

## Canada's competitive challenges in a global value chain

The Competition Policy Review Panel will hold hearings across Canada early in 2008. The panel's Chair, L.R. Wilson, is one of Canada's most experienced business leaders. Former chairman of BCE and Nortel, and currently chairman of CAE, he sat down with *Policy Options* Editor L. Ian MacDonald in Montreal on November 8.

Le Groupe d'étude sur les politiques en matière de concurrence tiendra des audiences dans tout le Canada au début de 2008. Son président, L.R. Wilson, est l'un des chefs d'entreprise les plus expérimentés du pays. Ancien chef de la direction de BCE et de Nortel, il est présentement président du conseil de CAE Inc. L. Ian MacDonald, rédacteur en chef d'*Options politiques*, s'est entretenu avec lui, le 8 novembre dernier à Montréal.

**POLICY OPTIONS:** Mr. Wilson, thank you for doing this. You are the Chair of the Competition Policy Review Panel. What does that mean?

**RED WILSON:** Well, it's a panel that was appointed by the federal government in July, by the industry and finance ministers, to review specifically the *Competition Act* and the *Investment Canada Act*, but to really look at issues that affect the productivity and competitiveness of the Canadian economy. The panel is comprised of four other experienced and, if I may so say, distinguished Canadians: Brian Levitt from Montreal, senior lawyer and business executive, Murray Edwards from Calgary, a highly successful entrepreneur and investor; Tom Jenkins, the executive chairman of Open Text in Waterloo, very successful high-tech entrepreneur; and Isabelle Hudon from Montreal, the president of the Montreal Board of Trade.

**PO:** In your discussion paper, you discuss your mandate to review key elements of Canada's competition policy. Which elements?

**RED WILSON:** Well, really anything that is impacted by the

*Competition Act*, and the procedures that are associated with it, the tribunal, the Competition Commissioner and her function. The issues are not specifically related to features of the act, but equally to how the *Competition Act* and our procedures in Canada for interpreting it and enforcing it relate to the global economy that we find ourselves in, and the comparison with competition policy regimes in other countries. Many companies today do business around the world and the issues that affect them or may affect them, in terms of government policy, really are international in scope.

**PO:** You talk about enhancing productivity and competitiveness. Productivity is seen in a classic sense as output per capita. And ordinary workers, when you say "productivity" to them, they think you're going after their job. So is there a way of enhancing productivity that doesn't cost us jobs and increases our wealth and increases the wealth of individuals as well as the wealth of the nation?

**RED WILSON:** I guess the chain here is...competitiveness, productivity,

wealth or level of income. Competition typically is good for what we call productivity. Technology is a key factor in translating factors of production like labour and capital into output. Our productivity, while it has been improving, has not been keeping pace with improvements south of the border, and in other countries. And this leaves us with less income per capita, or less wealthy if you want to put it that way. And our mandate is to have a look at those factors that will positively impact competitiveness and productivity.

**PO:** Stated another way, Canadians are making \$200 less a week, or \$10,000 less a year, than Americans. That's much more compelling than coming after your job, isn't it?

**RED WILSON:** Absolutely.

**PO:** You're also looking at investment policies and foreign direct investment in Canada, FDI. It's interesting that at the time of the Free Trade Agreement, in 1987, when it was negotiated, Canadians owned only 19 percent of inward FDI and today it's 32 percent. So we actually own more of

the country today than we did 20 years ago. Are there still inward and outward FDI numbers that you're concerned about? Do you see it?

**RED WILSON:** Yes, I think that the current issues, as you know, have really related to mergers and acquisitions as opposed to foreign direct investment broadly. Yes, it's true that foreign direct investment is a smaller

in Montreal. This deal was approved at all levels very quickly.

