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Direction de
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ENVIRONMENT ASSESSMENT

Spring, 1985



Consommation
et Corporations
Canada

Consumer and
Corporate Affairs
Canada

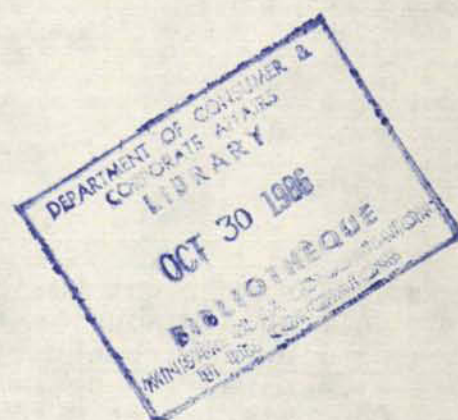
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ENVIRONMENT ASSESSMENT

Spring, 1985



Ce rapport est également disponible
en français sous le titre Évaluation
de l'environnement. Prière de s'adresser
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Ottawa
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EXECUTIVE SUMMARY

This Environment Assessment examines socio-economic trends, legal trends, and government priorities, and discusses departmental issues and possible implications of these trends.

- o Part One highlights expected developments in the economy and sets the background for other structural changes discussed later in the report. Weak economic growth is projected, with high unemployment to continue in the forecast period. Interest rates will remain volatile and difficult to predict. The resource-based regions will experience weaker growth than other regions.

Major issue:

Continuing slow growth and high unemployment will sustain a pool of unemployed and low-wage earners, who are **vulnerable consumers**. The regional distribution of these will be uneven across the country, giving rise to regional tensions, and uneven pressure for social services in different parts of Canada.

- o Part Two deals with external trade and discusses the uncertainties facing trading nations, especially the issue of freer trade. The impacts of protectionism on consumers are explored, showing the potential gains to be made for consumers from freer trade policies.

Major issue:

Freer trade should benefit consumers and lead to greater economic efficiency. But movement towards freer trade is beset with uncertainty. In addition, Canadian trade policies have so far favoured producers and neglected consumers; there has not been a strong voice for consumers in trade policy formulation.

- o Part Three examines the extent and evolution of competition in the Canadian economy. Aggregate and industrial concentration levels are generally higher in Canada than in the U.S. and other western countries. There has also been increasing merger activity in Canada. Developments in consumer markets are also discussed. Segmentation is occurring

in consumer markets, leading to breakdown of the mass market. Merger activity is taking place across industry boundaries to allow firms to increase penetration of diverse market segments.

Major issue:

There is a rising merger trend, as one business strategy to consolidate markets. Mergers may increase aggregate concentration and economic power in the marketplace without appearing "anti-competitive" in a single industry.

- o Technological change is the subject of Part Four. New technologies are emerging, leading to new consumer products that will have distinctly different characteristics from those of today. This is particularly true of biotechnology which may involve potential hazards in its production, transportation or marketing.

Major issue:

Many emerging technologies may significantly alter the nature of consumer products and services in the future, such as electronic financial services, ceramics displacing metals, and biotechnology. These will cause additional demand for better information and standards in the marketplace.

- o Part Five deals with changes in the regulatory environment in telecommunications and transportation. Regulatory bodies are tending towards allowing more competition in these areas, which will likely benefit consumers. However, more reliance on the free market may affect universality of services to consumers. This is particularly true in the case of local telephone services. Local service rates may rise, if telephone companies' rate rebalancing proposal is accepted by the CRTC.

Major issue:

Changes in the regulatory environment to allow market forces to operate more freely should generally benefit consumers. But the free market may threaten universality of some services, and cause discriminatory marketing practices.

- o Blurring of the boundaries between financial institutions is the subject of Part Six. Technological change, deregulation, market segmentation and mergers are all causing changes in the financial sector and each of these is discussed.

Major issue:

Blurring of boundaries between the four core **financial services** may increase concentration of economic power and raise concerns for solvency of institutions, shareholder protection and corporate disclosure. The changing nature of financial services will likely alter the effective cost of service and the range of choice open to consumers. There is also the potential problem of discriminatory services to different types of consumers.

- o Part Seven discusses demographic changes, trends in social attitudes, and in consumer behaviour. The average Canadian consumer is getting older and more mature. More emphasis is being put on quality. Greater consumer sophistication and expression of individual preferences will lead to segmentation of consumer markets, as mass markets no longer perform satisfactorily (this point is also raised in Part Three). There will also be increasing concern over consumer information, and product and service standards. At the same time, there will be pressure for less intervention by governments.

Major issue:

Polarization is occurring in the marketplace as consumers move away from mass markets to highly segmented and localized markets. In turn, mass advertising is breaking down into localized advertising. Polarization is also increasing in social values. A trend towards free-enterprise values is occurring at the same time as Canadians are expecting enforcement of better quality standards in products, and equality of opportunities in job markets.

- o Part Eight briefly deals with the **legal environment** relevant to CCAC. A major development has been the passage of the Charter of Rights and Freedoms. Challenges to various powers of this Department by citizens invoking the Charter may pose enforcement problems of various Acts. Another important

development will be amendments to the Combines Investigations Act, which may include provision for mergers challenged by CCAC to be adjudicated in the civil courts rather than the criminal courts.

- o Part Nine highlights current government priorities, focussing on those that are relevant to CCAC. These priorities include: economic renewal via private sector initiatives; deficit reduction and restraint in government spending; deregulation and reduction of trade barriers; and, regional development. The government is reviewing all federal programs to re-define the role of the public sector. Emphasis is also being put on consultation with interest groups and between levels of government, to harmonize policies and programs of all levels of government. Downsizing the public sector is the overall objective.
- o Part Ten identifies major issues by integrating the key points raised in the preceding Parts. It also presents a set of possible implications for the Department based on these issues. In this Executive Summary, the major issues are stated above, following each corresponding Part.

Given the issues, this report presents a set of possible implications for the Department. These are intended to show one possible scenario, leaving decisions regarding actual directions to be followed for the strategic planning process. These are the possible implications:

- o Slow economic growth and high unemployment mean continuing demand for social programs and other transfer payments, which account for about 77 per cent of total federal spending. There will therefore be pressure to achieve savings from the balance of government programs. All federal departments, including CCAC, will have to increase productivity and justify discretionary programs. At the same time, the external environment will be changing and making demands on the Department to react. It is thus not a matter of simply downsizing, but requires an assessment of CCAC's responses to these demands, and a continuing review of the external environment, and Departmental objectives in the future.
- o Because Canadian trade policies have traditionally advanced the interests of producers, the current debate over freer trade presents an opportunity for CCAC to improve efficiency in the marketplace by vigorously promoting consumer interests in trade

policy formulation. Consumer interests will favour freer trade, lower prices and lower concentration of Canadian industries. Hence, the Department must monitor the adverse consequences of potential restraints to trade, as threatened industries react to stiffer international competition.

