



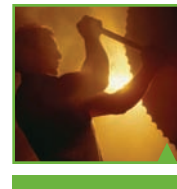
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# Compete to Win

Final Report – June 2008

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



Executive Summary



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# Executive Summary

*“Competition matters. It brings dynamism to our economy. It means good jobs for our citizens. It is not merely an economic concept. Being open to competition serves Canada’s national interest. This is the principle that anchors our report and informs our recommendations to the government.”*

— From the Preface to *Compete to Win*

## The Competition Policy Review Panel

- The Competition Policy Review Panel was created by the Government of Canada on July 12, 2007, and was mandated to review Canada’s competition and foreign investment policies.
- The Panel is chaired by L. R. Wilson, and includes N. Murray Edwards, Isabelle Hudon, P. Thomas Jenkins and Brian Levitt.
- The Panel was tasked with conducting research, holding consultations and producing a report by June 2008.

## Compete to Win

- The report is about one simple proposition: **raising Canada’s overall economic performance through greater competition will provide Canadians with a higher standard of living.**
- Strong economic performance means more and better jobs and higher earnings, which in turn generate more government revenues to support the services and programs that Canadians have come to expect.
- At the centre of the Panel’s report are the concepts of competitiveness and productivity. Competitiveness refers to the outcomes of economic competition, between firms and between countries.
- The key determinant of competitiveness is productivity, a measure of the efficiency with which economic resources such as labour, capital and business expertise are used to produce goods and services.
- *Compete to Win* provides the Panel’s recommendations on how to strengthen Canada’s competitiveness and promote the two-way flow of talent, capital and innovation between Canadian markets and world markets.

## Our Findings

- While Canadians can take pride in our economic performance over the past decade, the Panel heard that Canadians are worried about the current economic outlook and are less confident about the future.
- Canadians spoke of risks and uncertainties arising from the acquisition of large Canadian firms by foreign firms, plant closures and job losses, little growth in earnings, an eroding cost advantage relative to the United States, and the threat of new global rivals.
- Canada's primary economic advantages lie in location, natural resources, a diverse economy, high-quality education, and institutional and political stability.
- Canada's economic weaknesses include low population density in a vast geographic area, small scale, jurisdictional fragmentation and regulatory burden, relative high levels of taxation and the associated high cost of capital, and insufficient entrepreneurial ambition. There is also room for Canada to improve how we collaborate.

## A Competitiveness Agenda for Canada

- The Panel believes that Canada must improve its productivity by increasing competitive intensity.
- A precursor to success internationally is to ensure that domestic markets are healthy and that unnecessary barriers to entry are reduced or eliminated. The freer flow of goods and services will import greater competition into our domestic markets.
- Canadian firms will have to become more innovative and entrepreneurial to take on increased foreign competition.
- Greater competitive intensity at home will translate into more success in world markets.
- Adapting to increased competitive intensity will not be easy. It will take time to realize the benefits that will be spurred by increased competition.
- The global factors at work in the economy are unavoidable and irreversible. The longer Canada waits to address these issues, the greater will be the difficulty in resolving them.
- *Compete to Win* puts forward a Competitiveness Agenda for Canada.

# The Legal Foundations

As part of its mandate, the Panel was asked to examine the *Investment Canada Act*, restrictions on ownership in a number of key sectors of the Canadian economy and the *Competition Act*.

## The Investment Canada Act

- The *Investment Canada Act* provides for federal government review of foreign investment to assess whether it is of net benefit to Canada.
- Canada is one of the few industrialized countries to have foreign investment rules requiring the review of proposed foreign investment proposals based on monetary thresholds.
- Canada's reputation for welcoming foreign investment is challenged by the perception that the *Investment Canada Act* impedes foreign investment. In fact, only one non-cultural foreign investment proposal has been disallowed under the *Investment Canada Act*.
- The Panel has addressed this misperception by making a number of recommendations to narrow the scope of the legislation, primarily by increasing the financial threshold triggering review under the *Investment Canada Act* to \$1 billion, by eliminating all but one of the sector-specific low review thresholds, by transferring the onus from the investor to the minister and by proposing a national interest test that the Minister must satisfy before disallowing a foreign investment proposal.
- There is a need to update the administration of the *Investment Canada Act* to ensure that current standards for transparency and predictability are satisfied by issuing additional guidelines and by amending the legislation to provide for public reporting on the operation of the Act.
- Greater clarity and transparency are needed with respect to the application of the *Investment Canada Act* to cultural businesses. The Panel is recommending the creation of an exemption from the review process where cultural business activities are of a *de minimis* size in the context of the overall Canadian business being acquired.
- The Panel believes that it remains appropriate to preserve a distinct approach for cultural businesses, and is not recommending an increase in the current review threshold that applies under the Act for cultural businesses. Nevertheless, existing cultural policies, including those affecting foreign investment in cultural businesses, should be reviewed by the Minister of Canadian Heritage on a priority basis.

