How Canada's New Bank Act Fits In

BANKING

The chief significance of the new Bank Act of Canada is that it is designed to further Canada's incursion into the U.S. economy as Britain's North American surrogate.

The revised Canadian banking legislation, C -57, was introduced into the Commons on May 19 by Canadian Finance Minister Jean Chretien, and is expected to be passed into law at any time. The critical provision of the legislation is that for the first time in Canadian history, foreign banks will be allowed to establish branch banking in Canada to up to 15 percent of total Canadian banking assets — *in return for reciprocal treatment by foreign countries.*

Under the conditions of the new Bank Act, Canadian banks could become a major force in the U.S. banking system, alongside other British Empire banks like the Hong Kong Shanghai and National Westminister, which recently acquired Marine Midland and the National Bank of North America, respectively.

The apparent benefit of the Canadian Bank Act to foreign banks is pure deception.

Until now, Canadian business of U.S. banks like Citicorp has depended on not having to maintain reserve requirements and their ability to make cutrate loans. Under the regulations of the Bank Act, however, foreign banks will not be subject to federal regulation and will have to maintain reserves with the Bank of Canada. Simultaneously, the Bank Act will lower the reserve requirements of Canadian banks, a feature of the act that the Canadian banks are jubilant about (reserve requirements will be the same for domestic and foreign banks, of course).

The big five Canadian banks already have major international operations. Their Eurodollar and Caymen Island loans represent a far greater proportion of total assets than for large New York commercial banks, and it is no secret that they are exceedingly eager to get into the U.S. and Japanese markets with full-fledged bank status. Canadian banks have been operating in those markets in only a limited capacity until now, because of Canada's own restrictions on foreign banks. In New York State, for example, all the major Canadian banks have so-called banking agencies; these can make loans but cannot generate deposits locally — the same status as U.S. banks in Canada.

In this tradeoff of profit margins for a greater market share, foreign banks in Canada are sure to come out the losers, especially since domestic loan demand in Canada has been steadily shrinking in line with the government's committed austerity policies.

Responding to the revised banking legislation when it was unveiled May 19, a spokesman for Citicorp Canada said that there were few advantages in becoming a bank in Canada, and that Citicorp would have to study the act carefully before deciding whether to apply for full bank status.

The provisions of the act outlawing Canadian bank executives from holding directorships of customer companies is another hoax. Several Canadian banks interviewed last week were not in the least concerned about the attack on interlocking directorships. Historically the Canadians and British have maintained control over world industry through means other than overt interlocks. The new rule is more likely directed against the American-allied directors of Canadian subsidiaries of U.S. multinational corporations sitting on Canadian bank boards. Such a development would mean the end of the positive influence of U.S. manufacturing companies in Canada, coherent with the call by the new British Ambassador to Canada, Lord Ford, for Canada to "get out from under the yoke of the United States."

In reviewing the new Bank Act in its survey of world banking May 22, the *Financial Times* of London commented ambiguously but ominously: "By the time the next Bank Act review comes around, some observers believe Canadian banks will be controlling the commanding sectors of the economy in a way never before seen in North America."

The Role of the Canadian Dollar

The recent stabilization of the Canadian dollar in U.S. $.88-.92 range, after more than a year of continuous battering on the foreign exchange markets, is another facet of Canadian-British cooperation to control North America.

The Canadian dollar was stabilized in exactly the same way that the pound sterling in the period up to last fall: on the basis of a killing dose of austerity within the domestic economy. Over 1977, external borrowing by Canadian provinces and corporations was abruptly reduced from the 1976 record; employment levels were sacrificed to cut money supply growth and the rate of domestic inflation; and Canada's merchandise trade surplus was more than doubled, thanks to the sharp increase of exports of petroleum and natural gas, wheat, and wood (in value and volume terms). Also contributing to the stabilization of the currency was the closing of the differential between U.S. and Canadian dollar interest rates, as a result of the sharp rise in U.S. rates. The narrowing of the spread benefits the Canadian dollar because it discourages borrowing by Canadian corporations in New York, which deepens the current account surplus. In autumn 1976, in the midst of the foreign borrowing boom, interest rates were 4 percent higher in Canada than in the U.S.

On top of this, over the winter and spring the Bank of Canada obtained enormous credit, revolving credit lines to bolster its reserves and defend the Canadian dollar (and speculate against the U.S. dollar) through borrowings of $2.5 billion from the Canadian banks, $1.2 billion denominated in deutschemarks from a consortium of West German banks, and $3 billion from a U.S. consortium led by Citibank.

