



January 11, 2008

Mr. L. R. Wilson, O.C.
Chair, Competition Policy Review Panel
280 Albert Street, 10th Floor
Ottawa Ontario
K1A 0H5

Dear Mr. Wilson:

Manulife Financial is pleased to submit comments in response to the Competition Policy Review Panel's consultation paper: *Sharpening Canada's Competitive Edge*.

Manulife strongly supports the Panel's mandate to make recommendations to the Government of Canada on ways to enhance Canada's productivity and competitiveness. Strong public policy has helped Manulife, and other companies in the Canadian financial services industry, become the global leaders that they are today.

Having Canadian owned, managed and based institutions is fundamental to our national sovereignty and autonomy. It is also a matter of national self-respect and pride. Canadians want to be as proud of our accomplishments in business as we are of those in sports, science and the arts. Ultimately, the risk we face is that Canada will not keep pace and lose relevancy and Canadians will increasingly look elsewhere to realize their ambitions.

It is these institutions that help ensure that we keep our best and brightest here, which support cultural, charitable and educational organizations and provide vitality and excitement to the communities where they are located.

Canada does many things right and has many advantages, as is demonstrated by our quality of life and the strength of our economy. One of the reasons for this enviable position is that we have always been open to foreign investment and immigration. This must not change. Canada should aim to be the destination of choice for talent, capital and innovation. However, while subsidiary head offices provide many benefits, Canada's primary objective should be to grow global champions of our own.

The attached submission, which is based on our experience in building a globally successful company, proposes how to address a number of the key issues outlined in the consultation paper. We believe our recommendations would help position Canada well for the future. But we cannot sit still. Many other countries have set these same ambitions for themselves and are striving aggressively to achieve them. We believe this brings great urgency to the task with which you have been charged.

We would be pleased to offer any additional assistance you might find helpful as you prepare to report your findings.

Yours very truly,

A handwritten signature in blue ink that reads "D'Alessandro".

Dominic D'Alessandro
President and Chief Executive Officer

Submission to the Competition Policy Review Panel**January 11, 2008**

Manulife Financial strongly supports the Competition Policy Review Panel's mandate to make recommendations on ways to enhance Canada's productivity and competitiveness by creating domestic conditions that encourage Canadian companies to invest and compete internationally, and that maximize Canada's attractiveness as a destination for capital, talent and innovation.

Strong public policy has helped Manulife, and other companies in the Canadian financial services industry, become the global leaders that they are today. We believe that with the appropriate adjustments outlined in this submission, and with elements of the current policy framework implemented in other select strategic or sensitive industries, more "national champions" will emerge in Canada.

To that end, we offer our comments for the Panel's consideration, organized to follow the chapters of its consultation paper: *Sharpening Canada's Competitive Edge*. The following is a summary of our recommendations.

Canada in a Global Context:

- Canadian corporate and securities legislation should explicitly require that the fiduciary duty of a board of directors is to act in the best interests of the Corporation, by clearly defining that the board needs to take into account the interests of all stakeholders.
- Securities legislation and policies should be revised to recognize the ability of Canadian boards to respond to unsolicited bids by allowing them much more time to develop alternatives to maximize shareholder value.

Investment Policies:

- The Government of Canada needs to ensure that applicable rules for foreign takeovers of Canadian companies specify the undertakings that will demonstrate a net benefit to Canada, including whether the head office functions of the acquired company will be maintained in Canada.
- The widely-held rule for Canada's major banks and demutualized life insurance companies should be maintained and methods of applying the widely-held rule to certain sensitive or strategic sectors of our economy, such as natural resources, should be examined.
- Mergers within the financial services industry whether bank with bank, bank with insurer, or insurer with insurer, should be permitted.
- The Competition Bureau should maintain flexibility when defining products and participants in specific markets and not simply specify market structure characteristics.

Promoting Canadian Direct Investment Abroad:

- Canada needs to continue to pursue an international trade strategy that supports Canadian industry priorities and interests, by actively pursuing trade agreement negotiations, including pushing very hard for the successful completion of the Doha Development Agreement round of negotiations of the World Trade Organization, and for the inclusion of a meaningful services agreement.
- Policy development across the Government of Canada needs to be coordinated to be consistent in supporting Canadian investment abroad, including promoting tax policies that provide Canadian companies the opportunity to compete on a level playing field in the global marketplace. For example, the so-called “double-dip” restriction on interest deductibility should be eliminated.
- Canada should review its trade support and promotion strategies, to ensure that they reflect Canadian commercial and industry priorities, and ensure that the trade service is well-resourced and equipped with finance and trade counselors in order to continue to effectively represent the interests of companies expanding abroad.
- The Government of Canada needs to work urgently with the United States, other governments and industry to find ways to ensure efficient and effective border management, to facilitate the movement of travelers between countries.
- The Government of Canada needs to negotiate with other jurisdictions to remove impediments to the free and efficient movement of capital.