## Sectoral Regimes

Canada maintains ownership restrictions in a number of specific sectors of the economy. Most of these restrict the degree of foreign ownership in these sectors and, in some cases, have implications for the degree of competitive intensity, access to new capital, technology or talent.

- Overall, the Panel believes that the federal government should strive to reduce foreign ownership restrictions in a manner that is consistent with maximizing Canada's competitive advantage.
- Other than the *Bank Act*, there is no requirement for reviewing sectoral framework policies on a regular basis.
- The Panel believes that regular, periodic reviews of sectoral framework policies should be implemented with a view to minimizing impediments to competition and to updating and adapting regulatory regimes to reflect the changing circumstances, needs and goals of Canada.
- The Panel examined specific ownership restrictions in air transport, uranium mining, telecommunications and broadcasting as well as financial services.

### Air Transport

- The Panel believes that more foreign participation in the air transport sector is likely both inevitable, provided that “Open Skies” treaties can be negotiated between Canada and other nations, and desirable in terms of increased competitive intensity, which will benefit the travelling public.
- Unilateral removal of foreign ownership restrictions on Canada's international air carriers is not recommended, given that international air travel is governed by bilateral treaties.
- Accordingly, Panel recommendations in the air transport sector focus on allowing greater foreign ownership on a reciprocal basis with other countries and the completion of “Open Skies” negotiations with the European Union.

### Uranium Mining

- Uranium mining raises unique concerns regarding security and nuclear non-proliferation as well as the role of state-owned enterprises in the industry and at other stages of the nuclear fuel cycle.
- The Panel's recommendation to liberalize foreign ownership in the uranium mining sector is tied to the objective of Canada moving up the value chain from mining and first-stage processing by securing greater rights in nuclear fuel production through international negotiation.



- Additionally, the Panel recognizes that, to give effect to this recommendation, new investment review legislation dealing with national security concerns will have to come into force.

### **Telecommunications and Broadcasting**

- For several years, Canada has been reorienting its telecommunication policies to place greater reliance on market forces in recognition that competitive access to information and communications technology facilitates business productivity throughout the economy.
- Canada's telecommunications policy was subject to an extensive review in 2005–2006 by the Telecommunications Policy Review Panel, which concluded that reducing restrictions on foreign ownership would increase competitive intensity, improve industry productivity, and be more consistent with Canada's open trade and investment policies.
- Accordingly, the Panel recommends the adoption of a two-phased liberalization of foreign ownership rules pertaining to the telecommunications and broadcasting sectors. In the first phase, foreign telecommunications companies would be permitted to establish a new Canadian business or acquire an existing Canadian telecommunications company with a market share of up to 10 percent. In the second phase, liberalization of foreign ownership would be undertaken for both telecommunications and broadcasting in a way that would be competitively neutral.

### **Financial Services**

- Canada has eliminated foreign ownership controls in the financial sector. Entry of foreign institutions is subject only to prudential regulation.
- Canada maintains a “widely held” rule with respect to large banks and demutualized insurance companies for prudential reasons. The Panel sees no compelling reason to change this requirement.
- The Panel recommends ending the *de facto* ban on mergers between large Canadian financial institutions, as appropriate regulatory safeguards are already in place to protect prudential soundness, competition and the public interest.