**RED WILSON:** Yes, and by the way, you may have noticed that BHP has made an offer for Rio Tinto. So... Rio Tinto itself may be acquired by another company. Yes, I think in the Alcan case, Alcoa was the initial proposed buyer for Alcan. Rio Tinto put a higher price on the table. There were also

becoming a bigger piece of the overall pie, but also investment in the creation of what are referred to as global value chains, which means in general that products end up going through several countries and stages of manufacturing. This is creating a brand new dynamic for everybody. It is obviously of interest to developing countries, countries that are on the move like China. Their role in the development of global value chains has been accelerating. European, North American and Asian companies have been improving their overall performance, and the globalization of their activities is one of the ways that

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proportion of the Canadian economy than it was. It's also true the Canadians are investing outside this country.

But more recently, there have been some fairly high-profile takeovers of Canadian companies which have led to a concern about the loss of Canadian icons.

**PO:** This is the so-called hollowing-out debate, right?

**RED WILSON:** The so-called hollowing-out debate, which is one of the issues we refer to in the consultation paper. One of the problems we have is the data.

**PO:** The data don't necessarily support the case.

**RED WILSON:** We're looking very closely at the data. The last 18 months has been an intensive period of M & A activity.

**PO:** And Canadians have been doing more deals abroad, right?

**RED WILSON:** Yes, but not in terms of value. The value of deals has been higher in terms of foreign acquisitions of Canadian companies.

**PO:** Right. Take the example of Alcan, a Canadian icon indeed that, as you know, recently merged with Rio Tinto to create, I guess, the world's second-largest aluminum company, but no longer a strictly Canadian icon even though it still has headquarters

some features of that deal which shareholders of Alcan found more attractive, and that included the retention of the aluminum divisional head office for the company in Montreal, Alcan directors being involved in the Rio Tinto board. But there are others that have happened in the same time period: Inco, Falconbridge, Dofasco, all names that are Canadian icons, and that's raised concerns.

**PO:** Let's talk about globalization because you are chairman of CAE, which is a global company, and has a 75 percent share of the world's commercial aircraft simulator market.

You've been chairman of Nortel, which does business in over 100 countries, so you're aware of the Canadian brand in global markets, and you probably have a better idea than most of the value of the Canadian trademark. How do you see globalization and Canada's role in the world economy? For example, world trade, now accounts, in merchandise trade, for \$11 trillion, which is about 25 percent of the world's economy. It's doubled in dollar terms in the past six years.

**RED WILSON:** Well, globalization has been under way for a while now and it's, if anything, gaining speed. We're not dealing only with trade

they do that. It's not just the seeking of new markets, i.e., trade. It involves investment around the world. Foreign direct investment has become a bigger piece of the pie.

This has implications for Canada. We have an established position in a number of industries; have been international players in those industries. These changes have been challenges for some companies. The adjustment process has really led to a brand new pattern of trade and investment internationally.

**PO:** We're known as a country as hewers of wood and drawers of water, and we clearly have an abundance of commodities and resources such as oil and gas and coal, which are driving our boom right now. But looking at the high-technology side of the economy, and this is where you have been a player, what's your sense of Canada's reputation in the world?

**RED WILSON:** Specific firms have excellent reputations. I think Canada's brand overall is not as well known, not as clear in the minds of foreign business people, or governments. Yes, we have some really good high-tech international winners — RIM today, for example, the BlackBerry is ubiquitous. In our case at CAE, we are doing business virtually around the world and we're very well established in the

niche that we play in. Nortel has for many years been an international name. But if you think of high technology generally, not many nations would think of Canada first. They would probably think of America, or certain European countries. So our brand is not as broadly known, but specific Canadian companies are well known.

**PO:** What do you think of Michael Porter's theory of the diamond cluster of competitiveness? That is to say sectoral excellence, and regional excellence. Take the pharmaceutical industry in Montreal, or aerospace in Quebec, or financial services in Toronto, or oil in Calgary — that's an obvious one.

**RED WILSON:** Yes, there is certainly something to that.

**PO:** The critical mass of excellence, in other words.

**RED WILSON:** Yes. And the ability of people to move between firms that are located in industries that are similar in a geographical area. The culture that this creates — Silicon Valley in the '90s and early 2000 was a hotbed of a certain type of culture in the development of innovation in the high-tech industry. So yes, I think clusters have an impact on the location of industry.