Expectations of a coming boom in world raw materials prices, rigged by traditional City of London methods, of course, also figures in the recent stabilization of the

Canadian dollar, foreign exchange traders report. The push to cartelize world raw material production is emanating from Canada, itself a stalwart supporter of the UNCTAD Common Fund (commodity buffer stock) scheme. Moves are underway to rationalize and nationalize Canadian nickle production, with Inco, the core London Rothschild nickle company, organizing on the inside. In the process, Falconbridge, owned by the Texas-based Keck Corporation, would come under nationalization. On May 23 Hudson's Bay Company put in a bid to buy up the remaining shares of White Horse Copper, of which it already owns 41 percent, an unusual move unless plans are made to rig an artificial boom in copper prices at some point in the future.

Canada's Shopping List

Any U.S. businessman who still thinks that recent Canadian investment is just panic money, fleeing from Canadian political instabilities, is oblivious to the strategic role that Canada has traditionally played as a purveyor of British ideology and financial control in North America. Lord Beaverbrook, Sir William Stevenson, and McKensie King, the trusted advisor of the American Rockefeller family, and other leading British SIS operatives were Canadian nationals.

To date the most visible of Canada's investment in the U.S. has been major real estate acquisitions. As widely reported, Olympia and York Developments Ltd. of Toronto became one of New York City's largest landlords last fall at a single stroke when it acquired the former Uris Buildings Corp's office buildings from National Kinney Corp. National Kinney merged with Warner Brothers last year with the help of Felix Rohaytn, Lazard Freres partner, who personally arranged the merger. It had acquired the buildings from the ailing New York realtor in 1973, selling the package for nearly $350 million to York and Olympia, another member of the Empire family, ostensibly to reduce its bank debt. Olympia and York's New York representative, Mr. William Hay, was president and chief executive officer of the Trizec Corp., Canada's largest publicly owned real estate company, before coming to Olympia and York in the spring of 1977. The package of eight properties now owned by the Canadian company includes J.C. Penney's headquarters and Citibank's 111 Wall Street domicile.

Canadian investment is pouring into Florida, building up from a long-standing strong position in the Miami region. A company controlled by Canada's Hudson's Bay Company recently announced that it would finance half the $1-billion cost of a new town in Florida's Dade County.

While figures of the overall volume of Canadian direct investment in the U.S. may be low, money is being channeled into strategically important areas: New York real estate, banks which in turn control industry, and so on. In this vein Northern Telecom of Canada's recent acquisition of Danray, a Texas manufacturer of telephone switching equipment, is especially important in light of antitrust suits aimed at busting up the monopoly of American Telephone and Telegraph's manufacturing subsidiary, Western Electric.

The current investment strategy of Canadian investors is charted in a monthly guide to investment in the U.S., published by Lafferty, Harwood and Partners Ltd, the sophisticated Montreal-based stock brokers. In his "Confidential" commentary in the May issue, Lafferty notes, "We went into a fully invested position in February" — i.e. before the bubble in the New York and American stock exchanges took off. "This is not because we foresaw the condition taking place in April, because we did not, but because the stocks were cheap and that a culminating point would have to take place."

Lafferty's "buy" list consists of aggressive small- and medium-sized companies that he expects will do well in the aversive conditions of a depression economy. For example, Lafferty recently added the air freight industry to his list of industries that will benefit from current economic conditions. "This industry has now been deregulated and those companies which are able to 'hack it' will do well," says Lafferty. Lafferty's list continues to pitch small- and medium-sized computer, electronics, communications, publishing, retail (bargain basement-type companies), mining, and "independent" oil and gas companies.

—Lydia Dittler

Behind The Raw Materials Bubble

Brokerages rig commodity prices to create shortages

COMMODITIES

The financial press is claiming that a new wave of inflation is upon us, fueled by rapidly rising raw materials prices, and London brokerage houses such as Strauss Turnbull are announcing that a new raw materials bubble is getting underway.

In fact, there exists no objective basis for any significant increases in raw materials prices at the present time. The simple reality is that at the present meager levels of consumption there exists an abundant supply of both raw materials and refining capacity.

Stated British government policy supports the Common Fund and International Resource Bank proposals introduced by Henry Kissinger in 1975. These proposals have met with stiff resistance from advanced sector countries because they would artificially force up prices of all raw materials to the advanced sector. Secondly, in their final form, both schemes could have tremendous strategic implications by regulating raw materials and credit.

A combination of British-run operations, including the fighting in Zaire's copper-rich Shaba province (with