## The Competition Act

- Effective competition laws and policies are key elements in ensuring the competitiveness and efficiency of the Canadian economy.
- The *Competition Act* is recognized internationally as both modern and flexible, and it does not, in the Panel's view, constitute an impediment to Canada's overall competitiveness. However, the Panel concludes that long-term improvements to Canada's productivity could be achieved by updating certain provisions of Canada's competition laws.
- In particular, the Panel believes that it is desirable to harmonize Canadian legal requirements with those of the US, to the extent feasible, with a view to minimizing unnecessary differences, given the high level of business integration between the two economies.
- The Panel is satisfied that there is no need to amend the substantive merger law in the *Competition Act*. However, procedural aspects of the merger review process should be amended to more closely conform with the US process by increasing the initial period for reviewing a proposed merger to 30 days and empowering the Commissioner of Competition to initiate "second stage" review, which would extend the review period by an additional 30 days.
- The time period within which the Commissioner may challenge a merger should be reduced to one year.
- The thresholds that trigger an obligation to notify a merger transaction as well as the creation of additional exemptions from merger notification should be examined.
- The Panel recommends amendments to repeal certain criminal provisions that are either obsolete or ineffective as criminal offences. Amendments should be introduced creating new criminal and civil provisions to address both agreements between competitors to lessen competition and resale price maintenance.
- The Panel is also recommending changes to the powers of the Competition Tribunal to order administrative monetary penalties of a limited amount for violations of the abuse of dominant position provisions.
- Many stakeholders noted the importance of competition advocacy. The Panel agrees that this aspect of competition policy in Canada needs to be strengthened.
- The Panel believes, however, that the Competition Bureau should continue to focus on its core mandate to enforce and promote compliance with the *Competition Act*.

# Public Policy Priorities for Action

Beyond the legal foundations, this report also identifies several other public policy areas where reform is critical to improving Canada's competitiveness.

## Taxation

- Governments should create a more competitive tax system in order to attract new investment, spur job creation and help Canadian businesses adapt to increased global competition.
- Economists generally agree that the best approach is to limit taxes that discourage work and investment, and rely more heavily on value-added taxes. To this end, the Panel recommends that governments should continue to reduce corporate income taxes, eliminate capital taxes, harmonize sales taxes, and lower income taxes for lower- and middle-income Canadians.
- The Panel also recommends that the Advisory Panel on Canada's System of International Taxation, announced in November 2007, should assess Canadian tax provisions affecting the ability of Canadian firms to better compete at home and abroad with foreign competitors in acquisitions.

## Attracting and Developing Talent

- In order for Canada to attract and develop talent, governments should take steps to create the best educated, highest skilled and most flexible workforce in the world.
- The Panel recommends that governments continue to invest in education and training in order to enhance quality and improve educational outcomes, while gradually liberalizing provincial tuition policies offset by more student assistance based on income and merit.
- Post-secondary education institutions should also strive to pursue global excellence through strategic choices, improve partnerships with businesses, create co-op education opportunities where appropriate, support more foreign students and international student exchanges, and publicly report on progress.
- In order to attract and retain skilled workers and address Canada's emerging skills shortages, the federal government should retool Canada's immigration system to better meet labour market needs.

- Given Canada’s aging population and an increasing reliance on immigration for Canada’s future labour force growth, the Panel recommends that Canada’s immigration procedures should become more responsive to employer needs, develop service standards, and fast-track processing for temporary foreign workers and foreign students.

## Head Offices and Cities

- Head offices are the places where strategic decisions are made by key management personnel, and are a significant source of high-skilled, high-paying jobs. They attract high-value business services, and also benefit local communities through civic involvement and philanthropic activities.
- The Panel believes that head offices play a critical role in supporting Canada’s prosperity, and is convinced that implementation of the Panel’s recommendations will enhance Canada’s competitiveness as a destination for capital and talent, and will nurture and develop Canadian-based multinational enterprises whose head offices will replace those of companies that are acquired by foreigners.
- Given the national importance of Canada’s largest urban centres in attracting talent and investment, the federal government should place a priority on addressing urban issues, focusing on infrastructure, immigration, and higher education and training.
- To develop a more stable, secure and growing revenue source to support municipal needs, the Panel recommends that municipalities should make greater use of alternative funding mechanisms, and that provincial governments should assess the feasibility of allowing municipalities to levy a value-added tax within their jurisdiction, assessed on the harmonized goods and services tax base.

## Fostering Growth Businesses

- While small and medium-sized enterprises are a key part of the Canadian economy and represent the majority of Canadian firms, governments should refocus their policies to support those that demonstrate the desire and capacity to grow to become large enterprises.
- Governments should also develop options to facilitate the provision of more private venture capital, particularly at the “angel” and late stage.

