

Government of Alberta
Submission
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Sharpening Canada's Competitive Edge
**a consultation paper issued by
the Competition Policy Review Panel
October 30, 2007**

1. EXECUTIVE SUMMARY

The Government of Alberta (GOA) welcomes the opportunity to provide its submission to the Competition Policy Review Panel (the Panel).

Investment

Alberta's economic growth has been directly related to its ability to attract Foreign Direct Investment (FDI) into the province. Foreign investment benefits Canada, and should be encouraged. For this reason, it would be of value to complete a policy review of the *Investment Canada Act (ICA)* to ensure its continued efficiency, effectiveness and relevance. Within the context of that review, the "net benefit" test should be carefully examined to ensure that it does not add uncertainty and inconsistencies to the process of investing in Canada.

The Panel report has identified several industry sectors that come under closer scrutiny with regard to foreign ownership and investment. These industry sector controls do impact the structure, conduct and performance of these businesses and affect their growth and development. Alberta is generally supportive of the removal of barriers on sectoral foreign investment, particularly in the area of transportation services.

There are a number of other investment-related issues the federal government should consider. To leverage investment, it is important to ensure the promotion of value added and "spin-off" opportunities available for small and medium size enterprises (SMEs), especially as these relate to the various niches to be found in global value chains. As well, a highly skilled and productive workforce is important to attract FDI to Alberta and Canada. Finally, productivity improvements that can be brought about through FDI are central to sustaining Canada's and Alberta's quality of life. Federal support for productivity research centres can assist in leveraging potential productivity gains.

Competition Policy

As strategic alliances and global value chains become more pervasive in the business community, Canada's competition policies will need to adapt to these network models of business organization.

The federal, provincial and territorial governments should work more closely to reduce inter-provincial barriers to the flow of goods and labour. Furthermore, the Panel should review the gaps that occur between the *Competition Act* and other federal legislation; for example, between the *Canada Transportation Act (CTA)* and the *Competition Act*.

Promoting Canadian Direct Investment Abroad

To encourage a more robust culture of Canadian investment abroad, the federal government may wish to consider program support and bilateral trade arrangements with key partners.

Canada as a Destination for Talent, Capital and Innovation

If Canada and Alberta are to become the destination for talent, capital and innovation from the rest of the world, then issues of attraction and retention become critical aspects of government policies.

The Panel should recognize that the North American Free Trade Agreement (NAFTA) is an ongoing work in progress; much more needs to be done to realize the objective of free trade in North America and to promote the competitiveness of the North American economic space.

Conclusion

It is important the Panel commissions studies and reports that will allow it to visualize what the future Canadian economy might look like...its structure, conduct and performance.

2. INTRODUCTION

The Government of Alberta (GOA) welcomes the opportunity to provide its submission to the Competition Policy Review Panel (the Panel). Policy dialogue is a key aspect of Canada's federal-provincial system of government to ensure that respective governmental policies are clearly aligned and do not work at cross purposes.

The purpose of this submission is to outline areas where federal and Alberta policies could work together to enhance Canada and Alberta's competitiveness in a global economy.

3. BACKGROUND

The Competition Policy Review Panel was established to review Canada's competition policies and its framework for foreign investment policy and is to report to the Ministry of Industry and the Government of Canada by June 30, 2008.

The Panel has outlined four broad themes or areas of focus in its October 30, 2007 consultation paper, *Sharpening Canada's Competitive Edge*. These are:

- Investment Policies
- Competition Policies
- Promoting Canadian Direct Investment Abroad
- Canada as a Destination for Talent, Capital and Innovation

4. INVESTMENT POLICIES

Alberta's economic growth has been directly related to its ability to attract foreign direct investment (FDI) to the province. Total capital investment in Alberta in 2006 amounted to \$75.2 billion. The GOA also maintains an inventory of major capital projects planned or under construction in the province, which have a value of more than \$228 billion as of September 2007. For this reason, Alberta supports rules of investment that are transparent, consistently applied, and that do not excessively intrude upon the commercial decision-making process of companies.

