SHARPENING CANADA’S COMPETITIVE EDGE

Summary Document

October 30, 2007

Competition Policy Review Panel – Groupe d’étude sur les politiques en matière de concurrence

The Competition Policy Review Panel

- The Competition Policy Review Panel was announced on July 12, 2007, following a pledge in Budget 2007 to review Canada’s competition policies and its framework for foreign investment policy.

- The Panel is chaired by L. R. Wilson. Other members are Murray Edwards, Isabelle Hudon, Thomas Jenkins and Brian Levitt.

- The Panel is targeting to report to the Minister of Industry and the Government of Canada by June 30, 2008.

Objectives

With increased global competition and national governments competing to attract global capital, the Panel believes there are two goals for Canada’s economic performance:

1. To promote Canadian direct investment abroad, and create the domestic conditions to foster the development of Canadian businesses.

2. To maximize Canada’s attractiveness as a destination for talent, capital and innovation.
Mandate

- The task of the Panel is to provide recommendations to the government on how to enhance Canadian competitiveness. A nation’s competitiveness is key to generating wealth as well as creating the jobs and opportunity that underpin our quality of life.

- The Panel will examine a range of issues to ensure that Canada’s policies are modern and effective and that they reflect the global, competitive environment typified by competition between national jurisdictions seeking to attract investment, people and economic opportunities.

- By competing successfully at home and in global markets, Canada can continue to enjoy the prosperity and quality of life that have made Canada one of the envies of the world.

- While the focus of the Panel's work is on public policy, Canadian success will depend on the commitment and abilities of Canada's private sector.

Context

The global economic landscape has changed markedly in recent decades.

- Trade and capital market flows between nations have increased significantly, along with a large increase in international investment.

- Advances in communications and transportation have allowed firms to spread across countries and around the world.

- Multinational firms are increasingly separating the stages of the production process by locating them in different countries and on several continents.

- The result is a competitive environment that extends beyond one country’s borders.

Canada and Canadians have benefited from globalization.

- Canada continues to enjoy economic growth that compares favourably with that of many other leading nations.

- Canadians are active investors abroad. Our overall stock of foreign investment exceeds the stock that foreign investors have in Canada.

However, challenges remain, and concerns have been raised about the implications of economic globalization for Canada.

- One concern has been the so-called “hollowing out” of the Canadian economy.
This concern centres on perceptions of diminished Canadian control over the domestic economy, mainly as a result of an accelerated pace of foreign takeovers of large, established Canadian companies.

The worry is that the loss of Canadian head offices as a result of foreign takeovers will have negative implications for high-value job creation in Canada, including associated services, as well as impacts on the communities in which these firms operate.

The past few years have seen an acceleration in the pace of foreign acquisitions of Canadian companies. Despite significant foreign acquisitions of Canadian companies in 2005 and 2006:

- Since 2001, Canadian investors have acquired more foreign firms than Canadian firms have been acquired by foreigners.
- However, since 2001 the total value of Canadian acquisitions of foreign firms was only slightly higher than the value of foreign acquisitions of Canadian firms.

The Panel is interested in the impacts of international mergers and acquisitions and of the globalization of economic activity on Canada’s competitiveness.

- A key question the Panel is seeking to answer is whether Canadians should be concerned about foreign takeovers of Canadian firms.
- The Panel is also seeking to understand the importance of company headquarters, divisional head offices or research and development centres to Canada’s economic prospects.

Areas of Focus

Investment Policies

The Panel has been asked to review Canada’s policies regarding foreign direct investment to ensure that they maximize Canada’s competitiveness.

- The Investment Canada Act (ICA) allows the Government of Canada to review large-scale foreign investments in Canada. Approval of foreign acquisitions is granted only after the Minister is satisfied that the investment is likely to be of “net benefit” to Canada.
- Concerns have been raised about whether the ICA review process is in fact delivering a net benefit to Canada. Some people have suggested that the ICA lacks sufficient transparency and predictability to encourage investment in Canada.
- The Panel is interested in the impact the ICA has had on Canadian competitiveness and on our ability to attract investment, and whether changes to the ICA would help Canada address the challenges of the modern global economy.
The Panel has also been asked to review the restrictions that are currently in place on foreign and domestic ownership of firms in specific industry sectors.