## Strengthening the Role of Directors in Mergers and Acquisitions

- Large Canadian enterprises and their head offices contribute considerably to the country in terms of career opportunities, community benefits and shareholder value.
- Accordingly, the oversight of the exercise of their fiduciary duties by directors of such companies with respect to an acquisition proposal has important ramifications for Canada, and must be contemporary and competitive.
- To this end, the Panel recommends changes that would place the directors of Canadian public companies on a comparable footing to their Delaware counterparts when exercising their fiduciary duties in relation to acquisition proposals.

## The Canadian Economic Union

- Canada's federal system has not evolved sufficiently to keep pace with Canada's changing economic context. The result is a misalignment of revenue sources with program responsibilities as well as market fragmentation due to a proliferation of internal barriers to the free movement of goods, services and people that drive up costs and weaken Canada's competitiveness.
- The federal government should provide leadership by setting a deadline for the elimination of all internal barriers between the provinces and territories that inhibit the free flow of goods, services and people.
- As part of efforts to strengthen the economic union, the federal government should also provide leadership regarding national securities regulation, and better harmonize federal environmental assessment procedures with provinces respecting provincial review timelines.

## Canada–US Economic Ties

- In the wake of the North American Free Trade Agreement, Canada restructured much of its economy to integrate with that of the US.
- Canada would benefit by further strengthening its economic relationship with the US, and should make every effort to capitalize on this unique relationship.
- The Panel believes that addressing the thickening Canada–US border through direct bilateral engagement at the highest political levels should be the number one trade priority for Canada.

## International Trade and Investment

- Canada derives a considerable portion of its wealth from international trade and investment. However, too few Canadian companies have excelled at exploiting new economic opportunities beyond the US or in countries aside from those where Canadians have long-standing relationships.
- Canada also has a poor track record of completing key foreign trade and investment protection agreements, falling behind many other countries.
- To address these concerns, the Panel recommends that the federal government should prioritize Canada's international market opportunities and set an ambitious timeline to conclude foreign trade and investment agreements with these countries, publicize the potential impacts of prospective agreements and incorporate comprehensive business input.

## Regulation

- Too often, federal, provincial and municipal regulatory requirements and processes constrain Canadian competitiveness.
- Regulations are rarely designed to minimize their impact on competition.
- To address the competitiveness issues arising from regulation, the Panel recommends that all governments put in place a process whereby all new regulations are subjected to a rigorous assessment of their impact on competitiveness, and charge a senior minister with responsibility for its effectiveness.
- Governments should also report on outcomes and harmonize Canada's product and professional standards with those of the US, unless public policy considerations dictate otherwise.

## Innovation and Intellectual Property

- Innovation drives productivity and competitiveness throughout the entire economy and requires a supportive intellectual property framework.
- Canada is a top performer in public funding for research and development (R&D), but scores poorly in terms of private investment in R&D as well as in the commercialization of technologically intensive goods and services.

- Accordingly, the Panel recommends that the federal government should regularly monitor the scientific research and experimental development tax credit in order to encourage business investment in R&D and innovation.
- The federal government should also retool Canada's patent law and copyright regimes, and should strengthen counterfeit and piracy laws to ensure that intellectual property rights are effectively protected.
- Post-secondary educational institutions should also expedite the transfer of intellectual property rights and the commercialization of university-generated intellectual property.

## A Canadian Competitiveness Council

The Panel concludes that the absence of an independent institution with a focused mission to advocate for measures to improve the level of competitive intensity in the Canadian economy is the most significant gap in Canadian competition policy.

- The Panel is proposing the creation of a Canadian Competitiveness Council that would conduct research on competitiveness issues in both the public and private sectors. The Council would also have a public voice to foster national debate and dialogue on competitiveness issues.
- The proposed Council would serve as the primary Canadian advocate for competition. It would be independent of government, but with a clear reporting relationship to Parliament.
- The Council would be governed by a Board of Directors, including a majority of representatives from outside government, made up of persons knowledgeable and experienced in matters of economics, business and government affairs pertaining to competition, industry, regulation and consumers, as well as representatives who bring the perspectives of the federal government, the provinces and cities.
- With political support, sufficient resources and a small, competent staff, the Panel believes that the Canadian Competitiveness Council has the potential to have a positive and lasting impact on the well-being of Canadians.