Becoming a Destination for Talent, Capital and Innovation:

- The Government of Canada needs to address Canada’s personal income tax system, so that Canadian companies are not at a disadvantage in attracting talent to Canada, especially in the higher-earning categories.
- Federal-provincial labour market agreements should explicitly include provisions for immigrant-specific programs.
- Necessary resources should be committed to processing the current skilled worker applicant backlog and modernize the immigrant selection process to be more responsive to current labour market requirements.
- Adequate funding needs to be made available to Canada’s municipalities so that they can create the economic and social conditions required to attract the needed highly-skilled and experienced immigrants in the global competition for talent.
- The Government of Canada must continue its efforts to achieve a common securities regulator to ensure the most cost effective and efficient securities regime with the lowest cost of raising capital possible.
- Canada needs to ensure that the appropriate intellectual property regime is in place with regard to business methods and software. If companies are unable to access business methods and software, in structuring and valuing financial products for example, product design and innovation would be stifled. The Patent Act needs to be amended to make it clear that business methods and software are not patentable subject matter in Canada.

Financial Services in Canada:

The fundamental importance and role of the financial services sector in the Canadian economy and its contribution to the well being of Canadians are well documented. We offer the following short profile of the industry and our company, as we believe it provides a useful context to Manulife's perspective for the Panel's deliberations.

The sector is one of the largest in the Canadian economy, employing over 750,000 people directly, representing over four per cent of total employment. Many of these jobs are highly-skilled and well-paying, and many exist because the executive offices of the major financial institutions are located in Canada. A company's executive office is critically important because it is where its Chief Executive Officer, its enterprise-wide control and oversight functions and its lead regulator are located, the latter being of special significance in the case of financial services.

Financial services contribute directly to economic output in a substantial way, accounting for over six per cent of Canada's GDP, up from about four per cent of GDP twenty years ago. Financial services are a major contributor to federal, provincial and municipal revenues, paying approximately \$13 billion in taxes, including 20 per cent of total corporate income taxes in 2006. These tax revenues help fund important priorities such as health care, education and other government programs that are important to all Canadians. The industry also contributes many millions of dollars to charities and community interests.

The financial sector accounts for more than 30 per cent of the Toronto Stock Exchange market capitalization and many of the leading companies on the TSX, including Manulife Financial, are financial institutions. Please see Appendix 1 for TSX leaders by market capitalization.

The sector is one of Canada's international success stories, representing over 44 per cent of Canada's direct investment abroad in 2006. In fact, the Canadian life insurance industry generated 56 per cent of its revenues from operations outside Canada. At the same time, Canadian-owned life insurers represent over 80 per cent of the Canadian marketplace, demonstrating that the life and health insurance sector remains predominantly Canadian owned and operated.

The financial services sector is indeed one of the bright spots in the Canadian economy. One that provides rewarding, well paying jobs, attractive returns for its investors and that offers value-added products and services that are as comprehensive and as affordable as any that exist anywhere in the world.

Manulife is very much a part of the industry's success. In 1994, Manulife was a mutual insurance company valued at approximately \$2 billion. Today, its market capitalization is in excess of \$60 billion. It is one of only two public life insurance companies in the world with a triple A credit rating from Standard & Poor's.

About 25 per cent of the company's business is in Canada, 50 per cent is in the United States and the remaining 25 per cent is in Asia. In Asia, Manulife has a significant presence in 10 countries and territories, including China (where we were the second foreign life insurance company to be granted a license), Hong Kong, Japan (where Manulife is Canada's largest investor) and six Association of Southeast Asian Nations (ASEAN) countries.

The company's geographic and product diversification gives us a growth platform that is unique in the industry. We believe no one is better positioned for the future than we are. Our multinational operations provide many benefits including, the ability to leverage product development and innovation on an enterprise-wide basis, and greatly enhance development opportunities for our future leaders. Please see Appendix 2 for a more comprehensive overview of Manulife's operations.

Canada in a Global Context:

There has been much discussion and debate in Canada over the last year about the acquisition by foreign interests of several prominent companies that were global leaders in their own right.

Canada is by no means alone in having these concerns. According to the Economist Intelligence Unit, the growth in global foreign direct investment (FDI) reached a record in 2006. This growth was in large part the result of very strong cross-border merger and acquisition (M&A) activity, which is the main form of FDI in the developed world.

It should not be surprising that this high level of activity has led many jurisdictions to undertake reviews of their policies with regard to inward FDI. The risks to any country can be substantial, including: diminished control over its domestic economy and loss of high-value executive office and supporting professional service and other jobs.

For a small country with an open economy like Canada, with some of the most “bidder-friendly” takeover rules in the world, the risks are very clear. In 2006 alone, more than 100 of our public companies were taken over and the list includes some of the oldest and most well established companies across a broad spectrum of industries, everything from hotels and retailing, to metals and mining. The high level of cross-border M&A activity reflects the realities of a globalized world.

Having globally successful Canadian companies is important to our well being as a country. We believe it is far preferable to see some of our great companies joining together to become global leaders, rather than being purchased by foreign interests. Canadian companies typically are not of a size to be global leaders. Yet, a recent Statistics Canada report noted that domestic companies that do have international operations were as or more productive and innovative than foreign multinationals operating in Canada.

Therefore, Canada should be looking for ways to create the conditions that would encourage Canadian companies to merge with each other to achieve the scale and scope to become national champions and global leaders.

At the very least, Canadian companies should not be put at a disadvantage to foreign companies, or to investors with a very short term perspective. Canada can deal with this situation by addressing the ability of boards of directors to play a more active role in change of control situations; through policy prescriptions that are already available to companies elsewhere that provide them with much more flexibility to respond to unsolicited bids.