Investment Canada Act

The Panel's consultative paper, *Sharpening Canada's Competitive Edge*, references that the *Investment Canada Act (ICA)* has not undergone a policy review for twenty years.

Considering, among other things, the changes to the global economy, changes to the domestic Canadian economy, and the numerous trade agreements that Canada has entered into since the inception of the *ICA*, it would be of value to complete a policy review of the *ICA* to ensure its continued efficiency, effectiveness and relevance.

The current federal requirement of a “net benefit” test for large scale foreign investments under the *ICA* increases foreign investment uncertainty, since the test criteria is open to wide interpretation. In addition, due to the confidentiality of the business information, the negotiation process is not transparent. Due to the difficulties with the “net benefit” test, the federal government may wish to review whether this requirement is needed under the *ICA*.

In a recent Statistics Canada publication (Baldwin John R. and Gellatly Guy, *Global Links: Multinationals in Canada: An Overview of Statistics Canada Research*, Catalogue No. 11-622-MIE, No. 014, November 2007), it was noted that foreign multinationals operating in Canada provide similar or better benefits than domestic Canadian companies, such as head office staffing, R&D, productivity, and employment. Foreign controlled corporations should be encouraged to contribute to the vitality of communities through their involvement in support for culture and charitable giving.

Despite the growth in FDI and in the number of takeovers by foreign companies, both the Organization for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF) are warning Canada that its FDI rules are inhibiting growth. The OECD said in its annual *Going for Growth Report 2007* that Canada's limits on foreign investors are among the most stringent in the 30-member organization. They hurt the economy, not only by curbing investments but also by limiting the introduction of new management and technology systems. The IMF, in its *2007 Article IV Consultations with Canada*, suggested that a priority for Canada could include the phasing out of restrictions to foreign direct investment.

Sectoral Investment Regimes

In addition to the *ICA*, Canada has identified several industry sectors that come under closer scrutiny with regards to foreign ownership and investment. These industry sector controls do impact the structure, conduct and performance of these businesses and affect their growth and development.

For example, Canada's economy is dependent on transportation. Canada's transportation system moves goods and people and supports our economic prosperity. An inefficient transportation system results in higher costs for producers and for consumers. If Canada is going to be competitive globally, we need to ensure our nation has a globally competitive transportation system across all modes – rail, road, marine, air and pipeline.

Other Investment Issues

To leverage investment, it is important for the federal and Alberta governments to ensure the promotion of value added and "spin-off" opportunities for small and medium size enterprises (SMEs), especially as these relate to the various niches to be found in global value chains. These government initiatives could be aimed at reorienting SMEs to better compete in global markets, regardless of where they are located on the value chain.

In addition, inward FDI is in its infancy in the tourism industry. The federal government should be encouraged to more aggressively promote tourism investment opportunities in Canada and ensure that related programs of interest to foreign investors considering projects in Alberta, such as the temporary foreign worker program, are supportive of this FDI activity.

A highly skilled and productive work force is important to attract FDI to Alberta and Canada. By building on its human capital strengths, Canada and Alberta will be able to continuously improve productivity and enhance the country's and province's standard of living. FDI also assists in providing the investment required in machinery and equipment needed to complement our human capital. Furthermore, FDI can often bring process and production improvements through technology applications and workplace re-organization that will keep Canada and Alberta at the forefront of global competitiveness.

With the impending workforce demographic challenges facing Canada and Alberta, productivity improvements will become more central to sustaining Canada's and Alberta's quality of life. The need for applied research in the area of productivity enhancement has been recognized by other jurisdictions, such as Australia and Ontario. It would be helpful for the federal government to provide support for provincial productivity research centres that could provide the applied research required to assist their respective industry clusters.

5. COMPETITION POLICIES

As strategic alliances and global value chains become more pervasive in the business community, Canada's competition policies will need to adapt to these network models of business organization.

As the structure of industries change, the monitoring of business conduct in the domestic market becomes more difficult. Market studies may need to expand beyond a single domestic market to better capture business activity. This will be particularly helpful when natural monopolies or other externalities are present in the global market and the distinction between efficiency gains and excessive economic rents is required.