## Going Forward

- With its national Competitiveness Agenda, the Panel hopes to seize the attention of Canadians from all walks of life and all regions. The questions are how we raise our productivity through greater openness to talent, capital and innovation, through vigorous competition and through a more ambitious mindset.
- The Panel believes that the key will be to encourage both more competition at home and more exposure to competition from abroad. Competition drives the productivity that ultimately sustains our incomes, jobs and quality of life.
- This report is the Panel's best effort to set the agenda for sustained competitiveness. It is a national project, calling on all Canadians to commit to making our country more competitive.

***“Our Competitiveness Agenda does not ask Canadians to give up anything, nor to settle for less. On the contrary, we are asking Canadians to raise their sights, and to recognize the challenges and opportunities of economic globalization. We are asking Canadians to take a global perspective.”***

— From the Conclusion to *Compete to Win*



# List of Panel Recommendations

## Competitiveness Agenda: The Legal Foundations

### The Investment Canada Act

1. The Minister of Industry should introduce amendments to the *Investment Canada Act* as follows:
  - a) raise the review threshold to \$1 billion, replace gross assets as the standard of measurement with enterprise value of the acquired business, and continue to index this threshold for inflation in accordance with the current NAFTA formula;
  - b) raise the threshold for the review of foreign investment in the transportation sector (including pipelines), non-federally regulated financial services and uranium mining from \$5 million to the \$1 billion threshold recommended above;
  - c) change the applicable review standard and reverse the onus within the ICA, which currently requires applicants to demonstrate “net benefit to Canada,” to require the relevant minister to be satisfied that consummation of the proposed transaction would be contrary to Canada’s national interest, before disallowing the transaction;
  - d) remove the obligation under the ICA to notify Industry Canada with regard to an acquisition that falls below the threshold for review or for the establishment of any new business;
  - e) state that neither recommendation 1.a, 1.b nor 1.d would apply to the administration or enforcement of the ICA as they relate to cultural businesses; and
  - f) revise the ICA’s purpose clause (section 2) to remove Industry Canada’s responsibilities to promote foreign investment in Canada.

2. The Minister of Industry and the Minister of Canadian Heritage should increase the use of guidelines and other advisory materials to provide information to the public concerning the review process, the basis for making decisions under the ICA, and interpretations by Industry Canada and the Department of Canadian Heritage regarding the application of the ICA. Additionally, amendments to the ICA should require the Ministers to:
  - a) report publicly on the disallowance of any individual transaction under the ICA, giving reasons for such action being taken; and
  - b) table an annual report to Parliament on the operation of the ICA.
3. The Minister of Canadian Heritage should establish and make public a *de minimis* exemption clarifying that the acquisition of a business with cultural business activities that are ancillary to its core business would not be considered a separate cultural business nor be subject to mandatory review by the Department of Canadian Heritage. For the purpose of applying this exemption, the cultural business activities would be considered *de minimis* if the revenues from cultural business activities are less than the lesser of \$10 million or 10 percent of gross revenues of the overall business.
4. Consistent with recommendations for other sectors, the Minister of Canadian Heritage, with advice from stakeholders and other interested parties, should conduct a review every five years of cultural industry policies, including foreign investment restrictions. The first such review should be launched in 2008. As a matter of priority, the first review should consider:
  - a) increasing and revising the threshold for the review of acquisitions of cultural businesses; and
  - b) the desirability of the Minister of Canadian Heritage continuing to have the right to require the review and approval under the ICA of any new cultural business establishments by foreign investors.
5. In administering the ICA, the ministers of Industry and Canadian Heritage should act expeditiously and give appropriate weight to the realities of the global marketplace and, in appropriate cases, the ministers should provide binding opinions and other less formal advice to parties concerning prospective transactions on a timely basis to ensure compliance with the ICA.

## Sectoral Regimes

6. Individual ministers responsible for the sectors addressed in this report should be required to conduct a periodic review of the sectoral regulatory regime with a view to minimizing impediments to competition as well as updating and adapting the regulatory regime to reflect the changing circumstances, needs and goals of Canada. This review should be modelled on the *Bank Act* process and should occur on a five-year cycle. Ownership restrictions should be reviewed on the basis of:
  - a) a statement of policy goals that reflect the current Canadian reality;
  - b) an understanding that limitations on competition and investment may be required to address a market failure, a paramount social policy or a security objective;
  - c) an understanding of the costs and benefits of any such restriction on competitive intensity; and
  - d) an evaluation of whether existing restrictions — or alternative approaches — are the optimal means of achieving the stated policy goals.