For example, unsolicited takeover bids in Canada are considerably easier and less time consuming than in some other jurisdictions, including the United States. As a result, bids in Canada can take only 60 to 90 days, versus a much longer time frame in the U.S., because Canadian boards feel constrained in adopting measures that are in the broader interests of the company, due to current policies prescribed by Canadian securities regulators.

Accordingly, Manulife recommends that:

- *Canadian corporate and securities legislation should explicitly require that the fiduciary duty of a board of directors is to act in the best interests of the Corporation, by clearly defining that the board needs to take into account the interests of all stakeholders, including shareholders, creditors, customers, employees and the communities in which they operate, in any change of control situation.*

- *Securities legislation and policies should be revised to recognize the ability of Canadian boards to respond to unsolicited bids by allowing them much more time to develop alternatives to maximize shareholder value. This would provide a much needed “chilling effect” on hedge funds and others with a very short-term perspective, acquiring securities of the target on the announcement of an unsolicited bid and would allow boards to pursue other alternatives such as recapitalizations.*

Investment Policies -- Investment Canada Act:

Inward foreign investment has made a significant contribution to Canada’s economic growth. Canada ranks in the top 10 global destinations for foreign investment. It is an important reason why Canada has been a leader in GDP growth rates among G-7 countries and is projected to lead G-7 growth in 2008, according to the Organization for Economic Cooperation and Development’s (OECD). Canada benefits enormously from being “open for business” and we must not do anything to change that.

Canada needs to ensure that it has in place a policy framework that continues to encourage foreign business activity. The combination of encouraging foreign investment into Canada and Canadian investment abroad is a win-win formula that will increase Canada's competitiveness relative to other industrialized countries.

Recently, Industry Minister Prentice announced useful clarifications to the Investment Canada Act (ICA) rules for foreign state-owned enterprises (SOEs) seeking to takeover Canadian companies.

The principles that will guide the Minister in assessing these acquisitions include, good corporate governance practices, transparency and disclosure and reporting standards. The guidelines also provide an illustrative list of undertakings that could be offered to demonstrate a "net benefit" to Canada, including:

- The appointment of Canadians as independent directors on boards of directors;
- Canadians be employed in senior management positions;
- The company be incorporated in Canada; or
- The shares of the acquiring company or the Canadian business being acquired be listed on a Canadian stock exchange.

This framework could serve as a helpful guide when assessing foreign takeovers of Canadian companies. An additional undertaking that should be considered in assessing the net benefit of a transaction is whether the acquired company’s head office functions would be maintained in Canada.

Accordingly, Manulife recommends that the Government of Canada:

- *Ensure that applicable rules for foreign takeovers of Canadian companies specify the undertakings that will demonstrate a net benefit to Canada. Among the undertakings that should be considered is whether the head office functions of the acquired company and its relationships with suppliers, communities and others where they operate will be maintained in Canada.*

Investment Policies -- Sectoral Investment Regimes:

The financial services sector plays a vital role in a country's economic development and performance. This is why most countries maintain, either formally or informally, domestic control, regulation and prudential oversight of their financial sector.

To this end, a size-based ownership policy requiring major financial institutions to be widely-held is a legitimate and internationally accepted policy tool used by many countries, including Canada. It is undoubtedly why Canada's financial sector remains largely owned and managed by Canadians. There are fewer and fewer sectors of the Canadian economy where such a claim can be made.

The widely-held rule has been a cornerstone of Government policy since the 1950s and now applies to the major banks and the large demutualized life insurance companies. It applies equally to domestic and foreign investors alike and limits ownership of the shares of these companies to 20 per cent.

The widely-held rule has made it possible for Manulife to develop into the important Canadian multinational company that it is today. When Manulife demutualized, it had already been approached by larger foreign companies interested in acquiring it. With a market value on demutualization of some \$9 billion, the company's take-over would have been almost inevitable.

The same is likely true of all the country's banks. Clearly, such a development would not have been in Canada's interest. As a Canadian-based financial institution, Manulife supports maintaining Canadian control and regulation of our large financial institutions to ensure they remain healthy and strong contributors to our economy.

Having Canadian-based institutions of sensitive or strategic industries is fundamental to our national sovereignty, autonomy and prosperity. Beyond the financial services industry, the rapid emergence and economic expansion of China, India and other developing countries as consuming nations has re-established Canada's comparative advantage; our natural resources are worth more now than they ever were.

Canada should enjoy the full benefit of this endowment, which represents unique and irreplaceable assets. It is also one that is fundamental to the development and growth of economies. Our natural resources sector is an area where Canada has great expertise and where policy could set the conditions for the emergence of Canadian global leaders. These leaders would create economic growth and jobs and activity in the industries that support them.

Accordingly, Manulife recommends that the Government of Canada:

- *Examine methods of applying the widely-held rule that applies to Canada's major banks and demutualized life insurance companies to certain sensitive or strategic sectors of our economy - natural resources for example, so as to encourage the development of champions that remain Canadian-owned and controlled.*
- *Maintain the widely-held rule for Canada's major banks and demutualized life insurance companies.*

The widely-held rule is the main reason that Canada still has a financial services industry that is owned and managed in Canada. The rule does not restrict competition and it does not stop the flow of foreign investment coming into the country. And it does not stop foreigners from investing in the development of our companies. For example, Manulife whose shares are listed on the New York, Hong Kong and the Philippines stock exchanges, is roughly 40% owned outside of Canada. Virtually all major Canadian financial institutions have a significant foreign shareholder base.

