sized domestic firms, especially those with little international experience.
- The contribution of export development programs to Canada's overall export performance, therefore, might be enhanced by targeting information and support to the needs of small and medium size firms. This does not mean excluding large Canadian- and foreign-owned MNEs; it does mean providing services that might be of little interest to such firms but are required by smaller firms with export potential in order for them to participate effectively in the global market.

- The contribution of the subsidiaries of MNEs to Canada's goal of diversifying export markets, is dependent on their being identified by their parents as the preferred source of supply. This is more dependent on their cost and product competitiveness than their role in identifying the market opportunity. In particular, the Canadian subsidiary would have to compete with its parent firm or a better located sister company to supply an offshore market. Also, successful development of the market, whether by the Canadian subsidiary or not, would likely lead to the establishment of a local or regional subsidiary in lieu of continued exports.
- The strategy of MNE's to use exports to develop a market and then switch to local production is most relevant to entry into countries where the local market or political risks are relatively high. It obviously would not apply to the Canadian subsidiaries of U.S. firms exporting to the U.S. but it could apply to Canadian owned firms developing U.S. and other foreign markets where factors such as local competition, the cost of establishing, protecting and developing company brands, the difficulty of ensuring a reliable distribution system, and the uncertainties created by cultural differences could be significant risk factors. Successful export development programs thus could lead to outward FDI. Exports would fall in the short term but there is some evidence that the FDI generated would likely directly or indirectly lead to overall gains in exports in the longer term.

#### 4. Outward FDI

Outward FDI also benefits Canada; it is a way for firms to export intangible assets such as marketing skills and technology with the same kinds of benefits associated with product exports. Benefits include increased revenue and lower cost due to scale economies. FDI is a way for firms to better utilize and capitalize on intangible assets and is an incentive to develop these assets further. Also, it may be the only way that Canadian firms can be competitive in some foreign markets on a long term basis in that it allows them to access location specific advantages. In this sense, there is little choice for government but to accept and support this firm strategy.

Policies to encourage outward FDI could include information on foreign markets, industry/firm structure, and culture. Help also might be provided to find suitable partners. MNEs, however, probably would have the resources to perform these tasks. In any case, all firms likely would use exports to develop a presence in and understanding of a foreign market before considering local production (see exports). Also, in the case of foreign owned firms, the FDI would be likely an activity of the parent not its Canadian subsidiary with little benefit to Canada.



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## 5. Implications for Specific Policies

### Trade Policy

- The increasing tendency for MNE's to take a more integrated, less multidomestic strategy for serving global markets is in part a result of trade liberalization and also a force driving it. Canada's support for trade liberalization through the GATT, FTA and NAFTA reflects its understanding of the need to be a part of the global market/industry. Continued efforts in this regard, especially efforts to improve the functioning of current agreements, are needed in order to attract investment and to expand exports.
- In particular, the North American perspective being adopted by the management of MNEs increases the need for Canadian subsidiaries to have reliable access to the U.S. market. Examples of concerns were the uncertainties created by meat inspection at the border and the threat of reduced access for sugar containing products. Considering the small size of the Canadian market, continued investment in Canada is increasingly dependent on minimizing these kinds of risks.

### Export Market Development Policy

- As discussed in the previous section, the international expertise and infrastructure of MNEs means they have less need for most government export development programs than smaller more domestically oriented firms. However they do participate and benefit, especially in less familiar, more risky markets. It may be beneficial to further examine, and respond to, the specific needs of smaller and medium sized firms in particular.
- While export development programs are too uncertain to have a major influence on the FDI decisions of a firm, they could influence the allocation of production among subsidiaries and the parent (e.g., produce a product in the U.S. to take advantage of its export promotion and subsidy programs).
- As well as facilitating exports, it may be worthwhile to further investigate ways in which foreign market development programs might provide more assistance to Canadian firms seeking "partners" for production and distribution activities in foreign markets.

### Agricultural Policies

- The availability and cost of raw products are important considerations for most food processing industries. This implies the need for agricultural and

other policies that contribute to up-grading resources and improving the efficiency of their use. This includes research and development, improved farm management practices and more market oriented institutional arrangements.

- The major agricultural policy concerns are supply management and marketing boards as they influence costs and the business environment (e.g. producer attitudes). To the degree that these and other policies render processors non-competitive or lead to the substitution of imports for domestic sources of raw product, agriculture and the rest of the economy suffers. On the other hand, to the extent that imports of raw products improve firm efficiency by supplementing local production, these imports are a benefit to Canadian agriculture as well as the economy as a whole. An issue in this regard has been access to fruits and vegetables for processing.