- o Mergers of firms across different markets will make it increasingly important to detect abuse of dominant positions resulting from aggregate concentration of economic power. Mergers may also increase the exposure of vulnerable consumers as the nature of information relating to business grows in complexity. Thus, the Department may have to **enhance its monitoring activities over mergers** and to challenge mergers with increasing frequency.
- o The Department may have to reassess the needs of consumers in the light of polarization of consumer markets and in keeping with the government's intent of respecting the jurisdictions of all levels of government. Consumers will demand more information on new products and services in a world characterized by growing segmentation. **Regional variations in marketing practices may need to be addressed.**
- o New technologies will require the Department to harmonize its legislative initiatives concerning the **patentability of biotechnology and the granting of plant breeders' rights.**
- o The growing concern with piracy of intellectual property and parallel imports will require increased efforts to **monitor the trade-related issues in intellectual property**, and to contribute to their resolution.
- o The trend towards less regulation, especially in telecommunications and transportation, will put more reliance on competition policy to ensure market efficiency. This will lead to increased demand to **monitor market performance** and may require more enforcement capacity where market failures occur.
- o Certain new technologies such as biotechnology, may actually **increase the requirement for regulation** in the interest of public health and safety, and international and intergovernmental coordination.
- o The Department may need to enhance the role of **advocacy for the needs of vulnerable consumers.** Developments in the financial sector may affect the range

of services available to low income groups. Deregulation in telecommunications may threaten the universality of telephone services to all income groups.

- o The Department may also face **uneven regional demands** on its resources for consumer services due to uneven distribution of vulnerable consumers.
- o Due to slow economic growth, **no significant upsurge in new business formation** is expected. At the same time, despite unpredictable interest rates, **bankruptcies are not projected to rise significantly** because businesses are reducing their indebtedness and lowering their leverage ratios.
- o The present government is clearly in favour of economic growth via private sector initiatives. Frequently, this will mean policies designed to facilitate the interests of producers. In some instances, the interests of other members of society, e.g. consumers, need to be articulated in the policy formulation process. This Department can be the **focal point for balancing the interests of consumers and producers** by assisting efforts to broaden the areas of consensus between them. Such a search for consensus is an alternative to the adversarial relationship which otherwise prevails.
- o **Reallocation of internal resources** is most likely to be the primary method of preparing to meet the challenges which have been delineated above. The Department will have to develop a comprehensive long-range human resources strategy, in concert with the initiatives of central agencies, to identify the skills required and to implement the training and retraining strategies implicit in new directions. In turn, this demands a clear statement of internal priorities for the mid-term in supporting the thrust of the new government's objectives.

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INTRODUCTION

The environment in which the Department of Consumer and Corporate Affairs is expected to operate in the next five years is the subject of this report. The environment can be broadly defined as the economy, social developments, the legal system, and government priorities which will lead to public policies. Each of these will be analysed separately.

There are obvious relationships among the four broad components of the environment identified above. In some instances, it will be difficult to discuss one component in isolation from the others. This is particularly true of the first two: economic and social developments. The economy influences people's lives at work and at home, which in turn affects social values and consumer behaviour. The linkages between the economy and social developments are critical for this Department, which has a mandate that is neither solely in the economic arena nor solely in the social arena.

Thus, this report presents an assessment of the environment, composed of the socio-economic component, the legal component and the political component. The assessment of each is in the context of the implications for this Department. In the analysis of each component of the environment, a conscious target is set to present only materials relevant to this Department, rather than a comprehensive treatment of global issues. Obviously, this permits more clearcut perspectives of the implications.

The ultimate goal of this report is not only analysis of the environment. It serves as the starting point for evaluation of the strategies to be followed by this Department in its long-term planning.

Organization of the Report

Part One discusses underlying macroeconomic trends in Canada that set the stage for the socio-economic environment. Parts Two to Six deal with major areas of structural change in the economy that have implication for this Department. These are external trade, changes in industrial structure, technology, the regulatory environment, and financial institutions. Part Seven deals with social trends. Part Eight examines the legal factors influencing this Department. In Part Nine, current government priorities are highlighted emphasizing those that impact on CCAC. Part Ten pulls together the various implications presented throughout the Report into a set of unified Departmental issues and then discusses possible implications for CCAC.

PART ONE

MACROECONOMIC DEVELOPMENTS

This part is organized around three themes:

1. An outlook for the economy for the balance of the decade, emphasizing factors that have direct or indirect impact on the Department;
2. Regional outlooks; and
3. Implications for the marketplace.

1. Five Year Economic Outlook

The Canadian economy went through its deepest post-war recession in 1982. Although the economy recovered in 1983 and 1984, the rate of economic expansion was unusually slow compared to Canadian experience in post-war history.

The poor economic record of the 1980s has raised major questions concerning the basic economic structure of the country. Responses have included the formation of a Royal Commission on the Economic Union and Development Prospects for Canada to examine a broad range of issues confronting the economy. In the fall of 1984, a Conservative government was elected, and signalled some major changes in economic policy.

Before a discussion of the future, it is useful very briefly to review the current economic situation.

A Brief Review

The recession in 1982 was very much a result of tight monetary policy in the United States, a policy that drove world interest rates to historically high levels. The target of that policy was to fight inflation: price increases in both Canada and the U.S. were at double digit rates prior to 1982. Economic contraction occurred and inflation declined to about 5 per cent in both countries.

Economic recovery ensued in 1983, but the recovery in Canada was weaker than expected. Table 1.1 indicates the problem.

Table 1.1

	1971-1980 Average	1981	1982	1983	1984 (est.)
Real GNP	4.1	3.4	-4.4	3.3	4.2
Real Consumer spending	4.7	1.9	-2.1	3.1	3.0
Real Business Investment	6.1	7.6	-11.2	-12.2	1.0
Unemployment Rate	6.8	7.5	11.0	11.9	11.4

(Year to year percentage change except for unemployment rate)

Source: Statistics Canada

It can be observed that in 1983 economic growth was only 3.3 per cent. This was growth from a historical low point in 1982. Economic growth before 1982 was notably higher, on average, with yearly growth in those years based on strong preceding years.¹ As a comparison, post-war recoveries from recessions showed growth averaging 7 per cent in the first year of recovery.

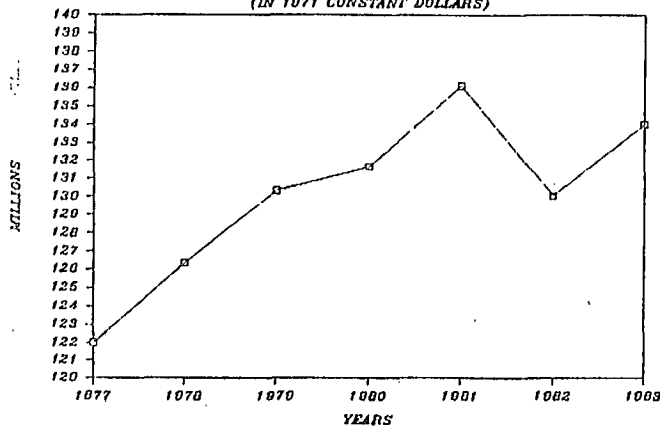
The same picture is confirmed by looking at consumer spending trends. Business investment suffered the most severe setback and continued to decline in 1983. Latest data for 1984 indicate that investment should rise by about 2 per cent. A major consequence of the weak economic performance was the high unemployment rate.