Other policy measures have contributed to the ability of Canada's financial services sector to develop in a manner that has served the interests of the country well. Among them was that Canadian banks were allowed to develop a national branch banking system many decades before these were permitted in the United States. On the regulatory front, the Office of the Superintendent of Financial Institutions provides very efficient and effective oversight of the banking and insurance sectors without the bewildering complexity of multiple regulators found in other markets.

As well, real barriers to enter the Canadian financial services market do not exist, resulting in a steady arrival of foreign and domestic providers (examples include: HSBC, ING, MBNA, ICICI Bank, Fidelity, the Credit Unions, Caisse Populaires, and Manulife Bank; now the eighth largest bank in Canada) which makes for a competitive and dynamic market.

However, while public policy as it relates to financial institutions has been very good for Canada, it does not mean that some fundamental changes should not be made. A number of important global developments have occurred during the last ten years - in technology, in integration of financial markets, in consumer preferences, and in the behaviour of the players themselves. In many markets and parts of our operations, it is no longer appropriate to think of the banking and insurance sectors as being inherently different from one another. The time has come to recognize that there exists a single financial services industry rather than separate banking and insurance components.

To prohibit the ten or so large institutions that make up the bulk of Canada's financial services industry from merging with each other on the basis of inappropriately defined domestic market positions will not permit them to reach the necessary size, scale and scope. This will have the effect of marginalizing many of them. Many of our major foreign financial services competitors are way ahead of us, with Citigroup and American International Group (AIG) operating in over 100 countries. Please see Appendix 3 for a listing of the world's largest financial institutions by market capitalization.

Without changes to Canada's financial services merger policy, the much remarked upon steady decline of our banks in world rankings will continue and the prospects of Canada having its own global champions in the financial services industry will be diminished.

Accordingly, Manulife recommends that it should be Government policy that:

- *Mergers within the industry be allowed, whether bank with bank, bank with insurer, or insurer with insurer. And that they are allowed to do so as the participants themselves consider best, subject only to the satisfaction of the widely-held ownership requirement and to the maintenance of domestic competition. Beyond these two constraints, the market should decide how best to structure itself. Such an approach would foster the creation of larger, more robust and more globally competitive institutions, than are likely to emerge under the current policy.*

Investment Policies -- Competition Policy:

Viewed only through the Canadian domestic insurance and banking marketplace, Canada's large financial institutions would be considered large in terms of market capitalization and assets. However, this would not always be the case if measured by product offerings. In the Canadian life insurance industry many suppliers compete in various product markets.

The Competition Bureau merger guidelines are similar to those in the United States, United Kingdom and Australia in utilizing market share and concentration measures in the assessment of the ability of merged companies to exercise market power in specific markets. The Canadian and Australian assessments involve calculations of market share based on assets and revenues. The U.K. and U.S. assessments are based on the increase in the Herfindahl-Hirschman Index (HHI) for specific markets. A merger review is conducted only if market shares of the merged company exceed specified thresholds in specified markets.

The relevance of market concentration criteria depends on accurately defining the scope and size of markets, market contestability, all existing competitors, as well as the possibility of new entrants. For example, in the insurance industry, the Canadian group pension market is commonly defined as registered pension assets held under group annuity contracts including defined contribution plans, investment services-only arrangements for defined benefit plans, and immediate and deferred payout annuity arrangements. The seven largest insurers represented \$77.5 billion of defined contribution pension assets in 2006. Including the remaining insurers could increase the market size to approximately \$85 billion.

However, the size of the trustee defined benefit plan market in 2006 approximated \$985 billion and the same top seven insurers manage only \$1.93 billion of these assets. Under the narrow definition of the group defined contribution pension market the seven largest life insurance companies would have a market share of approximately 91 per cent, whereas under a broader market definition including defined benefit and contribution plans, their market share would approximate 7.4 per cent, representing a very different competitive environment.

Accordingly, Manulife recommends that:

- *The Competition Bureau maintain flexibility in its criteria for defining products and participants in specific markets and not simply specify market structure characteristics, in considering the true competitive situation in a given product market.*

Promoting Canadian Direct Investment Abroad:

Global trade is booming. Total world exports are up 138 per cent since 2001. Trade in goods and services represents more than 70 per cent of Canada's GDP. The Department of Foreign Affairs and International Trade's website articulates the importance of trade to Canada succinctly: "Canada is, has always been and always will be a trading nation."

We believe Canada is a wonderful base from which to pursue international activity. We are exceptionally well regulated and supported by our governments. As Canadians, we are well respected and welcomed everywhere.

However, companies can only compete abroad if foreign governments open their markets and allow them to operate under the same rules as their domestic competitors. Canada has much to gain from strong trading arrangements, and much to lose if left out of trade agreements, be they multilateral, regional or bilateral arrangements.

As such, Canada is active in international trade negotiations and has enjoyed major successes, especially with the U.S. in completing the Canada-U.S. Free Trade Agreement, which was superseded by its successor North American Free Trade Agreement (NAFTA), in negotiating 22 Foreign Investment Protection and Promotion Agreements (FIPAs), and at the World Trade Organization (WTO).

Through the WTO trade system, everyone plays by the same rules and can avail itself of its dispute settlement procedure. China and Vietnam's accessions to the WTO opened those markets in important ways, from which Manulife has benefited directly.