It may not be necessary to have these global market studies undertaken by competition agencies. However, competition agencies will need to coordinate enforcement activities with their jurisdictional counterparts.

In addition to the investigation of international impediments to business activities, inter-provincial trade barriers also act to slow down trade and investment. To break down these barriers, Alberta and British Columbia have entered into the Trade, Investment and Labour Mobility Agreement (TILMA). The federal, provincial and territorial governments should work more closely to reduce inter-provincial barriers to the flow of goods and labour.

Furthermore, the Panel should review the gaps that occur among the *Competition Act* and other federal legislation. For example, reliable rail service is necessary to help increase Canada's global competitiveness. The Panel should review the gaps that exist between the *Canada Transportation Act (CTA)* and the *Competition Act* regarding the regulation of natural monopolies (e.g. railways). Canadian competition law, generally speaking, does not address many of the service and economic issues often associated with natural monopolies. Based on past decisions issued by the Canada Transportation Agency, it seems the Canada Transportation Agency believes that disputes revolving around abuse of dominance or market power rest with the Competition Bureau. However, the Commissioner of Competition said in a presentation to the *Canada Transportation Act Review Panel (CTAR Panel)* in 2000 that competition law does not address natural monopolies, thus leaving shippers in a no-win situation. Neither the Canada Transportation Agency, nor the Competition Bureau, will rule on cases dealing with the absence of competition.

On October 29, 2007, the Honourable Lawrence Cannon, Minister of Transport, Infrastructure and Communities, introduced Bill C-8, an Act to amend the *Canada Transportation Act* (railway transportation), in the House of Commons. Bill C-8 introduces changes to the existing *Canada Transportation Act* to address some issues arising from a lack of competition among rail carriers. In addition, the federal minister announced that the Government of Canada has committed to initiate a review of railway service within 30 days of the rail freight amendments in Bill C-8 being enacted into law. The level of service review and the outcomes from that review will be important for the competitiveness of Canada. It will be necessary for the service review to identify deficiencies in the current *Canada Transportation Act* and develop a process to pursue any legislative changes to address those deficiencies.

In addition, access to foreign and domestic equity capital is critical to sustaining the tourism/air transportation industries. Foreign ownership of domestic airlines could be increased to address the equity capital situation. Combined with an enhanced Blue Sky Air Policy, this could affect the potential expansion of air service to new international markets and increased competitiveness of the tourism industry.

6. PROMOTING CANADIAN DIRECT INVESTMENT ABROAD

As noted in the Panel's consultative paper, *Sharpening Canada's Competitive Edge*, Canadian direct investment abroad is narrow in geography and narrow in industry scope. This would suggest that there is a lack of awareness among Canadian investors regarding global opportunities elsewhere. This lack of awareness could be due to perceived degree of risk, poor institutional safeguards, or under-developed business relationships. To counteract these factors, the federal government may wish to consider program support and bilateral trade arrangements with key partners. There is a possibility as Canada continues to welcome diverse cultures that it would be able to leverage this multicultural diversity for business opportunities outside of Canada.

Canada's small open economy requires Canadian and Albertan SMEs to extend their presence beyond their domestic borders, to seek out and form alliances and affiliations in other parts of the world. Canada's SMEs approach needs to move from being primarily trade-driven to becoming investment-driven.

7. CANADA AS A DESTINATION FOR TALENT, CAPITAL AND INNOVATION

If Canada and Alberta are to become the destination for talent, capital and innovation from the rest of the world, then attraction and retention become a critical aspect to governmental policies. On the fiscal policy side, corporate and personal tax rates and legislation at the federal and Alberta level should work together. For example, both levels of government can use the tax system to promote efficiencies in terms of substituting capital for labour (e.g. accelerated depreciation rates in terms of the amount and duration).

The Panel should recognize that the North American Free Trade Agreement (NAFTA) is an ongoing work in progress. There is a link between removing remaining trade barriers in North America, effective dispute resolution mechanisms, and improving the competitiveness of the North American economic space. Canada's competitiveness should not be viewed in isolation from the North American market. Competitiveness has been a preoccupation of the NAFTA Commission for several years and is also relevant to the discussions surrounding the Security and Prosperity Partnership of North America.