Most analysts attributed such weakness in the economy to a lack of confidence among the business community, associated with high public sector deficits and uncertainty about future interest rates.

The economic review is presented graphically on the following pages.

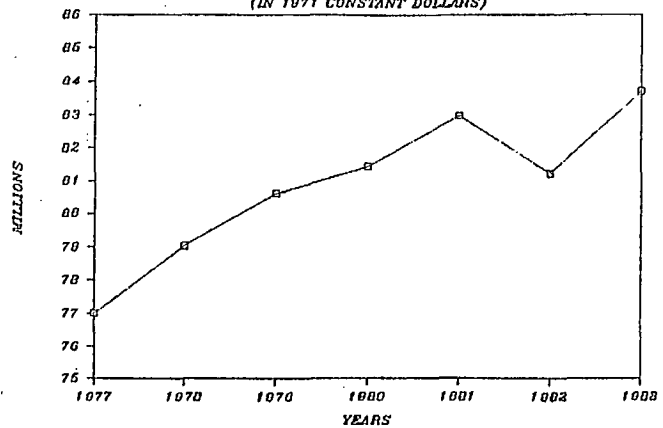
1. In other words, growth in 1983 was calculated from the low point in 1982, while growth in e.g. 1980, was calculated from a strong 1979. To merely recover to previous levels, a much higher growth rate would have been required in 1983.

GROSS NATIONAL PRODUCT
(IN 1971 CONSTANT DOLLARS)



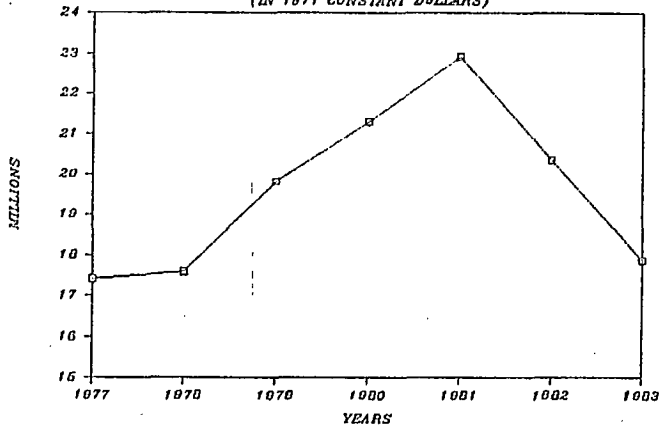
1: The economy suffered a major setback in 1982, followed by a weak recovery.

CONSUMER EXPENDITURES
(IN 1971 CONSTANT DOLLARS)



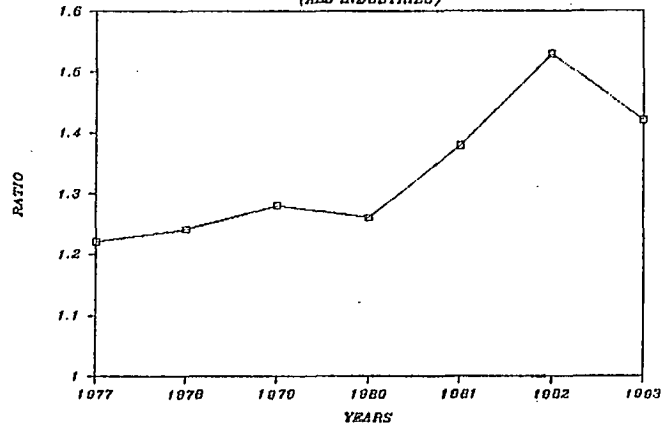
2: Consumer spending showed the same setback.

BUSINESS FIXED INVESTMENT
(IN 1971 CONSTANT DOLLARS)



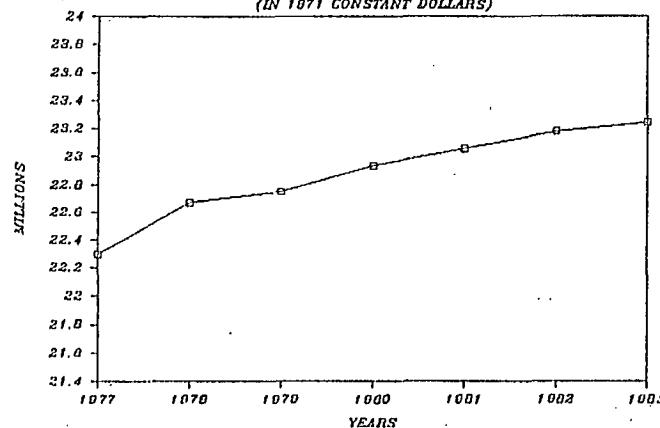
3: Business investment declined for 2 consecutive years.

DEBT TO EQUITY RATIO
(ALL INDUSTRIES)



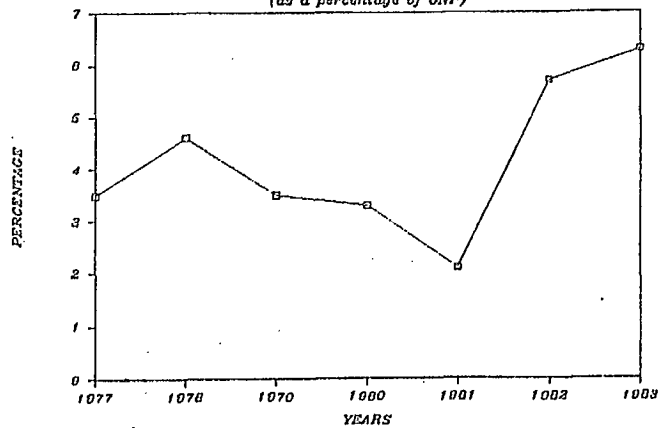
4: Business debt loads peaked and declined slightly. Future interest rates will be critical.

GOVERNMENT EXPENDITURES
(IN 1971 CONSTANT DOLLARS)



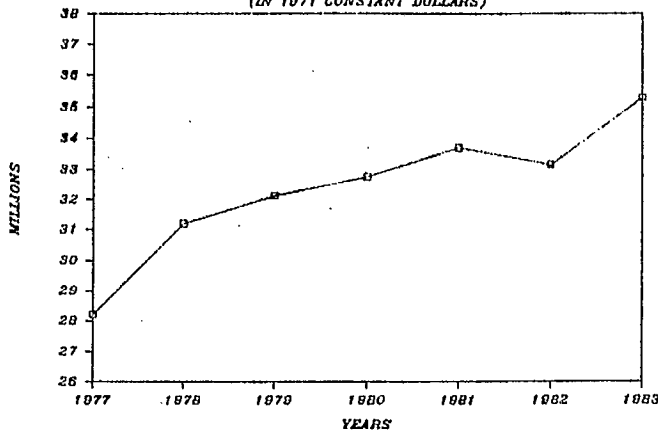
5: Only government spending continued to increase. Deficit aside, this actually saved the economy from a deeper recession.