In addition to NAFTA, Canada has only three other free trade agreements (FTAs) in force; with Israel, Chile and Costa Rica. According to the WTO, there are more than 200 FTAs in force around the world, and 400 agreements are scheduled to be implemented by 2010. The U.S. has entered 15 FTAs and three more, including one with South Korea, are pending approval.

The E.U. has 15 FTAs in force covering 19 countries. Japan is leading an initiative to form a 16 nation Pan-Asian Free Trade Area, made up of the 10 ASEAN members and six other countries; Japan, China, South Korea, New Zealand, Australia and India would be among its signatories. Canada has pursued a number of FTAs without the same success as it has achieved at the WTO and in concluding NAFTA with the U.S.

Without an effective and robust multilateral system, through the WTO, along with regional and bilateral agreements, Canada could find itself on the outside looking in as more powerful trading partners and trading blocks forge alliances.

Accordingly, Manulife recommends that the Government of Canada:

- *Pursue an international trade strategy that supports Canadian industry priorities.*
- *Continue to actively pursue bilateral, regional and multilateral trade negotiations that promote Canadian industry interests.*
- *Push very hard for the successful completion of the Doha Development Agreement (DDA) round of negotiations of the WTO, and for the inclusion of a meaningful services agreement. Services' interests should in no way be left behind or take a secondary position to other negotiations.*

Manulife has a long and successful history of operating in international markets. The company has been in the United States continuously since 1903, was first in China from 1897 to 1946 and in Japan from 1898 to 1938. However, we would not have been able to achieve our international position without the unwavering support of the Departments of Finance and Foreign Affairs and International Trade, including our re-entries to China in 1996 and Japan in 1999, and our entry into Vietnam in 1999.

Accordingly, Manulife recommends that the Government of Canada:

- *Review its trade support and promotion strategies to ensure that they reflect Canadian commercial and industry priorities.*
- *Ensure that the country's trade service is well-resourced and equipped with finance and trade counselors in order to continue to effectively represent the interests of companies expanding abroad.*

Successive governments since 1972 have supported tax rules which were expressly designed to enable Canadian companies to compete abroad on an equal footing with foreign local and multinational companies. This is consistent with the assistance and encouragement that we've received over the years from the Government of Canada as we have sought to build our businesses around the world.

However, in view of the benefits to Canada of having companies that are internationally successful, we were puzzled by the March 2007 budget proposal to restrict interest deductions made for investing in international operations. This budget measure has been described quite properly as being one of the most significant and damaging corporate tax changes in decades.

Even the less onerous budget provisions that received Royal Assent in December 2007, so-called “double-dip” interest deductions will be disallowed commencing in 2012. Unfortunately, these revisions still tilt the competitive playing field against Canadian companies because most of our major trading partners allow their resident multinationals to deduct such costs.

In addition, the budget measures do nothing to restrict the ability of foreign multinationals investing in Canada to deduct their financing costs in Canada, regardless of whether or not such costs are deducted in another foreign jurisdiction. These companies can make these deductions without regard to the proportion of debt used, with the effect that earnings could be stripped out of Canada. The budget revisions do not address this inequity.

The fact that foreign multinationals are able to invest in Canada supported by lower-cost financing structures will make it difficult for Canadian companies to compete for acquisitions and business growth even within Canada.

To the extent that Canada would like to attract foreign investment by providing corporate tax rate reductions or other incentives, such incentives should not be offset or paid for by measures that adversely affect the competitiveness of Canadian companies such as a limitation on deductibility of financing costs.

Accordingly, Manulife recommends that the Government of Canada:

- *Coordinate policy development across the government, so that policies are consistent and not at cross-purposes with supporting Canadian investment abroad.*
- *Promote tax policies that provide Canadian companies the opportunity to compete on a level playing field in the global marketplace. For example, the so-called “double-dip” restriction on interest deductibility should be eliminated.*
- *Ensure that foreign multinational companies do not have tax advantages over Canadian companies when competing within Canada.*

With 75 per cent of our business outside Canada, 50 per cent in the U.S. and our executive offices in Canada, it is critical that we are able to move people back and forth across borders efficiently. Suggestions have been put forward to introduce low-risk travel programs to alleviate delays and costs resulting from immigration, administrative and other impediments.

The Canada-U.S. border has been characterized in many ways, but “economic lifeline” is certainly apt. A recent Conference Board of Canada report noted that border backups are now so bad that they are eroding efficiency gains from the Canada-U.S. Free Trade Agreement. While the U.S. is Canada’s largest trading partner, other areas of the world, like Asia are increasing in importance. Without taking away from the need to address security concerns, every effort must be taken to facilitate people movement across borders.

Therefore, Manulife recommends that the Government of Canada:

- *Work urgently with the United States, other governments and industry to find ways to ensure efficient and effective border management to facilitate the movement of travellers between countries.*

Just as it is important for multinational companies to be able to move people efficiently across borders, it is critical for them to be able to move capital in a cost-efficient and timely manner from one jurisdiction to another as business conditions and opportunities warrant. It is frequently necessary for a multinational company to redeploy capital in response to changes in local capital requirements, to make investments in other jurisdictions that meet strategic objectives and to efficiently repatriate capital to Canada to meet funding obligations, such as share buy-backs and dividend payments to shareholders.