**PO:** You referred to the globalization of value chains, and Michael Hart, among others, has written about this and asks: how do you measure the output per person of a bathroom suite that is designed in Germany, or Italy, manufactured in Mexico, and shipped to Canada through the United States by truck?

**RED WILSON:** Well, you can only look at the pieces by country and the overall product in the end. But you know it's clear that firms are looking at establishing activities in locations where there's a comparative advantage in the skills and activities in those locations: the movement of a lot of manufacturing to Asia, for example, as they are a lot more competitive than American or European locations. And so it's each piece in the puzzle, looking at the higher-value-added pieces in the puzzle.

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**PO:** The World Economic Forum in its annual competitiveness review — and you referred to this in your panel's discussion paper — ranked Canada 16th of 25 nations in its evaluation, down three places from last year. Would you be concerned about that?

**RED WILSON:** Yes, obviously, a big part of our mandate is to look at the reasons why we losing ground in terms of that sort of ranking. There are many factors, obviously, that go into that kind of ranking, and they range from education, to new markets, to law and order, to institutional arrangements, labour force skills and so on. And we're going to be taking a look at what can government do in each of these areas that might impact positively on competitiveness of Canada as a location for people to grow firms and hopefully become champions in a global sense.

**PO:** And the Conference Board, also mentioned in your discussion paper, ranks Canada 14th out of 17 nations surveyed in R & D and innovation. That's not a good number, is it?

**RED WILSON:** It's not. A lot of R & D in Canada has government support, or is carried out by government.

**PO:** And you would agree that the Canada Research Chairs have been a good thing?

**RED WILSON:** They are. Excellent. I think the government has played a very important and successful role here. When you look at the performance by Canadian business, and you

take out some obviously research intensive firms, we don't stack up nearly as competitively or intensively as some other nations.

**PO:** As you know, we are looking at tightening labour markets, where we have a full-employment economy, virtually, at 5.8 percent unemployment as

we speak, 3.4 percent in Alberta, where small businesses are closing for want of people to fill good jobs. And an IPSOS poll indicates that one of Canada's competitive advantages is in fact our cultural diversity. So shouldn't we need more immigrants? And shouldn't we be recognizing overseas professional credentials?

**RED WILSON:** I met with the presidents of the G13 universities recently and this was high on their list of issues, the ease with which professional credentials are recognized generally, but also potential interprovincial barriers to mobility within Canada. There are examples of people with advanced university degrees that can't get admission to the profession, or the line of work that they're qualified in, and end up taking general labour jobs.

**PO:** Let me give you an example, a personal example. Two years ago, I had eye surgery for a detached retina. And one of the technicians in the surgery, in the operating theatre, was an ophthalmologist from central Russia who couldn't get his credentials recognized here and so was working as a technician on an operating team.

**RED WILSON:** Yes, and I think there are many examples of that. Obviously we need to take a look at those kinds of issues. Equally the whole issue of mobility within Canada in terms of professional associations, or barriers to trade more generally.

**PO:** I wanted to come to that. But wouldn't you say that the British Columbia-Alberta TILMA agreement is



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L.R. "Red" Wilson, Chair of the Competition Policy Review Panel, which will be holding hearings across Canada early in 2008.

a good template for free mobility of people as well as goods and services within the Canadian common market?

**RED WILSON:** I'm not intimately familiar with it, but yes, it is a big step in the right direction.

**PO:** And on the Canadian common market and the functioning of it: As you know, the government, in the Throne Speech, proposed on the one

hand to limit the federal spending power in areas of provincial jurisdiction, and on the other, to strengthen the Canadian common market, and in effect invoking section 121 of the *British North America Act*, the common market clause, which allows for — and I'm sure they don't teach this in law school anymore, but it's still in force — the free movement of produce, manu-

facturing and goods of one province into all other provinces; it's not always in effect though, as you know. We have these BITs, these barriers to interprovincial trade, that are a continuing irritant and which cost us at least \$10 billion a year to our economy.