FEDERAL GOVERNMENT DEFICIT
(as a percentage of GNP)



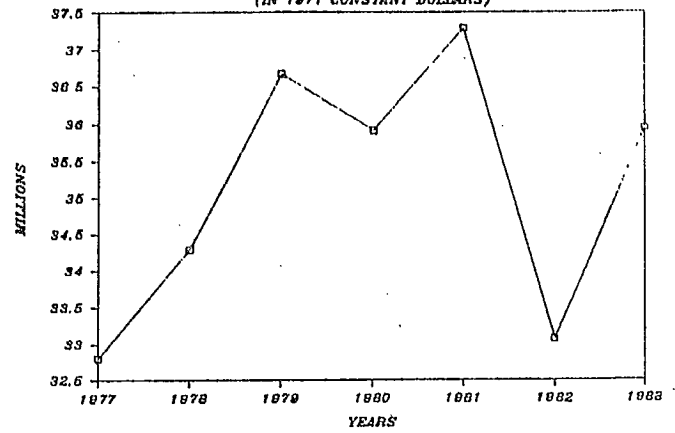
6: One of the basic obstacles to economic growth has been the government deficit.

EXPORTS (IN 1971 CONSTANT DOLLARS)



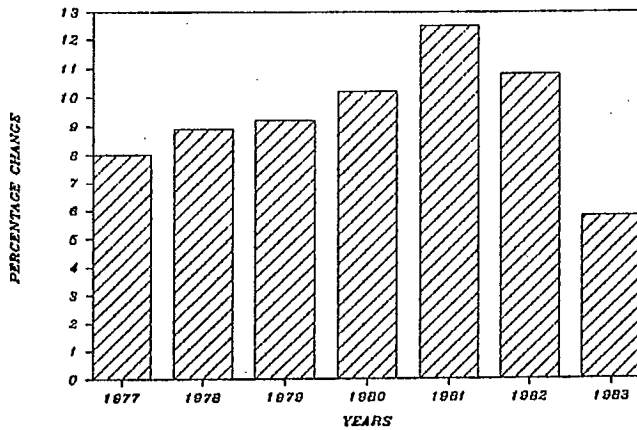
7: Exports declined in 1982 and recovered strongly in 1983, showing the strong economic recovery of the U.S.

IMPORTS (IN 1971 CONSTANT DOLLARS)



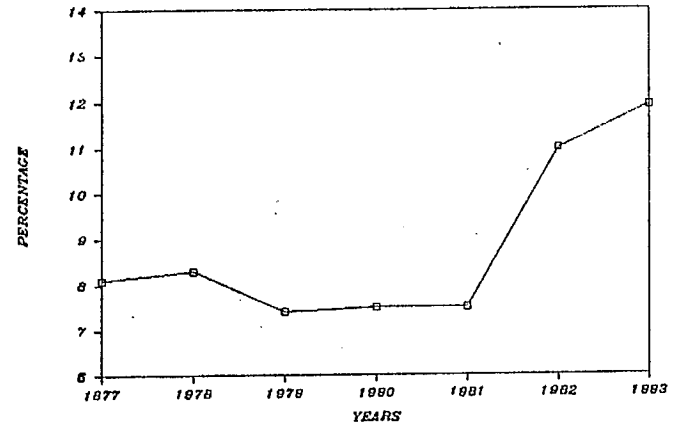
8: Imports plummeted in the recession and only recovered slightly in 1983 showing weak demand in Canada.

CONSUMER PRICE INDEX



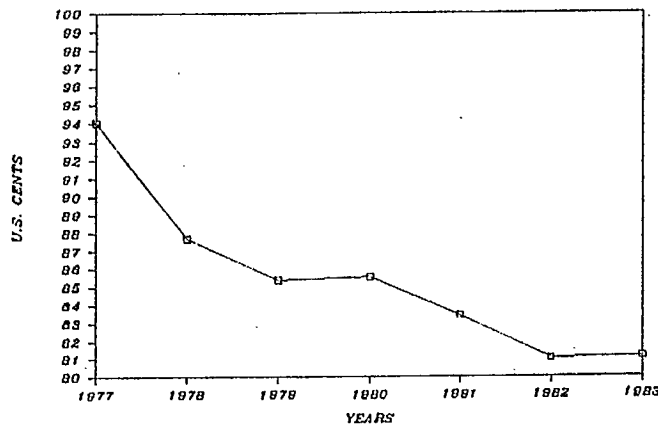
9: Inflation showed spectacular declines.

UNEMPLOYMENT RATE



10: Unemployment surged and remained high during recovery, reflecting partly the lack of investment.

CANADIAN \$ IN U.S. FUNDS



11: The Canadian dollar continued to slide.

There were also other major changes in the global environment. Many of these remain relevant today. The world was, and still is, in the grip of a technological revolution tied to the micro-electronic chip. This technology is expected to cause widespread changes in the production process worldwide, in labour management relations, in the competitiveness of many industries, in world trade flows, and in consumer lifestyles.

Another change was the significant setback in the demand for raw materials, a complete reversal from the "mega resource project" environment of the 1970s. Petroleum prices stabilized. Without OPEC, these prices would have declined. Commodities prices, e.g. those for metals and forest products, plummeted. To date, most have failed to recover completely. These developments posed obvious questions about the future of the Canadian economy. This country has historically relied on raw material resources for export to the world.

Due to the world recession of 1982 and a series of re-alignments of world currencies, protectionist sentiments have developed among many countries. This development is occurring in tandem with falling tariff rates, with protection expressed in the form of non-tariff barriers to trade. Canada was threatened rather seriously at least twice: by the U.S. forest industry's attempt to restrict entry of Canadian forest products and a similar move by the U.S. steel industry. Fortunately, in both cases, the attempts were resisted by the U.S. government.

These changes, together with the lack of investment in Canada and the high unemployment rate, raised the question of which way Canada should re-structure to position herself in the world economy in the next decade or so.

The Outlook

The above discussion provides a snapshot of the recent economic situation. Some of the developments mentioned are the precursors of structural changes expected in the future. Notable are the micro-electronic revolution, the seeming decline of conventional raw materials, external trade re-alignment, changing industrial structures due to competition and changing consumer behaviours. These structural changes will be discussed in Part Two. The balance of Part One deals with the overall macroeconomic performance forecasted for the rest of the decade. This serves as the backdrop for future structural changes that are expected to take place.

Before the Canadian economy is discussed, it is necessary to consider the U.S. economy which is a major influence on Canadian economic performance. The following assumptions are made about the U.S. economy:

- (i) There are signs of slowdown of the U.S. economy from the pace of 1984. This is expected to continue for the balance of 1985.
- (ii) Further slowdown of the U.S. economy will be due to measures to reduce the deficit by the U.S. government in 1985 and 1986. After 1986, stronger growth will resume.
- (iii) It is expected that rather strong measures to reduce the deficit will occur in 1985. However, the deficit should remain high, putting pressure on interest rates to rise, despite a weak economy. With more deficit reduction in future years, interest rates should ease down after 1986. Since the late 1970s, U.S. monetary authorities have adopted the policy of containing growth of the money supply to control inflation. Although their procedure has evolved from simply targeting growth to the current more judgemental evaluation method, it is safe to assume that U.S. monetary authorities will stand firm to restrain excessive money growth. Thus, future interest rates will continue to be a key variable for economic growth. As long as the deficits remain, the U.S. government will have to continue borrowing funds. This will put upward pressure on interest rates given the restrictive stand of the monetary authorities. Over the medium term (1987 onward), as deficit reduction occurs, interest rates should show a downward trend.
- (iv) Some protectionist pressures will continue in the United States. However, it appears that no full scale barriers to trade will be erected, at least against Canada. Tariffs are coming down as scheduled in the Tokyo round GATT agreements, but some industries will attempt to use non-tariff barriers.