The free movement of capital between jurisdictions was one of the fundamental principles on which the European Union (E.U.) was founded. E.U. members have gone to great lengths to reform tax and corporate laws to provide for the freedom of capital movement. Domestic withholding taxes on dividends and interest have largely been eliminated with respect to transactions amongst members. In addition, it has been recently proposed by the European Parliament that E.U. members will eliminate the taxation of capital contributions by 2010.

Many jurisdictions around the world have been renegotiating bilateral income tax treaties, eliminating or at least reducing withholding taxes on interest and dividend payments. Most notably, the United States has renegotiated or is in the process of renegotiating, income tax treaties with several jurisdictions that eliminate withholding taxes on cross border dividend and interest payments between a parent company and a substantially owned subsidiary.

The U.S. has stated that it has a strong preference to eliminate withholding taxes on dividends paid across borders in such situations. In contrast, in the recently released Protocol to the United States – Canada Income Tax treaty, Canada did not agree to eliminate withholding taxes on dividends paid between the U.S. and Canada.

Accordingly, Manulife recommends that the Government of Canada:

- *Negotiate with other jurisdictions to remove impediments to the free and efficient movement of capital, so that Canadian multinational companies can redeploy and repatriate capital to support their diversified operations, execute their strategic growth objectives and meet their funding obligations.*

Becoming a Destination for Talent, Capital and Innovation:

National governments are increasingly competing to attract investment and talent. Almost half of Manulife's employees are located in Canada. Many of these jobs are highly-skilled and highly-paid. Canada is home to our corporate and Canadian executive offices, as well as the headquarters for our global businesses.

Manulife has built regional and country executive offices to drive future growth in the jurisdictions where we operate, but it has always been essential to us that we be strong and remain relevant in our home market. Not only is this where we are based and where we are regulated, it is also where many of our leaders come from. It has helped us foster one of the best management teams anywhere.

We have a strong history of moving our senior management around the company, which affords them the opportunity to develop into global leaders. Canadians are running Manulife businesses in the U.S., Canada, Hong Kong, Japan and Thailand.

We believe that an important factor in building global champions is to secure and strengthen a strong domestic base. Michael Porter's Competitive Advantage theory emphasizes the importance of a strong domestic base, characterized by intense competition among firms, sophisticated and demanding consumers, which in turn drive them to innovate, improve and excel, and ultimately gives them a competitive advantage in global markets.

Understandably, the best and brightest are attracted to regions and cities that are important in their industries. For example, they are drawn to London and New York because they are dominant financial centres. However, while the financial services industry is one of Canada's success stories, according to "The Global Financial Centres Index", Toronto, Canada's financial centre, ranks 13th out of 50 international financial centres.

While there are many factors driving this, we focus on four areas that we believe can make a significant difference towards ensuring Canada is able to attract needed investment and talent: personal income tax levels, immigration policy, regulation of Canada's capital markets, and innovation.

Tax Policy:

Attracting and retaining businesses and the talent we need requires a tax system that is at least as competitive as that of other countries. In this respect, the Government of Canada has taken steps that will strengthen our economy and further encourage job creation.

However, Canada's relatively lower income levels and higher personal income tax rates put us at a competitive disadvantage with other major jurisdictions. The problem is especially acute in the higher-skilled and higher-earning categories, which are required in our executive office and global businesses such as investment management. There are also relatively fewer tax deferral opportunities for these executives, which taken as a whole, puts Canadian companies at a competitive disadvantage in the global competition for talent.

Therefore, Manulife recommends that the Government of Canada:

- *Consider ways of addressing Canada's personal income tax system, so that Canadian companies are not at a disadvantage in attracting talent to Canada, especially in the higher-earning categories, when competing with similar organizations located elsewhere.*

Immigration Policy:

Increasing Canada's capacity to effectively attract and leverage talent is a key element in its competitiveness. With current demographic realities and projections, the imperative for effective development of human capital is clear.

The Government of Canada has pursued an aggressive approach to immigration, with a focus on the economic class and skilled workers. For the last five years, close to 250,000 immigrants have come to Canada each year, including 55-60,000 principal applicants under the economic class – individuals selected for their education and skills. While immigrants in this category represent the most highly educated and experienced cohort of immigrants in Canada's history, their performance in the labour market does not reflect this potential.

Indicators of under- and unemployment of skilled immigrants speak to an urgent need to re-consider the settlement and employment service framework, which is delivered through a complex arrangement of federal-provincial labour market development and immigration agreements. Having recently committed \$500 million annually to labour market agreements, the Government of Canada has an opportunity to negotiate the terms and conditions for them.

Immigrant-focused programs and initiatives should be developed under these agreements to address barriers to effective labour market inclusion. It will also be essential that eligibility criteria take into account the unique position of immigrants who are under-employed, so as not to exclude them because of employment status.

Many highly skilled immigrants take employment opportunities well below their skill level in order to subsist. Excluding them from programs that can help them attain employment that reflects their skill-level is counter-productive.

As acute labour market shortages are being experienced in a number of hotspots across the country, the federal government response has been to invest in the Temporary Foreign Worker Program. While providing immediate and short term relief, it does not address the important task of fixing the selection process, which currently has over 800,000 individuals in the queue.

As European countries and other immigrant-receiving countries are also competing aggressively for skilled immigrants, Canada will need to ensure that its reputation among potential applicants is in good standing. With the current wait time of three to five years in some source countries, we do not know how many in the queue may have chosen to locate elsewhere.

