THE QUIET HI-JACKING OF CORPORATE CANADA

POLICY OPTIONS POLITIQUES

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The departure of most of NOVA corporation's senior executives from its Calgary headquarters to new offices in Pittsburgh raise serious questions about Canada's ability to compete successfully in the world market. If NOVA really does have to be closer to its customers, that is one thing—though many other corporations that sell mainly in the US market continue to be headquartered overseas. But if the real reason for the move is simply that Canadian income and profits taxes are too high, then a wholesale re-examination of Canadian economic policy is required.

La plupart des cadres supérieurs de la société NOVA quittent le siège de cette entreprise, à Calgary, pour de nouveaux bureaux situés à Pittsburgh. Ce départ soulève de sérieuses questions quant à l'aptitude du Canada à tirer son épingle du jeu dans le marché mondial. De deux choses l'une. Ou bien NOVA a vraiment besoin de se rapprocher de sa clientèle—et alors on peut comprendre le geste (encore que bien des entreprises exploitant principalement le marché américain gardent leurs sièges sociaux outre-mer). Ou bien la vraie raison de ce transfert est simplement le niveau trop élevé des impôts canadiens sur les revenus et les profits—et alors il faut procéder à un vaste réexamen de la politique économique de notre pays.

Canada was once one of the leaders in world trade. It is now sliding down the list of world traders. This is not a result of foreign aggression, nor a concentrated attack on our national economy by large corporate organizations; nor indeed is it the result of any disturbances created for us by our powerful neighbour to the south. What threatens our continued existence as an independent, free-standing economic entity in the world is our own weakness.

Let's start by considering the NOVA story. There are other illustrations of our plight but this one is a recent and easy to understand corporate event which highlights our nation's economic troubles under trade treaties and otherwise. NOVA is a creation of Canadian enterprise, both corporate and governmental (the Province of Alberta).

A few months ago a series of corporate reorganizations and realignments removed NOVA as a unit in an industrial pipeline complex and set it free as an independent company engaged in the chemical industry in the Province of Alberta. NOVA sells its products from its Alberta plants throughout North America. The company is now a public company whose shares are listed on the Toronto Stock Exchange. Its main source of wealth is the conversion of Alberta natural gas into chemical products, notably polyethylene, which it produces in several plants located in Alberta. Polyethylene is a high-volume bulk product largely sold in the United States to industrial consumers.

Recently, as a result of the continuing reorganization of the NOVA group and TransCanada Pipelines, NOVA Chemicals emerged as an independent, stand-alone company of which Jeffrey Lipton is president. Mr. Lipton was recruited by NOVA from the Dupont Companies in the United States and is well regarded as a highly competent officer in this chemical field. Shortly after NOVA Chemicals was set loose to make its way in the chemical industry in North America, Mr. Lipton, as president, obtained the approval of the Board of Directors of NOVA to move 69 of the highest-income employees in the head office in Calgary to NOVA's new offices in Pittsburgh, Pennsylvania. The principal explanation for this sudden and drastic move of all senior executives and officers of the company from Calgary to Pittsburgh was that "the executives of the company and senior officers were spending too much time in the air." This move was said to be necessary to maintain close contact with the corporation's principal customers. It is not known at the time of writing how many of these officers and high-ranking personnel have elected not to move to Pittsburgh, nor has any information been released about the cost of this move in termination, compensation and other expenses.

Alberta law requires that NOVA's head office be maintained in Alberta. It may be that the wholesale movement of corporate officers offends the literal reading of that law but that is a question for others to answer. The fact is that the Province, which is the original owner of the natural gas resource and the receiver of royalties on its removal, has not given any indication of formal approval or disapproval of the move of this vital unit in the gas and petroleum industry out of Alberta. To Alberta, the loss of an important segment of its gas and chemical industry is serious. To Canada, the effect on the country's position as a leading actor of influence within the gas, petroleum and chemical industry in North America is equally serious. So far these provincially and nationally important losses have been assessed and accepted only by a board of directors of a private sector corporation.

If proximity to customers really is the primary motivation of the move, the question immediately arises "How much money has NOVA lost since its establishment because the company was not established in the US?"

As NOVA develops in size as a large-scale chemical producer, its profits may well be earned and credited to a large extent to the newly established entity of NOVA in the United States. It would appear that production facilities will remain in southern Alberta but the nerve centre of the company, its senior executives and presumably most of the employees in the top leadership of the company, will be established in Pittsburgh. Under the *Canada-US Tax Treaty*, more of NOVA's profits will be exposed to taxation in the United States and fewer in Canada. This reduction in tax revenue is not the worst loss imposed by the move, but it remains a real loss to the Canadian economy.