A number of forecasts exist for the Canadian economy. This report will not attempt to produce its own forecast, nor will it rely exclusively on one forecasting source. Rather, it will draw on what is deemed as the predominant view among forecasters. In addition to having to harmonize numerous forecasts, economic outlooks beyond the next year

tend to be unreliable. Thus, the outlook presented here will be interpretative rather than rigorously quantitative.

The macroeconomic outlook for Canada is strongly influenced by developments in the U.S. As the U.S. economy slows down in 1985, the Canadian economy is expected to follow suit. Forecasts for overall growth are in the range of 2 to 3 per cent. These compare with the estimated growth of about 4.9 per cent for 1984.

Tight fiscal policy is expected for 1985 and subsequent years. This reflects policy directions contained in Finance Minister Michael Wilson's Economic Statement, as well as changes expected from the Eric Neilsen Task Force and the next Budget. Thus, for both Canada and the U.S., inherent slowdown in growth will be augmented by deficit reduction policies (with reduced government spending) further dampening growth in 1985 and early 1986.

The economy is forecasted to show stronger growth in late 1986 and thereafter. The major boost will come from stronger exports as the U.S. economy recovers, as well as stronger investment.

Canadian monetary policy will be tied to U.S. monetary developments. In 1985, although both economies will weaken, there will be pressure on capital markets due to large borrowing requirements by the government. Thus, there is a likelihood of upward movement in interest rates in 1985 and early 1986. It is expected that deficit reduction measures will lead to more balanced growth in Canada after 1986, with more room for interest rates to gradually ease down as the economy continues to grow. This scenario assumes that the conflict between growth and high interest rates will subside after 1986. This allows growth to occur without driving up interest rates which will in turn choke off growth, a problem which has been haunting this economy since the early 1980s.

The Canadian dollar should edge upward towards U.S. \$0.80 during the forecast period. This reflects a reversal of capital outflows that occurred in the early 1980's and gradual improvement in the monetary environment depicted above.

In line with the overall growth forecast, employment growth is expected to stall in the next 18 months or so.

Growth will not accelerate until late in the decade. The impact on the unemployment rate differs among different forecasts, depending on assumptions about the growth of the labour force and the participation rate. However, even the most optimistic forecasts do not see the unemployment rate declining noticeably, while some economists expect the rate to increase for the next two years. It does not appear that the rate will drop from around 11 per cent currently to below 10 per cent until the end of this decade. Restrictive immigration policy, as announced by the government, will alleviate the situation somewhat.

Slowdown in the growth of employment will necessarily dampen consumer spending in aggregate terms, whatever the unemployment rate. Most forecasts expect substantial weakening in consumer expenditures, with some forecasting no growth or small declines for the next two years. Gradual resumption of growth is expected from 1987 onward. This scenario closely parallels the employment picture.

All forecasts expect low inflation, with the annual rate of increase in the Consumer price index at below 5 per cent every year to the end of the decade. Some of the measures announced in the Economic Statement will add to inflation somewhat: gasoline tax increase, air travel tax increase, aviation tax increase and energy price rise towards world price level.

But price increases will be moderate over the entire forecast horizon, despite these and other possible tax changes in the future. The fundamental pressures of high commodity prices, further depreciation of the Canadian dollar, and larger wage increases, are absent for the balance of the decade.

The latest information on capital spending indicates that total investment in current dollars will increase by 6.7 per cent in 1985, compared to 2.1 per cent for 1984. After correction for inflation at about 4 per cent, this represents a rise of about 2.7 per cent in real terms. Such an increase is a significant turnaround from the trend of the past three years, but is not high growth relative to the experience of the 1970s and considering the lack of investment since 1982. The longer term outlook for investment is positive, as current excess capacity and high corporate debt loads are being reduced.

High leverage combined with high interest rates have been a primary cause of business bankruptcies in the past couple of years. Thus, critical to the outlook for bankruptcy is the future path of interest rates. As mentioned

earlier, interest rates are expected to decline after 1986. This is based on the assumption of successful deficit reduction and easing monetary policy in both Canada and the U.S.

One of the major international developments mentioned earlier is technological change. The current micro-electronic revolution is changing the nature of the production process through increased computer-aided automation. Other changes expected to occur are increased uses of new materials, displacing conventional materials, and the emergence of biotechnological industries. All these new technologies will require continued investment to upgrade existing equipment, to build new facilities, and to build new industries.

After a strong year of export growth due to a buoyant U.S. economy, exports are forecast to show little growth in 1985 and 1986, again reflecting the expected slowdown of the U.S. economy to which the majority of Canadian exports are destined. Exports should gain strength starting in 1987 in line with the outlook for the U.S. economy.

As mentioned earlier, the world is expected to witness some important technological changes in the coming years. These will inevitably affect the volume and nature of world trade. To date, Canada has tended to export raw materials (e.g. grain and natural gas) and fabricated materials (e.g. sawn lumber and metals), as opposed to manufactured goods (such as computers or consumer goods). The only exception is motor vehicles, because of bilateral trade agreement with the U.S. in the automobile sector. In general, Canada exports resources and imports manufactured goods. Part Four contains a discussion of the nature of technological changes. It shows that the expected impact of technology is to lessen demand of conventional raw and fabricated materials (with the exception of agricultural products). In addition, there are also problems in other resource materials such as forest products, as discussed below (especially under "British Columbia"). If these scenarios hold true, there will be significant (negative) implications for Canada. The following shows the pattern of trade for Canada in the past few years:

Table 1.2

Shares of Major Categories of Canadian Exports (in Current \$)

Balance of Payments Basis

(Percent)

	1977	1978	1979	1980	1981	1982	1983	1984
Agricultural and Crude Materials	30.5	26.5	29.2	29.8	29.3	29.7	27.1	25.2
Fabricated Materials	33.5	35.9	37.2	38.1	36.2	32.9	32.9	31.6
Manufactured Products	33.7	34.8	31.5	27.9	29.8	33.5	36.3	41.6
- Motor Vehicles and parts	22.9	23.0	17.7	13.8	15.2	19.1	23.0	21.6
Miscellaneous	2.2	2.7	2.1	4.1	4.8	3.9	3.6	1.6
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Statistics Canada, Cat. No. 65-001.

The above pattern suggests that any deterioration in world demand for Canadian raw and fabricated materials will significantly affect the Canadian balance of trade and hence, Canada's ability to finance the import of manufactured goods that this country does not produce.