- Canada currently has sector-specific investment regimes in (whether legislation or policies on foreign investment, or generally applicable investment restrictions): telecommunications; cultural industries; broadcasting; transportation services; uranium production; and financial services.

- The policy rationale for these regimes are specific to each sector.

- The Panel will focus on the impacts of these regimes on Canada’s competitiveness. Equally, the Panel will be interested in whether there are changes or alternative approaches that would maximize Canada’s competitiveness while also meeting the policy objectives of each sector.

### Competition Policies

- Fair and transparent competition policies are a key aspect of the global economy, and translate into lower prices and more product choice for consumers as well as more efficient, dynamic and innovative firms.

- Competition policies are increasingly complex as the marketplace extends beyond Canada’s borders.

- The Panel will review how the *Competition Act* and Canadian competition policies affect the nation’s competitiveness, and seek to ensure that our policies are relevant in a context of global commerce.

- In particular, the Panel will look to international best practices and will examine whether changes to Canada’s competition regime would enhance the competitiveness of Canadian firms in the global economy.

- A key area of inquiry will be Canada’s merger review process and the question of whether Canada’s approach to mergers strikes the right balance between consumers’ interest in vigorous competition, and the creation of an environment from which Canadian firms can grow to become global competitors.
Promoting Canadian Direct Investment Abroad

Canada’s prosperity has been premised on our success as a trading nation. With our small domestic market, Canada must continue to look outward if we are to continue to enjoy success:

- Trade activity is increasingly driven by investment. The ability of Canadian companies to make direct investments abroad is critical to Canadian firms’ ability to sell their goods and services in those foreign markets.

- An aim of the Panel is to examine what policies would enhance Canada as an environment from which Canadians can invest abroad, and from which our enterprises can emerge and prosper globally.

- In particular, the Panel will seek to make recommendations that enhance the ability of Canada’s small and medium-sized enterprises to participate in global commerce.

- Barriers – both formal and informal – may prevent Canadians from investing abroad. The Panel will examine whether there are government policies that might encourage Canadian investment in foreign markets.

- The Panel is also interested in understanding why Canadian businesses are investing in a relatively small number of foreign markets and in a relatively narrow number of sectors.

Canada as a Destination for Talent, Capital and Innovation

A country’s markets and overall economic environment are crucial in attracting the investment, innovative people and firms that shape a country’s economy:

- A key aim for Canada is to be a preferred location for capital, talent and innovative activity, and to increase the inward foreign investment that has been such a significant contributor to our quality of life.

- Multinational firms now use global production processes and locate business elements in different countries to raise the competitiveness of the overall production process.

- In this context, the Panel will investigate ways to attract higher-value elements of these production chains to Canada, and the mix of policy changes required to achieve this objective.

- International investment decisions are based upon a broad range of factors, extending from the macroeconomic and regulatory environment, to the availability of human capital and quality of life indicators.

- The Panel will look to international best practices as a means of examining how Canada might promote inward investment as a way of increasing our competitiveness.
Consultations

A central concern of the Panel is that its recommendations to the government reflect Canadian interests.

- The Panel’s consultation paper, Sharpening Canada’s Competitive Edge, will form the basis of the Panel’s deliberations and guide the consultation process.
- The Panel is committed to listening to a wide range of stakeholders on issues and receiving their input on the subjects under the Panel’s mandate.
- In the time available, the Panel will consult as broadly as possible with Canadians from across the country. The Panel invites written submissions from any and all interested parties.
- As part of its consultation process, the Panel will engage with provincial and territorial governments.
- Submissions will be accepted to a maximum of 20 pages (including attachments) until January 11, 2008.
- Submissions, whether received electronically or in paper copy, will be posted on the Panel’s website: www.competitionreview.ca. Submissions are welcome in either English or French.

Submissions should be directed to the Panel:

By email: Competitionreview@ic.gc.ca

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

The full version of Sharpening Canada’s Competitive Edge is available at: www.competitionreview.ca.