Accordingly, Manulife recommends that the Government of Canada:

- *Negotiate labour market agreements with the provinces that explicitly include provisions for immigrant-specific programs, making immigrants who are under-employed eligible and not excluding them because of their employment status.*
- *Commit resources to processing the current skilled worker applicant backlog.*
- *Modernize the selection process so that it has the capacity to deliver on competitive timelines the processing and entry of candidates, and to be more responsive to current talent requirements in the Canadian labour market.*

Prospective immigrants consider many factors in their choice of country, including: quality of life, a prosperous economy, the health and education systems, housing. Most immigrants will choose to locate in our cities. According to Statistics Canada, 69 per cent of recent immigrants to Canada reside in Montreal, Toronto and Vancouver.

However, our cities are confronting major challenges. A recent Conference Board of Canada report concluded that our cities are cash-strapped and need more money from senior governments, or they will fail in the global competition to attract talent. Canadian cities do not have the resources to address the economic challenges and social responsibilities facing them. "Cities without the ability to act as magnets and attract new people will struggle to stay prosperous".

The report ranked Canada's 27 cities with a population over 100,000 and compared them to 27 in the United States with over 100,000 populations, on seven categories (economic, health, society - - which captured commute times, housing, environment, innovation, education). Cities from all regions of the U.S. were analyzed. There was an emphasis on border cities and those with economic ties to Canada. Only one Canadian city, Calgary, ranked in the top 10. Toronto ranked 15th.

Therefore, Manulife recommends that Canada's federal and provincial governments:

- *Make adequate funding available to Canada's municipalities so that they can create the economic and social conditions required to attract the needed highly-skilled and experienced immigrants in the global competition for talent.*

Regulating Canada's Capital Markets:

Canada's financial services regulatory regime is recognized globally for its stable and highly developed environment. The governing banking and insurance acts are also subject to mandatory five years reviews, which helps ensure they keep pace with changes in the industry. The International Monetary Fund has commented that "Canada has a stable and highly advanced financial system, which is among the soundest in the world. Moreover, it is supported by a well-developed regulatory system that shows a high degree of compliance with major international standards."

However, Canada is the only advanced country in the world that does not have a common securities regulator and only one of two countries among the more than 100 in the International Organization of Insurance Commissions (IOSCO).

Introducing a common securities regulator would streamline regulation and bring Canada into line with other advanced countries, increase regulatory harmonization and facilitate more consistent, effective and efficient enforcement of our securities laws. A common securities regulator would also facilitate Canadian participation in discussions about international cooperation or harmonization of securities laws and enforcement.

Consequently, Manulife recommends that the Government of Canada:

- *Continue its efforts to achieving a common securities regulator, that will ensure the most cost effective and efficient securities regime with the lowest cost of raising capital as possible.*

Innovation:

Business processes and software are fundamental to most businesses and include: methods of structuring, valuing or selling financial products, methods of valuation, accounting, and many others. If we were unable to use certain business methods, we would not have been able introduced many of our innovative and award-winning products.

Manulife has a significant history responding to consumer needs by introducing new and innovative products everywhere we do business. In Canada, over the past decade we have introduced the Guaranteed Investment Funds that revolutionized the segregated funds market.

Last year, Manulife introduced IncomePlus, Canada's first guaranteed minimum withdrawal benefit product that combines the growth potential of financial markets with guaranteed payout features of a term certain annuity. Several years ago we introduced Manulife One, Canada's first all-in-one mortgage, chequing account and line of credit. They have all been exceptionally well received in the market.

The Canadian Patent Office made changes in 2005 that made business methods patentable. The U.S. courts made a similar change in 1998. The introduction of these types of patents in the U.S. resulted in considerable confusion and negatively impacted business operations without any positive impact on innovation.

In a statement to the U.S. Federal Trade Commission, an executive at Cisco Systems noted that "time and money we spend on patent filings, prosecution, and maintenance, litigation and licensing could be better spent on product development and research leading to more innovation. But we are filing hundreds of patents each year for reasons unrelated to promoting or protecting innovation."

It is little wonder that there is a growing consensus that the U.S. patent system is broken and that the Patent Reform Act is being considered by the U.S. Senate after passing in the House of Representatives. The Bill will make numerous changes to address the damage caused by the proliferation of business method and software patents.

We believe that the expansion of patentability to include business processes and software will limit competition and increase costs to Canadian-based firms without any improvement to Canadian productivity or innovation.

The cost to Canadian-based businesses and the impact on the Canadian economy is likely to be even more negative than the U.S. experience. Ninety percent (90%) of Canadian patents are issued to non-Canadians, so that a large percentage of royalty payments would be paid to non-Canadians.

Therefore, Manulife recommends that the Government of Canada:

- *Continue to ensure that appropriate intellectual property protection is available in Canada.*
- *Amend the Patent Act to make it clear that business methods and software are not patentable subject matter in Canada.*

Conclusion:

Canada is a relatively small country with an open economy, and gifted with many natural endowments and strengths. We believe that Canada does many things right. If it didn't, we would not be in the enviable position that we are in the world, in terms of our quality of life and the strength of our economy.

We believe the combination of the appropriate existing public policy and moving ahead with recommendations made here will help position Canada well for the future. From such a strong base and position of strength, we will enable our ambitious firms to achieve the necessary scale and scope to take advantage of global opportunities and compete and succeed around the world.