Although the outlook for Canadian exports depicted earlier (i.e. slowdown in 1985-86 and pickup in 1987 tied to the U.S. economy) should hold true, the longer term outlook, say for the 1990s, will be affected by major technological developments.

2. Regional Outlooks

Given the overall macroeconomic outlook for Canada described above, each part of Canada is expected to show some regional variation in economic performance. This section provides an overview of regional economic outlooks.

A major problem of providing economic outlooks by region is that there are few economic forecasts by region that go beyond a year or so. Economic forecasting requires a consistent database that can provide estimations of structural relationships. There are various gaps in the economic database for regions in Canada. Thus, long term regional outlooks, including those in this section, tend to be rather soft.

Atlantic Region

This region has not been a uniform economic zone recently. Newfoundland and Prince Edward Island had noticeably weaker economies than Nova Scotia and New Brunswick. The main reason for this diversity lies in the different industries that each province relies on. Nova Scotia in particular has recently experienced stronger growth due to expansion of offshore oil and gas activities, while New Brunswick's economy was propelled by growth in agriculture and electric utilities.

As a whole, the Atlantic provinces should in 1984 actually outperform the national average in retail sales growth, an indicator of consumer expenditures. This reflects the strength of consumer income growth tied to construction activities and to service sector growth, which in turn are associated with oil and gas exploration. It should be noted that the region remains below national average in terms of the actual level of personal income, despite the fact that the region demonstrated strong growth rates in terms of year-over-year change.

The outlook for the region calls for moderate growth. The main driving force will remain in oil and gas activities. These activities should continue to provide employment, more construction, and stimulate growth of the service sector. It is difficult to assess future agricultural outputs, but the outlook for potatoes should remain good. The region also has a small forest products industry. The outlook for this industry is not optimistic. Like forest products activities in other parts of Canada, the industry faces a market that is expected to show declining growth in the forecast period. The mining sector, mostly iron ore production, is also expected to face slow growth. The

outlook for the utilities sector is substantially better, as continued exports of electricity to the U.S. is expected. Restructuring of the fishing industry should lead to more balanced growth in future years, despite recent plant closures.

This region has always been a beneficiary of regional development funds from the federal government. The new government is currently reviewing regional development initiatives. This may significantly affect the outlook of the Atlantic region depending on the new direction of change. Already announced in the Economic Statement are the termination of various capital projects related to the fishing industry (infrastructures for the management of fish stocks and oceanographic activities), and the deferral of a new office building for Public Works in Halifax.

Quebec

Like the Atlantic region, the province of Quebec showed strong economic recovery from the recession, measured in terms of year-over-year growth. The growth also was tied strongly to construction and to consumer spending. These were based on employment growth in various industrial sectors, particularly in secondary manufacturing, such as textile and clothing, and in house construction.

Quebec has undergone rather sharp fluctuations in economic performance recently. First, there was an out-migration of people and capital due to the sovereignty issue raised by the Parti Québécois government. This was followed by the recession in 1982. The strong recovery in 1983-84 in many ways merely allows the province to recover some of the ground lost.

The outlook for this province will depend on factors such as the outcome of the next provincial election and the current review by the federal government of existing programs including regional development initiatives. Like the Atlantic provinces, Quebec is a beneficiary of regional development funds. One element in the outlook is clear. The expected slowdown of the U.S. economy will negatively affect this province. In general terms, as the U.S. economy decelerates, the Canadian economy follows suit. This implies lower export earnings, less growth in domestic consumer expenditures and hence lower demand by Canadian consumers for some of the consumer goods produced in Quebec, e.g. footwear, electrical products, furniture and clothing. The province is a net supplier of consumer goods to the rest of Canada.

In more specific terms, the mining sector can expect some setbacks with respect to exports. The forest products sector will be in a similar situation, with constrained export growth for the next couple of years. The construction industry was strongly stimulated by residential building activities as housing starts grew by about 4 per cent in 1984. Residential construction will not be as strong in the next two years, partly because of the absorption of the newly-built houses and partly because of continued relatively high interest rates.

Thus overall, the province should experience slower economic growth in the next couple of years. Higher growth should resume thereafter provided no other major negative factors develop. One potential negative development is the emerging issue of free trade.

The point has been mentioned that Quebec is a net supplier of consumer and other manufactured goods to the rest of Canada. This is a result of the establishment of protected domestic markets by the erection of various tariffs and quotas. Among these, the most frequently discussed are the clothing and footwear markets and the corresponding tariffs and quotas. Despite protection, domestic (mostly Quebec) producers now supply only about half of the Canadian market in clothing. This has been part of a continuing erosion of the domestic market supplied by Canadian producers. The clothing industry has invested substantially in modernization to increase productivity and rationalization has occurred. For example, there is only one producer left for polyester, nylon and acetate.¹ The industry is pressing the federal government to further restrict imports from low-wage countries to prevent further erosion of the domestic market share. Indeed, the industry would want to restore its market share to about 70 per cent by restricting imports.

Any policy stand by the federal government on the issue of free trade will inevitably affect this industry (and other industries e.g. footwear and machinery) in Quebec. Global free trade will be disastrous for some of these industries, although it may favour consumers in terms of lower prices and more choice. Free trade with the U.S. alone is more conceivable and less threatening, but will still pose the problem of restructuring of Quebec's industries within the context of a tariff-free continental market.

1. Globe and Mail, November 13, 1984.

It is obvious therefore that future evolution of the free trade policy option will significantly affect the outlook for the province of Quebec.

In the Economic Statement of the Minister of Finance, a number of measures have been announced that will affect capital projects in Quebec. Most of these are rather small, except for the Natural Gas Lateral Program which supports the construction of lateral pipelines from the main trunk-line from Montreal to Quebec. New construction is to be deferred, with withdrawal of about \$85 million in 1985/86.

Ontario

More than any other province, Ontario's economy closely reflects that of Canada, as the province is the country's largest regional economic entity. The province has the largest population, hence is the center of employment, and has the most diversified industrial base, including the single most important manufacturing industry in Canada, the automobile industry. Thus, it is expected that the outlook for Ontario will closely parallel that outlined for Canada earlier.

Ontario experienced reasonably strong growth in 1983 and 1984, mostly tied to recovery of the car industry. This industry has strong links with the rest of the economy. It is a large user of glass, rubber, chemicals, metals and plastics. It is a major employer and, through links with other industries, indirectly affects employment in other industries.

As the U.S. economy slows down, Ontario is expected to bear the brunt of the impact, with deceleration in the automobile industry's output through slower growth in both exports and domestic demand. In turn, other sectors will be negatively affected due to the strong links between the car industry and these sectors. The mining industry will also be setback by declines in export demand, especially for copper. The forest products industry is also expected to experience some stalling, with U.S. housing starts forecast to decline. This industry shares the same fate with other forestry operations across Canada. There may be long term deceleration in demand growth for their products. This scenario is based on the observation of an aging population in North America with the rate of household formation slowing down, negatively impacting on housing construction. In addition, increasing competition is being offered by forest products from the southern United States and from offshore countries.