As a result of the move, Calgary and Alberta lose a very important group of senior executives who have had great influence on the community. The result, of course, is that at the end of the road Alberta will have empty gas wells and NOVA will have established a profitable enterprise whose equity will largely be accounted for in a NOVA incorporation in the United States.

It should be emphasized that circumstances in the industrial community of North America sometimes do require corporate relocations and the reorganization of production and sales facilities. Corporations do have to move divisions or functions to other jurisdictions. The question raised here is this: Is it truly a commercial necessity for NOVA to move of its head office to Pittsburgh or is it simply because the lower income tax rates they will pay in Pittsburgh offer NOVA and its officers and executives a more attractive employment atmosphere? If proximity to customers really is the primary motivation of the move, the question immediately arises "How much money has NOVA lost since its establishment because the company was not established in the US?" One might observe that in the past 30 years Pittsburgh has lost all or most of its formerly great enterprises such as Gulf Oil, US Steel and Westinghouse.

How much attention has been paid by the new corporate management to the interests and concerns of the owner of this prime reserve, namely the Province of Alberta? What evidence is there that the company has suffered by reason of lack of proximity to market for its chemical products? This may be much more than a mere question of fact. The answer to it will resound through the halls of industry and commerce in Canada and perhaps elsewhere in North America in the days ahead.

This type of corporate reorganization threatens the future of Canada as a small market economy. Calgary is now the clear leader of Canada's large gas and petroleum industry. It is the jurisdiction of ownership of the principal product consumed by NOVA Chemical. Alberta has been a primary supplier of gas and petroleum to North America for many years. Is this move the forerunner of the descent by Canadian companies to the level of providers of unimproved raw materials only?

Moves of the nature taken by NOVA are not new to this community. Sometimes the moves originate in an acquisition by a company located outside Canada and sometimes they occur as a consequence of growth by a Canadian enterprise upon entry into the United States market. For example, the Moore Corporation, the world's largest manufacturer of business forms, is operated by its president from offices in a suburb of Chicago. He comes to the Toronto headquarters of this Canadian corporation for its regular monthly meetings.

Another version of this kind of corporate move is found in the fate of Gulf Canada Resources Limited, which moved its headquarters from Calgary to Denver, Colorado in 1997 under its then American president. This flight to Denver was reversed by the new president of Gulf, however, who has moved some 20 executives back to Calgary. "Proximity" apparently lost its pull.

Companies being acquired by foreign interests frequently lose their Canadian head offices. Two recent moves of this nature are by Newport Credit and MacMillan Bloedel. Each is very likely to see its head office moved to the United States. An idea of the gravity of these circumstances as a threat to the industrial and commercial progress of Canada can be had by asking "Who will be next?" Northern Telecom, a Canadian company of long standing, is now run on a split basis, with senior executives, including the president, in the head office of the company in Ontario, while another significant branch of the company is headed up by a senior executive located in California. The bulk of its products are marketed in the communication business in the United States. Northern Telecom also has a rapidly growing subsidiary, Nortel Networks, with an official head office in Canada but an effective world headquarters in Dallas, Texas.

Or will the next to leave be Canadian Pacific? CP owns and operates significant railway mileage in the United States that accounts for a growing proportion of the company's overall operations. It would be a sad irony of history if the railroad which first bound our country together sees its headquarters moved south. And there would be a significant loss of jobs in Canada.

The question remains: What is the true basis for these transfers or reorganizations, the effect of which is to strip Canada of significant earning power, tax revenue, and senior employment in advanced technological positions? On the other hand, the escape from high Canadian tax rates for both the corporate employer and the employees is an obvious cause for some of these departures from the Canadian community.

How should Canada react, economically and politically, to these losses to the Canadian industrial establishment? It is fair to say that Canada's commerce as an industrial nation with a small domestic market for its products is in danger. If leaving Canada really is necessary for the welfare and survival of the corporate enterprises involved, then Canada obviously faces a real threat to its continuation as a vertically-integrated economy trading in world markets, and particularly the US market. Business enterprises that export a significant part of their merchandise to the US represent a very large proportion of Canada's manufacturing industries. Their loss would be a body blow to Canadian industry.

And yet, if the pull of the US market is the reality here, why is this not the case elsewhere in the world? For example, Nestlé, a world scale operation, has its head office in Switzerland, far removed form its largest and strongest market, the US. The same can be said for Shell Oil, Lever Brothers, and many others. Although they are all big exporters into the US market none has its headquarters in the United States. In this country, many corporate enterprises are headquartered in Toronto because their executive and sales personnel have ready access by an abundance of air transportation and other communication facilities to all parts of the US, particularly the northeast and central US. It is idle to argue that Pittsburgh, for example, is better served than Toronto by air and other transportation connections to the principal sectors of North America. Toronto's air traffic flow is incomparably larger than Pittsburgh's.

