

January 11, 2008

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Competition Policy Review Panel
280 Albert Street, 10th Floor
Ottawa, ON
K1A 0H5

Via e-mail to: competitionreview@ic.gc.ca

Dear Sir/Madame:

The Atlantic Institute for Market Studies (AIMS) appreciates this opportunity to provide input with regard to your consultation document, *Sharpening Canada's Competitive Edge*.

AIMS is a Canadian, federally incorporated, non-profit, non-partisan organization with charitable status from the Canada Revenue Agency in Canada and 501 (c) 3 status from the Internal Revenue Service in Washington. We are financed by contributions from individuals, corporations, foundations and other organizations, as well as by the sales of our publications. We promote practical research on important economic and social policy issues. Over the past decade, AIMS has initiated and supported research in such areas as healthcare, education, equalization, unemployment insurance, urban affairs and local government, fisheries and aquaculture, public finances, and social welfare.

The consultation document raises many important questions, but we will focus our comments on just two where we fear that there is popular misunderstanding of economic realities. The two questions we will address both concern issues of protectionism and economic nationalism.

Should Canadians be concerned about foreign takeovers of Canadian firms? How important is domestic control and ownership of Canadian business activities to Canada's economic prospects and ability to create jobs and opportunity for Canadians?

Globalization is characterized by increased foreign investment, reductions in trade barriers and greater competition, all of which stimulate innovation and productivity growth and improve economic efficiency. However, due to the most recent wave of foreign mergers and acquisitions of Canadian firms, including historic institutions like the Hudson's Bay Company, concern has been expressed about the impacts that such foreign investment will have on the economy. Specifically, some commentators frequently express anxiety about a "hollowing-out" of corporations in Canada, as management functions and head office employment exit the country.

Head office employment is deemed to be significant because head offices offer high-paying jobs that contribute to the economic base, they generate demand for financial and business services, and they are considered prestigious, enhancing a country's image.

Statistics Canada's recent study, *Multinationals in Canada*, demonstrates, however, that the sky is not falling, as some would attest.¹

The study finds that between 1999 and 2005 the impact from the mergers of Canadian and foreign firms created more head offices and head office employment in foreign-controlled firms increased by 21%. In contrast, domestic head office employment grew by only six percent. The study finds that "of the 164 head offices that switched from domestic to foreign control ... 21% were closed" eliminating over 1,700 jobs; however, 38 new head offices were opened and 2,346 new jobs were created. The net results are that more head offices were opened and there was an increase in head office staff.

Canada benefits because foreign-controlled firms make significant investments in innovation, technology and skilled labour. Foreign firms investing abroad tend to be more productive and capital intensive, pay higher salaries, and employ more highly-skilled workers. According to Baldwin and Gellatly (2007), foreign firms have positively contributed to the economy in three ways. First, productivity growth has been relatively higher in foreign-controlled plants. Second, there are productivity spillovers from foreign-controlled plants to domestic producers. Third, mergers involving foreign producers more frequently lead to gains in productivity, wages, profitability or market share than do mergers between domestic firms.²

Thus far there is little evidence to support concerns of the negative impacts from foreign mergers with domestic firms and no evidence of hollowing-out. In Canada, domestic control of firms is not a requirement for better economic prospects and job creation. The statistics show that foreign-controlled firms have brought increased productivity, higher salaries, more high status occupations, and a greater number of head offices.

What changes, if any, are required to Canada's sectoral investment regimes to minimize or eliminate negative impacts on Canada's competitiveness?

Emotion also has tended to trump reason in Canadian public policy towards foreign investment and ownership in several policy sectors, including telecommunications, broadcasting, and transportation.

Foreign ownership restrictions in the telecommunication and radiocommunication sectors have their origins in national security concerns, dating back to the Roosevelt era (the first one!) in the pre-First World War United States. Canada long ago (1998) signed on to

¹ Brown, M., and D. Beckstead. 2006. *Head Office Employment in Canada, 1995-2005*, Canadian Economic Observer [online] Statistics Canada, 11-624-MIE2006014. Available at: <http://www.statcan.ca> [accessed on 17/12/2007]

² Baldwin, John R., and Guy Gellatly. 2007. *Study: Multinationals in Canada*, The Daily, [online] Statistics Canada. Available at: <http://www.statcan.ca> [accessed on 17/12/2007]

agreements that allow foreign ownership in non-broadcasting satellite services and international marine cable landings, without apparent harm to the security of the realm. In today's globalized, Internet-based economy, where a communication between Halifax and Vancouver may in fact bounce among servers in all corners of the world, the national security rationale for ownership restrictions on copper wire, fibre-optic cables, and cellular towers is not compelling.³

A second argument for restricting foreign ownership of communications companies, networks and infrastructure is tied to the "cultural content" that may be carried over the wires and radio frequencies: our Canadian-ness will be diminished if the latest episode of *CSI: Miami* or the Sunday evening call from Mom come into our homes via routers, cables, or antennas that are owned by Americans, Brazilians, or Swedes.⁴ Leaving aside the question of whether rules and regulations regarding Canadian content requirements are warranted and/or practicable as information consumption moves from traditional media to the Internet, if it is indeed the will of the Canadian people to impose such restrictions, then this can be done no matter which set of shareholders owns the infrastructure through which content is consumed.

Counter-productive economic nationalism also manifests itself in regulations designed to promote national "flag carriers" in the aviation industry. There are legitimate reasons for government involvement in the sector – enforcing safety standards, for example, or perhaps ensuring some level of service to small and remote communities – but regulations and policies can be enacted in pursuit of these objectives irrespective of the nationality of the airline in question. If a French, Japanese, or Spanish airline seeks to provide service between Canadian centres, why should Canadian consumers be denied the benefits that such competition will bring?

As noted in the response to the first question, foreign investment promotes productivity growth, innovation, and adoption of new technology, and increases competition to the benefit of consumers in terms of better prices, higher quality, and enhanced service offerings. These impacts are even more pronounced in sectors like communications and transportation, where improved technology, efficiency and pricing have productivity-enhancing effects for other industries that use these services as inputs.

Not only do restrictions on foreign ownership deny such benefits to Canadian consumers, but one also must bear in mind that trade restrictions beget retaliatory trade restrictions, and for a relatively small, export-dependent economy like Canada's, unimpeded access to foreign markets is critical. Canada's trading partners certainly are not blameless with regard to imposing trade restrictions – Canadian air carriers are prohibited from flying passengers between centres in the United States, for example – but our experience with free trade shows that the answer is to work diligently on removing these barriers on both

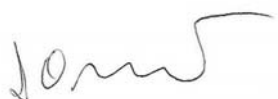
³ As well, Canadian security on the west coast does not appear to have been compromised in the pre-TELUS era when BC Tel was majority-owned by the American company, GTE.

⁴ Again, before the 1999 merger that created TELUS as we now know it, British Columbians appear to have been every bit as Canadian as their cousins elsewhere in the country.

sides of the border, rather than maintaining walls that ultimately harm consumers in all jurisdictions.

Thank you again for the opportunity to submit this response.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'Ian Munro', written in a cursive style.

Ian Munro
Director of Research
Atlantic Institute for Market Studies
2000 Barrington Street, Suite 1302
Halifax, Nova Scotia
B3J 3K1