Housing construction in Ontario is also expected to decline in the next twelve to eighteen months, reflecting a general economy-wide slowdown and also relatively high (real) interest rates. Non-residential construction will also stagnate, as business investment remains flat. Excess capacity has persisted in the manufacturing sector right through the recovery period of 1983/84 when demand for output grew relatively strong. As growth of the provincial economy begins to flatten, excess capacity will become even more pronounced, and business investment is not expected to surge.

As the U.S. economy revives in 1987 and thereafter, Ontario is well positioned to reap the benefits. The car industry should resume growth. New technologies are expected to play key roles in the automobile and other manufacturing sectors. (See Part Four for more on technology). It is likely that among the regions in Canada, the most significant structural change and industrial renovation due to technology will occur in Ontario. The province has the automobile industry and the most diversified industrial base in Canada. It is also closely integrated with the largest markets in the U.S. Naturally, the extent to which this province will benefit from technology and structural changes will depend on federal and provincial government policies with respect to trade, technology promotion and other policies such as deregulation. It is not possible to forecast these policies.

The issue of free trade is of critical significance. Bilateral free or "freer" trade with the U.S. can be beneficial, as proved by the automobile industry. Extension of bilateral trade agreements with the U.S. to other sectors could be a major stimulus to export growth, new investment and technological change, as new markets open up under such agreements. To a lesser extent, Ontario also faces the problem of industrial restructuring with free trade, mentioned earlier for Quebec, because many of the manufacturing industries are protected by Canadian tariffs. Thus, the medium term future appears to hold both opportunities and threats for Ontario.

The Prairie Provinces

Two of the prairie provinces, Manitoba and Saskatchewan, experienced economic growth in the past year, with unemployment rates well below the national average. The Alberta economy, on the other hand, continued to be sluggish. It is projected to show slight growth for 1984, for the first time since 1981.

Both Manitoba's and Saskatchewan's economies were stimulated by non-residential construction. For Manitoba, the growth in construction was partly a result of stagnant activities in the preceding years. Manitoba showed below average growth in the 1983 economic recovery. In 1984, for cyclical reasons, construction activities became the main driving force of the provincial economy. For Saskatchewan, construction was also the major source of strength, mainly associated with heavy oil projects which did not suffer from the last recession as much as other energy projects did. Alberta was hard hit by the recession because non-heavy-oil energy demand plummeted, and the outlook was so bleak that many major energy projects in that province were called off. Additionally, Alberta had a number of years of strong growth, leaving a stock of excess capacity in housing, commercial buildings, and other structures. Such excess capacity continues to discourage further construction.

It should be noted that in most economic analyses of the Western provinces, the construction industry usually receives above average attention. This is because the Western economies are mostly resource-based. Apart from the resource sectors themselves, the key industry is generally construction, which erects the structures, infrastructures, and residential developments necessary to accommodate resource exploitation. Indeed, resource industries are typically not labour-intensive during production. It is the construction and investment phase of resource development that usually generates peak economic activities in resource sectors. This is clearly illustrated by the boom in Alberta in the late 1970s. The single largest surge in industrial activities occurred in construction. Because construction erects permanent structures, any faltering in the outlook for the resource sector chokes off further construction. Existing facilities stand as excess capacity stalling further construction even during economic recovery. This is the main reason for the extreme cyclicity of resource-based economies.

The outlook for the Prairie provinces for the balance of the decade is quite varied. Some slackening will occur in Manitoba, as a general slowdown occurs in construction including the cancellation of a Manufacturing Technology Institute in Winnipeg as announced in the Economic Statement, a loss of \$23 million. For Saskatchewan, the outlook calls for sustained growth. Agriculture, potash and heavy oil will be the main basis for growth. Demand for the outputs of these sectors should continue to grow, although some year-to-year fluctuations are expected. For Alberta, recovery is expected from the severe and long recession of 1982-84. As the current glut of oil in international

markets subsidies, improved demand for energy will materialize. But because of the slow growth scenario depicted for the U.S., and hence most of the industrialized world, no sudden surge in demand is forecasted. This implies that the hectic growth environment of the 1970s is over for this province. Mini-energy projects will substitute for mega-projects.

British Columbia

Outside of the Atlantic provinces, British Columbia currently has the highest unemployment rate in Canada. This is an unusual situation for a province that has historically boasted economic growth second only to Ontario's.

The province underwent significant expansion in 1979 and 1980, a result of high expectations based on the notion of resource scarcity. This is similar to the case of Alberta, except that the resources concerned were forestry and metals. The 1982 recession shattered the notion of resource scarcity, at least for conventional raw materials. Slow global growth rates have led to much slower consumption of conventional raw materials. In addition, technological developments are opening the door to material substitutions, such as fibre-optics for copper, and to new designs in manufacturing that tend to require less metals and energy.

The economy of British Columbia did not show recovery from the 1982 recession until well into 1984, despite recovery in Eastern Canada, driving unemployment to record levels. As unemployment and job insecurity prevailed, the provincial government decided to launch an attack on the union movement. While the intention was to weaken the strength of some very militant unions in the province and hence create a more favorable climate for growth in the long run, the short term impact was more work disruption and further economic uncertainty.

The provincial government also cut back a range of social services as well as funding to health care and education. With the already high unemployment and economic uncertainty, this move accentuated the plight of British Columbia's vulnerable consumers. The province now appears to have a larger grassroot voluntary consumer self-help movement than before.

The outlook for the province is not bright. With the possible exception of Expo 86, which may stimulate a short-lived service sector boom, the fundamental prospects for most industries tend to be uncertain. Forest products, the mainstay of the province's economy, is encountering both supply and demand constraints. Supply of low-cost wood

fibres is running out and demand for British Columbia lumber appears to be flattening as U.S. housing constructions slows down and competition increases from U.S. and offshore producers. Coal and metal mining continue to operate in excess supply situations with low prices and high costs of production. Although growth should recover as inventories are being worked down, the long term outlook for metals is not bright as technological change is increasing the use of new materials substituting for conventional metals, (see Part Four on technology). As demand for steel slows, Japanese steel mills will require less coal as input. This will dampen the prospects for British Columbia coal mines which sell most of their output to Japan. Thus, not only will metals be directly affected, but coal will also be indirectly affected.

Although the province has traditionally symbolized high growth and prosperity, this decade will probably enter into record as a bleak period in British Columbia's history. So far, the first half of the 1980s has not been kind to the province and the outlook for the balance of the decade remains questionable.

3. Issues Pertinent to CCAC

In summary, the outlook for the economy has the following key features:

- Weak economic growth in 1985 and 1986 with continued high unemployment. Stronger growth to resume after 1986, but unemployment to remain high.
- Weak growth in consumer income and spending in the entire forecast period.
- Inflation to remain low throughout.
- Interest rates to remain volatile and difficult to predict due to deficit reduction problems in both the U.S. and Canada.
- Moderate growth expected for the Atlantic region.
- Slow to moderate growth forecasted for Quebec, tied closely to the issue of freer trade.
- Slow to moderate growth for Ontario. As in Quebec, growth outlook sensitive to the resolution of freer trade policy.
- The Prairie provinces to show reduced growth compared to experiences of the seventies.
- B.C. expected to continue growing very slowly.