It is also such institutions that will keep our best and brightest here, that support cultural and educational organizations and that provide vitality and excitement to the communities where they are located. Ultimately, the risk we face is that Canada will not keep pace, lose relevancy as our companies become marginalized, and result in Canadians looking elsewhere to realize their ambitions.

Appendix 1:

Top Canadian Companies by Market Capitalization

| Rank | Name | Market Cap as at December 20, 2007 (C\$ millions) |
|-------------|------------------------------------|--|
| 1 | Royal Bank of Canada | 63,836 |
| 2 | Manulife Financial Corp | 60,651 |
| 3 | Research In Motion Ltd | 59,687 |
| 4 | EnCana Corp | 50,567 |
| 5 | Toronto-Dominion Bank | 49,484 |
| 6 | Bank of Nova Scotia | 49,267 |
| 7 | Suncor Energy Inc | 48,406 |
| 8 | Imperial Oil Ltd | 47,868 |
| 9 | Potash Corp of Saskatchewan | 41,721 |
| 10 | Canadian Natural Resources Ltd | 37,865 |
| 11 | Husky Energy Inc | 37,150 |
| 12 | Barrick Gold Corp | 32,492 |
| 13 | BCE Inc | 31,214 |
| 14 | Great-West Lifeco Inc | 31,156 |
| 15 | Sun Life Financial Inc | 31,006 |
| 16 | Power Financial Corp | 28,386 |
| 17 | Bank of Montreal | 27,600 |
| 18 | Thomson Corp/The | 25,475 |
| 19 | Petro-Canada | 24,964 |
| 20 | Canadian Imperial Bank of Commerce | 23,618 |
| 21 | Rogers Communications Inc | 23,143 |
| 22 | Canadian National Railway Co | 22,899 |
| 23 | Goldcorp Inc | 21,786 |
| 24 | TransCanada Corp | 21,397 |
| 25 | Brookfield Asset Management Inc | 20,575 |

Source: S&P / TSX index

Appendix 2:

Manulife Financial – An Overview:

In 1994, Manulife was a mutual life insurance company valued at approximately \$2 billion. Today, as measured by market capitalization, the company is the second largest company in Canada, and was recently recognized as having the most valuable international brand of any Canadian company.

The company demutualized through its initial public offering in 1999 with a market capitalization of \$9 billion; today, its value is in excess of \$60 billion, an increase of almost 7 times. It is one of only two public life insurance companies in the world with a triple A credit rating from Standard & Poor's and one of two North American companies with a Aa1 rating from Moody's. In 1994 the company's net income was a little less than \$200 million, while in 2006 it rose to almost \$4 billion.

The company identified early that it wanted to build its international presence; that its aspiration was to be the best in the world and that its future success would depend to a large degree on how well it performed in markets outside of Canada. Today, roughly 25 per cent of the company's activities are in Canada, 50 per cent in the United States and the remaining 25 per cent in Asia. These are all wonderful platforms for future growth.

In Canada, Manulife provides a wide range of savings and protection services. Manulife is a leader across all product lines that we offer. The life insurance industry in Canada has undergone a very significant consolidation over the past dozen years or so and Manulife has been an active participant in that process.

Today our Canadian operations are comprised of former Canadian businesses of Confederation Life, North American Life, Commercial Union, Zurich Canada, Aetna Canada, Maritime Life, Liberty Health, Royal & Sun Alliance and Blue Cross. Concurrent with this acquisition activity, we have also taken steps to grow organically through the introduction of new products and services to respond to the needs of Canadians.

In the United States, Manulife acquired John Hancock in 2004 and now carries on business there under that highly visible and respected brand. The transaction had a value of approximately \$14 billion and was, at the time, the largest cross border acquisition in Canadian history. Manulife's business in the U.S. prior to the merger was almost of an equivalent size as John Hancock's and the two companies were very complementary in terms of products, distribution channels, and markets served.

The combination of the two companies created enormous value as costs were sharply reduced and revenues quickly rose beyond levels originally forecast. In 2006, John Hancock emerged as the leading seller of life insurance in the United States. In the largest insurance market in the world, the company's prospects are very bright.

In Asia, Manulife has a significant presence in 10 countries and territories. It has a prosperous business in Hong Kong, which has served as the company's Asian flagship operation for more than a century, and where we have more than one million customers.

Manulife Financial – An Overview (Continued):

In 1996, we became the first Canadian life insurance company, and only the second western insurance company, to receive a license to conduct business in China. There are now almost 8,000 staff and agents serving more than 300,000 clients in 27 cities -more than any foreign insurer. Our operations are growing rapidly and the company continues to invest in the expanding Chinese market.

In 1999, Manulife became the first foreign company licensed to offer its products in Vietnam and it moved quickly to establish operations in that rapidly developing country. Friendly relations that exist between our two countries were a significant reason that the company was allowed early access to the Vietnamese market.

Manulife is Canada's largest investor in Japan with its one billion dollar acquisition of Daihyaku Life Insurance Company in 2001. Since then, those operations have been completely restructured and new products introduced with great success.

Manulife is the largest foreign insurance company in Indonesia having been there since 1985. Growing businesses in Taiwan, the Philippines, Thailand, Malaysia and Singapore, complete Manulife's Asia presence.