Other issues that would increase investor confidence are ensuring that institutional reform regarding corporate board governance remains accountable and transparent. Investors also must have confidence in a secure and stable economic environment and that fiscal and monetary policy are being addressed in a responsible manner.

Another key factor in FDI is the role of the public sector. In a Library House strategic evaluation of the European innovation policies of the twenty seven member states, a direct relationship is established between public sector support for early stage companies – the stronger the public sector support for early stage companies, the more likely venture capital will follow. The key examples are the UK, Ireland, and Denmark – all high in both public investment and venture capital.

It is well recognized that people are at the foundation of the innovation system, and that our ability to develop, attract, and retain excellent people will be a critical factor in our success in building innovation in Canada and sustaining our quality of life for future generations.

Alberta continues to experience a labour shortage at all levels of its labour market. Alberta's unemployment rate remains the lowest in the country, while its labour participation rate is one of the highest. New jobs continue to be created by the Alberta economy, while retiring workers need to be replaced.

The demographics of most developed countries are such that securing key people for leadership positions and core skills within an organization is becoming more difficult – most countries in the developed world will, for a time at least, rely on immigration to sustain their economic development. This gives rise to competition for talent between developed nations.

According to a year-long study conducted by a team from McKinsey & Co. - a study involving 77 companies and almost 6,000 managers and executives - the most important corporate resource over the next 20 years will be talent: smart, sophisticated business people that are technologically literate, globally astute, and operationally agile. And even as the demand for talent goes up, the supply of it will be going down.

The search for the best and the brightest is an ongoing challenge. Canadian companies will have to devise more imaginative hiring practices; they will also have to work harder to keep their best people. In the new economy, competition is global, capital is abundant, ideas are developed quickly and cheaply, and people are willing to change jobs often.

Companies are becoming more focused on the innovation value chain and where in this chain they can secure the most leverage. They are also seeking to integrate their role in each of the elements of the value chain through rigorous use of process and project management tools. There is a strong focus on the "cash curve", from ideation to commercialization.

There is an increased amount of collaboration and networking on the ideation stage of the value chain – industry-university collaboration and industry-wide ideation through R&D consortia. End users and customers are playing an increasingly important role in project selection and product development.

Many companies, especially those with large R&D budgets, are looking to third parties for ideation and project development. Procter & Gamble currently targets 20 per cent of its R&D to come from third parties and may consider 100 per cent outsourcing; others are aiming at 30 to 40 per cent. Significant product launches have come from such sources – The Crest Spin Brush (P&G) and the Listerine Pocket Packs (Pfizer) all came from third parties.

Locating R&D in rapidly developing economies (RDE's) is becoming more common for two distinct reasons: (a) R&D costs are lower as access to a large pool of skilled and highly qualified people and construction/development costs are lower; and (b) the RDE's constitute rapidly growing markets for products and services. Locating R&D nearest the fast growing markets is a primary driver for automotive companies, technology and telecommunications companies and industrial and manufacturing businesses. In biotechnology, for example, all of the major biotechnology companies are working with Indian and Chinese partners on all aspects of commercialization (including clinical trials) so as to accelerate lead optimization.

Public-Private R&D partnerships will strongly focus on commercial outcomes – more so than in the past. Opportunities exist for Canada research organizations to become third party suppliers to major private sector R&D firms.

The considerations of talent, capital and innovation raised in the Panel's consultation paper, *Sharpening Canada's Competitive Edge*, are central to increasing the competitive position of Alberta in light of global competition, the province's increasingly significant position in relation to geopolitical matters based on petroleum resources, and an aging demographic.

8. OTHER MATTERS

It is important that the Competition Policy Review Panel commissions studies and reports in a way that will allow it to visualize what the future Canadian economy might look like...its structure, conduct and performance. Where will the Canadian economy benefit from scale and where should it pursue economies of scope? It is through this fundamental approach that it should make its recommendations.

The Competition Policy Review Panel should also consider holding a series of public consultations across the country to learn first-hand the challenges and concerns facing the provinces. Albertans have many ideas and insights that they could contribute to the Competition Policy Review Panel's process.