**RED WILSON:** Yes. One of the questions I asked when we got the panel together was whether we had an

inventory of interprovincial barriers. And the secretariat wasn't able to immediately locate one. There are well-known issues.

**PO:** And in interprovincial transportation, and even the weight of trucks.

**RED WILSON:** You name it. And so what I've suggested is that we start by looking at some kind of an inventory of these barriers. I know this is a very sensitive area for governments to deal with, having been a provincial deputy minister of industry. There have been discussions over the years, but not a lot

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of progress. And I'm not sure how we're going to proceed with this, but maybe we need to take a look at the inventory of issues that are out there and find a way to begin to tackle them. The Australians have a productivity commission which was the result of their competition policy review some years ago. That commission reports annually and covers all levels of government, to look at issues of competitiveness, productivity within Australia, and things that can be done that will improve the opportunities for firms in Australia to be more competitive. And some of those things include state barriers to mobility; mobility of goods, mobility of people and so on.

So one of the questions we're going to be looking at is how might we in Canada not just have a report on this one time, but is there a way that we could conceive of a continuing review, or a periodic review of issues that affect competitiveness and productivity in Canada. And that would hopefully lead to some action by governments, provincial as well as federal.

**PO:** I'll give you one famous example. You can take a Blue Line cab from

the Château Laurier in Ottawa to the Casino in Gatineau, which is an \$8 cab ride. But he can't wait for you and bring you back, or he faces a \$2,000 fine.

**RED WILSON:** Yes. Well, there are lots of examples and I know how politically sensitive some of these issues are. That's the lens through which we have to look at any barriers that may impede competitiveness. We're going to do that.

**PO:** How do you see the investment issues? Before Investment Canada was established in 1985, the

*Foreign Investment Review Act* had essentially a negative-to-neutral bias about foreign investment. And Investment Canada seems to have a pretty positive bias, close to 100 percent approval rating in the net benefit test. How do you see that?

**RED WILSON:** A couple of issues have been identified initially. One is the issue of transparency. The *Investment Canada Act* authorizes the minister of industry, or heritage as the case may be, to approve foreign investment above a threshold based on a net benefit test. But the procedures involved aren't transparent. That is, potential investors don't know how that net benefit is calculated.

The second piece to look at is the effectiveness, and what does it mean when undertakings are negotiated. Are they carried out? What kind of effective impact does the process have on performance? So we're going to be examining the net benefit test. We've been asked specifically to look at that. The policy has been to encourage foreign investment in Canada. That's been the policy since Mr. Mulroney's gov-

ernment in 1985, when the act was brought in, and it doesn't appear in general that it's something that people are overly concerned about. There is, however, a procedure, and the question of how effective that procedure is, and what it means in terms of policy, is something we're going to be looking at.

**PO:** In your paper, you ask four questions about globalization: Should Canadians be concerned about foreign takeovers? How important are headquarters in Canada? How do these policies affect financial planning? And do policies reflect North American economic integration? Those are big questions.

**RED WILSON:** Yes, big questions, and we're very much interested in inputs. I know we're going to receive inputs in terms of the pros and cons of foreign investment. The hollowing-out issue has been related to this. I know we're going to get a variety of views on that. We are honestly interested in having individual Canadians, organizations, institutions, provincial governments, experts come forward and tell us how they feel about questions like that. And there are other questions in the paper as well.

**PO:** That was my next question: What's your game plan?

**RED WILSON:** Our consultation process. The paper has asked for submissions by January 11, 2008, not to exceed 20 pages. We are trying to find a way to do this efficiently and effectively — based on those submissions, which will all be published, by the way, on our Web site. At the moment, we're scheduled in Vancouver, Calgary, Toronto, Montreal, Halifax. Then there will be, following that, thematic consultation meetings having to do with the *Competition Act*, *Investment Canada Act* and so on. So there will be a slice regionally, and then there will be a slice by issue. And managing that is going to be a bit of a challenge.

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biodiesel get  
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