But all this is to lose sight of the main point at issue here. Should Canada adopt a more restrictive approach in granting access to its finite natural resources? Or should we instead reform some of our financial practices, such as high tax rates, ownership restrictions and other negative measures? Is this country better served by making the commercial atmosphere more attractive to foreign entrepreneurs in the hope that investments in Canada will follow, bring with it new employment opportunities in this country?

Most serious of all, under the several trade treaties to which Canada is now party, have we contracted away the right to require that our natural resources not be exported as raw material but be processed in this country so as to produce end products for export and sale abroad with high labour content? Our national interest is best served when raw material is processed to the consumption level in this country, thus increasing employment.

Our economic problems are complicated by the fact that our national debt is so large in comparison with that of our trading partners. The scale of the national debt is best appreciated when one realizes that when provincial and municipal debts are included, the interest on it is just short of a billion dollars per week. Servicing this enormous debt has necessitated a level of taxes in corporate, individual and realty terms greater than almost all other nations with whom we compete in world trade.

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The sagging value placed on the Canadian dollar by the world financial markets puts our industrial base on sale to the rest of the world at bargain prices. We delude ourselves when we believe a low value of our monetary unit is a permanent advantage which will assure us of competitiveness in international trade. The current valuation of our currency in the world money market imposes a lower standard of living on our workers than is enjoyed by workers in the major trading nations with whom we compete.

Then there is the problem of the brain drain. Canadian industry faces the difficult task of acquiring and retaining executive and professional talent in Canadian plants because of the attractions offered by foreign work places, particularly in the US. The conditions noted above have all made it more attractive for Canadians in business to move abroad by first joining foreign-owned enterprises in Canada and then rising through the ranks in these organization to head offices and plants outside Canada. Others leave the country and go abroad by direct emigration upon graduating from Canadian universities or upon completion of trade apprenticeship in Canadian plants.

Put simply, the most serious issue now facing us is whether economic independence is drifting away from Canada. If it is, it is because of the weaknesses enumerated above, not because of the strength of our foreign competition.

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The age of the multinational corporate enterprise is upon us. Canadians cannot abolish or suppress this phenomenon. The employment of Canadians in the final processing of our natural resources before export must be made an attractive proposition to foreign-controlled companies buying our natural resource products.

If Canadians do not react strongly to the trends that have emerged, the result will be the loss of our status as an independent sovereign state trading in the world markets. We need to worry about the loss of Canadian executive control in head offices in Canada; but we also need to worry about whether the nation is unravelling as a commercial power in the present-day world of intense international trade.

How do we ensure the existence of conditions which will enable smaller Canadian companies with the small Canadian market as their initial base to survive and grow to the size and strength of the competitors they will encounter in the world market? It cannot be done by bald protectionist measures. Above all, Canada must be seen as something more than a source of raw materials.

This is not a call for a commission of inquiry. That route is too slow and expensive. What this subject calls for is immediate action in the House of Commons which would by commonplace deposition provide a base of information upon which the cabinet could quickly erect the regulatory and fiscal measures required to put this country back on the main line. The simple actions taken by the NOVA company have forced this nation to face a bedrock Canadian problem.

Time is not on Canada's side in this struggle.

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The True Third Way We are in danger of building a Benthamite hell for ourselves, and it adds insult to injury when politicians imply that it is heaven upon earth. It should be second nature to a Tory pessimist to see the limitations of the free market, or what passes for it (did Nissan settle here without subsidies?), yet Conservative policy-makers search restlessly for ways to extend the free market still further. I sympathise with their desire to cut the size of the state, which is still preposterously large, but their tactless commitment to market forces, and more generally to business methods, makes it virtually impossible to win the electorate's trust when seeing to reform such bodies as the National Health Service. Almost everyone is prepared to admit that the NHS needs to change, but almost no one wants it run like Nissan.

Conservatives should know without being told that a great hospital is best run neither by Whitehall nor on the same lines as a car factory; that neither the bureaucratic nor the commercial motive is sufficient to inspire Florence Nightingale. There is, oddly enough another way between these two extremes or rather a great variety of other ways. Charities of every hue, mutual societies, insurance companies, universities, the Churches, the armed services are among the many institutions that can and have run hospitals... Central planners may fell threatened by independent institutions. Conservatives should delight in them as a focus for our love and loyalty.

Andrew Gimson, The Spectator, 26 Aug 2000