#### Science and Technology Policy

- Policies to stimulate product and process innovation in Canada need to take into account the important role that FDI plays in technology transfer and the tendency for MNEs to concentrate R&D activities at headquarters and in major, specialized markets.
- The fact that Canadian subsidiaries import new product and process developments from their parents is an advantage to the Canadian firm, industry and likely to the Canadian economy. This assumes that charges to the subsidiary for them are in line with costs. It also assumes that the amount of R&D effort likely would be greater than the Canadian market would justify and the cost lower than could be achieved by the Canadian subsidiary because of economies of size in R&D activities. Exceptions might be where the subsidiary had significant exports or responsibility for the corporate R&D effort. A concern is that the Canadian economy would not have the benefit of either the R&D activities themselves nor their spillover effects. Another concern might be that the imported R&D results would not be as appropriate to the subsidiary's domestic and export opportunities as they would be if done in Canada.
- The most desirable situation would be the case where the subsidiary was given responsibility for the R&D in its product line. Policies that encourage R&D generally or specifically in the food industry presumably help to get more of the MNEs' R&D done in Canada, but likely only marginally since other factors would be more important. In particular, MNE research typically is done at headquarters to maintain control or in subsidiaries/regional centres that have specialized product lines. (Product development and quality control activities are more widely dispersed).

Given the significant share of the Canadian industry controlled by MNEs, this implies a significant challenge to efforts to increase private sector R&D in Canada. The Food Technology Industry Centre at Guelph is an example of government working with industry to stimulate product development and commercialization activities in Canada. Again, further consideration might be given to addressing the specific R&D needs of smaller and medium size firms without explicitly excluding the larger MNEs.

### Competition Policy

- The drive to be internationally competitive will continue to mean fewer and larger processing and distribution firms. Trade liberalization and the free flow of capital might be expected to offset the possible negative effects of the reduction in the number of firms on effective market competition. However, many of the firms involved are large multinationals with significant global market shares. This is leading to concerns about the need for a multilateral approach to competition policy. Industry Canada, OECD and others are active in this respect.

### Other Policies

- Various macroeconomic and framework policies (taxation, environment, regional development, income support, labour, etc.) influence the investment climate as perceived by firms and hence the level of foreign (and domestic) investment and aggregate income.
- They also influence the distribution of income. To some degree, the benefits of government programs flow out of the country as subsidiary earnings are sent home. The role of transfer pricing in minimizing overall corporate taxes is one issue.
- The growing role of multinational enterprises in the globalization of economic activities is increasingly seen as requiring a multilateral approach to policy development in areas such as food standards and safety, taxation, labour, the environment and competition.

## IV. Further Work

The following are examples of areas where further research would contribute to our understanding of the influence of foreign direct investment on the structure conduct and performance of the Canadian and global food and beverage industries and the implications for public policy.

- The benefits and costs of outward FDI and its policy implications. How does outward FDI improve competitiveness in the food and beverage industry? Does it lead to more or fewer exports?
- A closer look at the degree to which small and medium size companies in Canada's food and beverage industry participate in export markets and their competitive position at home and abroad. In light of the growing role of MNEs in the global economy, both direct participation and participation through joint ventures and networks could be examined.
- The implications of FDI for export development programs. Identify and measure differences in program use among Canadian-controlled MNEs, the subsidiaries of foreign controlled MNEs and domestic firms. Determine whether the needs of each set of firms are being met. This project and the previous one relate to the issue of the degree to which export development programs should target small and medium size firms.
- The role of multinational food and beverage firms in technology development and transfer and the implications for domestic science and technology policy.
- The degree to which the performance of subsidiaries of foreign-owned food and beverage firms differs from that of Canadian-owned firms and why. Some differences might be anticipated in that the investment and other decisions of MNEs are presumably more influenced by international as opposed to domestic considerations; a MNE would be expected to maximize its objective function globally not locally. The present study gives insights based on the literature and anecdotal evidence from the interviews. A more rigorous approach would be to use econometric analysis to separate ownership from the other factors that influence the conduct and performance of firms. This would indicate how much difference there is between foreign and domestic firms in productivity, capital/labour ratio, R&D spending, export and import propensities and so on if the kind of products produced and size of enterprise are held constant.
- Analysis of the importance of economies of size in the competitiveness of the Canadian food and beverage industry. A question of particular interest to the trade/FDI issue is the degree to which modern production processes allow economical shifting among products with long and short production runs.
- The effects of trade liberalization on industry performance at the level of individual food and beverage industries. Compare Canada-U.S.-Mexico exports, imports and FDI flows before and after the FTA and NAFTA .

Include effects on specialization/product differentiation as indicated by intra-firm and intra-industry trade.

- The implications for competition policy of the trend to fewer and larger firms both domestically and globally with various types of business arrangements linking them vertically and horizontally. One issue is the possible need for a multilateral approach to competition policy. The Bureau of Competition Policy, the OECD and others have been doing some work in this area.



## References

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