## Air Transport

7. The Minister of Transport should increase the limit on foreign ownership of air carriers to 49 percent of voting equity on a reciprocal basis through bilateral negotiation.
8. The Minister of Transport should complete Open Skies negotiations with the European Union as quickly as possible.
9. The Minister of Transport, on the basis of public consultations, should issue a policy statement by December 2009 on whether foreign investors should be permitted to establish separate Canadian-incorporated domestic air carriers using Canadian facilities and labour.

## Uranium Mining

10. The Minister of Natural Resources should issue a policy directive to liberalize the non-resident ownership policy on uranium mining, subject to new national security legislation coming into force and Canada securing commensurate market access benefits allowing for Canadian participation in the development of uranium resources outside Canada or access to uranium processing technologies used for the production of nuclear fuel for nuclear power plants.

## Telecommunications and Broadcasting

11. Consistent with the *Telecommunications Policy Review Panel Final Report 2006*, the federal government should adopt a two-phased approach to foreign participation in the telecommunications and broadcast industry. In the first phase, the Minister of Industry should seek an amendment to the *Telecommunications Act* to allow foreign companies to establish a new telecommunications business in Canada or to acquire an existing telecommunications company with a market share of up to 10 percent of the telecommunications market in Canada. In the second phase, following a review of broadcasting and cultural policies including foreign investment, telecommunications and broadcasting foreign investment restrictions should be liberalized in a manner that is competitively neutral for telecommunications and broadcasting companies.

## Financial Services

12. The “widely held” rule applicable to large financial institutions should be retained.
13. The Minister of Finance should remove the de facto prohibition on bank, insurance and cross-pillar mergers of large financial institutions subject to regulatory safeguards, enforced and administered by the Office of the Superintendent of Financial Institutions and the Competition Bureau.

## The Competition Act

14. The Minister of Industry should introduce amendments to the *Competition Act* as follows:
  - a) align the merger notification process under the *Competition Act* more closely with the merger review process in the United States; the initial review period should be set at 30 days, and the Commissioner of Competition should be empowered, in its discretion, to initiate a “second stage” review that would extend the review period for an additional period ending 30 days following full compliance with a “second request” for information;
  - b) reduce to one year the three-year period within which the Commissioner of Competition currently may challenge a completed merger;
  - c) repeal the price discrimination, promotional allowances and predatory pricing provisions;

- d) repeal the existing conspiracy provisions and replace them with a *per se* criminal offence to address hardcore cartels and a civil provision to deal with other types of agreements between competitors that have anti-competitive effects;
  - e) repeal the existing resale price maintenance provisions and replace them with a new civil provision to address this practice when it has an anti-competitive effect. This new provision should be subject to the private access rights before the Competition Tribunal;
  - f) grant the Competition Tribunal the power to order an administrative monetary penalty of up to \$5 million for violations of the abuse of dominant position provisions; and
  - g) repeal the “Air Canada” amendments that created special abuse of dominant position rules and penalties for a dominant air passenger service.
15. The Minister of Industry should examine whether to increase the financial thresholds that trigger an obligation to notify a merger transaction as well as whether to create additional classes of transactions that are exempt from the merger notification provisions of the *Competition Act*.
16. The responsibility for competition advocacy should be vested in the proposed Canadian Competitiveness Council. The power to undertake interventions before regulatory boards and tribunals under sections 125 and 126 of the *Competition Act* should remain with the Commissioner of Competition, unless and until such powers are granted to the proposed Council.
17. The Competition Bureau should reinforce its commitment to giving timely decisions, strengthen its economic analysis capabilities, give appropriate weight to the realities of the global marketplace and, where possible, provide “advance rulings” and other less formal advice to parties concerning prospective transactions and other arrangements on a timely basis to ensure compliance with the *Competition Act*.

# Competitiveness Agenda: Public Policy Priorities for Action

## Taxation

18. The federal, provincial and territorial governments should continue to reduce corporate tax rates to create a competitive advantage for Canada, particularly relative to the United States.
19. Provinces should expedite the phase-out of provincial capital taxes, and the provinces of Ontario, Manitoba, Saskatchewan, British Columbia and Prince Edward Island should move expeditiously to harmonize their provincial sales taxes with the goods and services tax.
20. The federal, provincial and territorial governments should give priority to reductions in personal income taxes, particularly for lower- and middle-income Canadians, and should provide incentives for investment and work by shifting a higher proportion of governments' revenue base to value-added consumption taxes.
21. The International Tax Panel should give particular attention to an assessment of tax provisions disadvantaging Canadian companies relative to non-Canadian companies in Canadian acquisitions, with the objective of recommending ways to allow Canadian-based companies to compete on an equal footing.
22. The International Tax Panel should assess the provisions of Canadian tax legislation limiting interest deductibility by Canadian companies in respect of foreign acquisitions to ensure that Canadian companies seeking to compete globally enjoy every advantage relative to their foreign competitors.

## Attracting and Developing Talent

23. Governments should continue to invest in education in order to enhance quality and improve educational outcomes while gradually liberalizing provincial tuition policies offset by more student assistance based on income and merit.
24. Post-secondary education institutions should pursue global excellence through greater specialization, focusing on strategies to cultivate and attract top international talent, especially in the fields of math, science and business.

25. Governments should use all the mechanisms at their disposal to encourage post-secondary education institutions to collaborate more closely with the business community, cultivating partnerships and exchanges in order to enhance institutional governance, curriculum development and community engagement.
26. Federal and provincial governments should encourage the creation of additional post-secondary education co-op programs and internship opportunities in appropriate fields, to ensure that more Canadians are equipped to meet future labour market needs and that students gain experiences that help them make the transition into the workforce.
27. Governments should provide incentives and undertake measures to both attract more international students to Canada's post-secondary institutions and send more Canadian students on international study exchanges.
28. Governments should strive to increase Canada's global share of foreign students, and set a goal of doubling Canada's number of international students within a decade.
29. Governments, post-secondary education institutions and national post-secondary education associations should undertake regular evaluations, measure progress and report publicly on improvements in business–academic collaboration, participation in co-op programs, and the attraction and retention of international talent.
30. Reforms to Canada's immigration system should place emphasis on immigration as an economic tool to meet our labour market needs, becoming more selective and responsive in addressing labour shortages across the skills spectrum.
31. Canada's immigration system should develop service standards related to applications for student visas and temporary foreign workers, and should be more responsive to private employers and student needs by fast-tracking processing and providing greater certainty regarding the length of time required to process applications.
32. In order to ensure that Canada is able to attract and retain top international talent, and respond more effectively to private employers, Canada's immigration system should fast-track processing of applications for permanent residency under the new Canadian Experience Class for skilled temporary foreign workers and foreign students with Canadian credentials and work experience.

## Head Offices and Cities

33. Given the national importance of Canada's largest urban centres, the federal government should provide leadership to deal with critical urban issues, particularly those affecting infrastructure, immigration, and higher education and training.
34. In addressing urban issues, municipalities need a more stable, secure and growing revenue source. In particular, provincial governments should assess the feasibility of allowing any municipality to levy a 1 percent value-added tax within their jurisdiction, assessed on the harmonized goods and services tax base, which would be collected by the Canada Revenue Agency (or Revenue Quebec) on behalf of the municipality.
35. In dealing with these issues, municipal authorities that have not already done so should make greater use of financing mechanisms such as user fees, cost recovery programs, debt financing and public-private partnerships.

## Fostering Growth Businesses

36. Federal and provincial governments' small and medium-sized enterprise policies should focus on those firms that demonstrate the desire and capacity to grow to become large enterprises. Small and medium-sized enterprise policies and programs should be subjected to regular review in order to assess and measure whether this objective is being met.
37. The Minister of Finance and the Minister of Industry should develop and release a public report on options, including tax incentives, to facilitate the provision of more private venture capital, particularly at the "angel" and late stage, by June 2009.

## Strengthening the Role of Directors in Mergers and Acquisitions

38. Securities commissions should repeal National Policy 62-202 (Defensive Tactics).
39. Securities commissions should cease to regulate conduct by boards in relation to shareholder rights plans ("poison pills").



40. Substantive oversight of directors' duties in mergers and acquisitions matters should be provided by the courts.
41. The Ontario Securities Commission should provide leadership to the Canadian Securities Administrators in making the above changes, and initiate action if collective action is not taken before the end of 2008.

### The Canadian Economic Union

42. The federal government should provide leadership in the elimination of all internal barriers between the provinces and territories that inhibit the free flow of goods, services and people by June 2011.
43. Federal and provincial governments should establish by June 2009 a work plan to achieve this goal and provide interim reports on progress every six months.
44. The federal government should show leadership regarding national securities regulation and resolve this matter expeditiously.
45. The federal government should more fully harmonize federal environmental assessment procedures with provincial processes.
46. Beginning January 2009, the federal government should abide by timelines that are not longer than the environmental assessment timelines set by the relevant provincial jurisdiction for a proposed project subject to assessment and incorporate such timelines as part of the broader national review required for 2010.

### Canada–US Economic Ties

47. Addressing the thickening of the Canada–US border should be the number one trade priority for Canada, and requires heightened direct bilateral engagement at the highest political levels.
48. Canada should act to create a more seamless US border crossing process, focusing on priorities jointly identified by the Canadian Chamber of Commerce and US Chamber of Commerce in their February 2008 report, while responding to legitimate US security needs, and funding and expediting vital border infrastructure.

## International Trade and Investment

49. The federal government should set an ambitious timeline for concluding priority trade and investment agreements, led by the Minister of International Trade who should pursue a flexible, results-based approach, beginning by simplifying Canada's model foreign investment protection agreements and streamlining our free trade agreements negotiating processes.
50. Beginning in 2009, on behalf of the federal government, the Minister of International Trade should report at least annually on Canada's trade and investment liberalization initiatives generally and in specific sectors.
51. Beginning immediately, the Minister of International Trade should build on the Global Commerce Strategy by developing and publicizing annual plans and priorities for enhanced trade and investment, and by identifying priority trading partners, economic impacts of prospective agreements and services to businesses. Comprehensive input from business should guide and inform Canada's approach across government.

## Regulation

52. A senior federal economic minister should be mandated to lead and oversee progress on regulatory reforms, implementing a new regulatory screen by June 2009 that would subject all new regulations to a rigorous assessment of their impact on competitiveness.
53. Each major federal regulatory department and agency should reform its processes to increase transparency, reduce overlap and duplication, and set clear standards to yield time certain decisions, reporting annually, commencing in 2010, on outcomes and performance.
54. The foregoing recommendations for regulatory reform are equally applicable to provinces and territories.
55. Canada should harmonize its product and professional standards with those of the US, except in cases where, and then only to the extent that, it can be demonstrated that the impairment of the regulatory objective outweighs the competitiveness benefit that would arise from harmonizing.

## Innovation and Intellectual Property

56. The federal government should monitor the scientific research and experimental development tax credit program annually in order to ensure that business investment in research and development and innovation in Canada is effectively encouraged.
57. As a matter of priority, the federal government should ensure that new copyright legislation will both sufficiently reward creators while stimulating competition and innovation in the Internet age. Any prospective changes to Canada's patent law regime should also reflect this balance. The federal government should assess and modernize the Canadian patent and copyright system to support the international efforts of Canadian participants in the global economy in a timely and effective manner.
58. Before December 2009, the federal government should strengthen counterfeit and piracy laws to ensure that intellectual property rights are effectively protected.
59. Canada's post-secondary education institutions should expedite the transfer of intellectual property rights and the commercialization of university-generated intellectual property. One possible method to achieve this would be to move to an "innovator ownership" model to speed commercialization.

## Driving Change: A Canadian Competitiveness Council

60. The federal government should establish as expeditiously as possible an independent Canadian Competitiveness Council under the Minister of Industry. The Council should be staffed by a Chief Executive Officer and a small core staff, overseen by a Board of Directors.
61. The Council's mandate should be to examine and report on, advocate for measures to improve, and to ensure sustained progress on, Canadian competitiveness. The Council should not enforce laws and regulations but should have a public voice, including the power to publish and advocate for its findings.

62. The Council should set its own agenda, reviewing matters or conducting research on its own initiative as well as in response to the request of a federal or a provincial minister or a municipal mayor. Governments should not have the power to compel the Council to undertake or discontinue a review or study.
63. The Council should be required to report to Parliament on its activities on an annual basis through the Minister of Industry.
64. The Council's Board of Directors should consist of not more than nine persons, including the Chair, and should include a majority of non-governmental members, as well as members with experience representing the federal, provincial and municipal governments.
65. The Council should be mandated and fully funded in a manner that would allow the Council to operate in an effective and responsible manner for a five-year period. Prior to the end of the five-year period, the Minister of Industry should undertake a review to determine whether the Council's mandate should be renewed and, if so, on what terms.