The macroeconomic and regional outlook has various implications for the marketplace. Slower growth and high unemployment will impact on consumer spending and on the prospect for business investment. The following shows issues of possible concern to this Department arising from the preceding economic outlook:

- High unemployment will restrict the growth of personal income and increase the feeling of uncertainty among consumers. In particular, this will worsen the plight of vulnerable consumers. As consumer spending decelerates, retail merchants may have to engage in more severe competition and to develop new marketing practices. This consideration, together with technological change and changing demographics, is causing businesses to pursue new strategies. This will be discussed in Part Three, Globalization and Segmentation.

- Business incorporation is difficult to forecast, but in the relatively weak economic environment, no dramatic change in the rate of incorporation is expected. It is safe to assume a continuation of recent trends.
- Interest rates will remain very volatile and may edge upward by late 1985, but are not expected to reach the levels of the last recession. Businesses still have high leverage but are working to reduce their leverage ratios. No dramatic surge in bankruptcies is expected, because of continued leverage reduction by firms. Further, interest rates are not forecast to surge to intolerable levels.
- Inflation will remain out of the limelight as a policy issue, taking the pressure off consumer prices.
- The Canadian economy may need special policies for restructuring as the world gradually lessens its reliance on conventional resources that Canada is rich in. Included in such policies will be steps to facilitate technological change and freer trade especially with the U.S. Both will have strong impacts on producers and consumers alike.
- In addition to usual regional fluctuations in economic performance, the future will also see fundamental structural shifts in economic activities leading to changes in the economic profiles of different regions of Canada. It appears that the resource-rich western provinces will see gradual deterioration in their positions (unless new policies are put in place to promote development of the service sector and "knowledge industries" in these provinces). The province of Quebec will also experience restructuring problems if freer trade prevails, because of its relative reliance on protected industries. These changes will give rise to regional tensions, surges in regional unemployment, demand for social services and for a stronger voice for vulnerable consumers. Such pressures will arise unevenly across Canada.

PART TWO

INTERNATIONAL TRADE

This part provides some analysis of the current instabilities in the world trading environment, explores the potential of freer trade with the United States and examines some key issues pertinent to this Department.

1. Instability and Structural Change

Coinciding with the recession of the early eighties, a new wave of international trade protectionism now threatens the thirty years of progress towards freer trade achieved under the GATT. It seems clear, however, that recession was not the sole cause of the new protectionism, and that the phenomenon is unlikely to disappear simply under the impetus of recovery. While pressures on governments for the adoption of protective measures have been heightened by high rates of unemployment and business failure in the short term, these pressures are likely to persist in the face of a series of interlinked long term changes and instabilities in the world economy.

Growth of the Asian Economies

There has been a tendency among the Western nations to regard the export growth of Japan and of the newly industrialising countries (NICs) in Asia as a threat to the viability of a range of Western industries. The basis of this threat is generally perceived as the low wage costs in the NICs and the aggressive industrial policies pursued by Japan.

The success of the Japanese approach is undeniable in view of its GNP growth during the sixties and seventies which has outstripped that of the other industrial countries. Japanese output continued to grow (although more modestly) while the rest of the world experienced recession.

The export growth of specific South East Asian countries has also been dramatic. While exports from the U.S.A. and the European Community grew to approximately five times their 1970 dollar value, in 1980, those of Hong Kong grew eight times, those of South Korea 20 times, and those of South East Asia, in general, grew tenfold.¹

1. International Financial Statistics, IMF, January 1983, and 1982 Yearbook.

In reality of course, export growth from Asia has been paralleled by import growth and there has been a tendency to overdramatize the effects of competition from this area of the world. The effects of South East Asian export growth, as they relate to the phenomenon of industrial restructuring in the United States, are dealt with in more detail below.

Micro-Electronic Technology and Industrial Restructuring

Much recent attention has been focussed on the need to restructure the economies of industrial Western Europe and of North America. Restructuring tends to be discussed in terms of two components: the need to move resources into high technology areas; and the need to move resources out of traditional but uncompetitive industries. At its most basic, the phenomenon has been described in terms of high technology industries creating jobs to replace those lost in the uncompetitive "smokestack" industries.

Recent problems in many "smokestack" industries may have been related more to the 1982 recession than to long term declines. But even a cursory examination of the development of the micro-electronics industry suggests that its influence on both the structure of industry and on the stability of world trade is potentially much more profound.

Long term success in the micro-electronics industry has been linked to the availability of a large and preferably protected domestic market, early market entry and the ability to make rapid gains in productivity during the first year (or even months), of production.² Japan, with a domestic market equivalent to that of West Germany and the United Kingdom combined, has promoted its own industry under the pressure of fierce competition at home, while carefully sheltering it against competition from outside. Meanwhile the U.S. industry has been built on the base of a large domestic market, and members of the European Community have erected a variety of non-tariff barriers including voluntary import quotas, domestic content rules, and in the case of France, restriction as to port of entry. Early market entry is important in that it gives a producer the chance to work up a learning curve towards greater production efficiency in advance of his competitors. The price advantage gained through this process can be as much as 25 per cent in the initial year of operation, and may give the first producer a

2. John Barton "Coping With Technological Protectionism", Harvard Business Review, December 1984.

lead which is difficult to overcome.³ The importance of micro-electronic technology lies in its applicability over the broad range of industrial activities. By extension, those countries which apply it early to their own industries are likely to gain significant productivity and price advantages in world markets.

The above considerations have prompted Canadian high-tech firms to capture specialised market niches, rather than enter into the mainstream of competition in an industry where initial market power is an apparent prerequisite for long term success. However, it also underlines the potential destabilising effects on international markets, and the need for Canada to apply the technology quickly and broadly.

Floating Exchange Rates

Since the move to floating exchange rates in 1973, currency values have fluctuated to a much greater degree than relative national price levels and to this extent have been unrelated to changes in countries' international competitiveness. Between June 1973 and February 1979, exchange rates between the pound, the French franc and the deutsche-mark on one hand, and the U.S. dollar on the other, changed on average by more than 2 per cent per month. In early 1981 the dollar appreciated by 19 per cent against the mark, 23 per cent against the French franc, and 15 per cent against sterling. Such fluctuations have caused widespread losses to governments and industries, and are clearly a major component of instability and unpredictability in the international trading system.⁴

2. The Growth of Protectionism

After three decades of progress towards freer trade under the GATT, the current wave of international protectionism can be seen as a response to the sources of instability described above. Ironically, protective measures have themselves created a condition of greater uncertainty. This has been described as a condition in which each of the world's trading nations feels that the existing legal structure embodied in the GATT has not worked to its advantage, because of the skillful manipulation of the system by

3. Ibid.

4. A.J. Sarna, The Evolving International Trading Environment, Canadian Institute for International Affairs, July 1984.

others.⁵ The U.S. preoccupation with the industrial policies of Europe and Japan as trade distorting implements has led to retaliatory measures ranging from buy-American campaigns, to the extension of countervailing duties to cover imports which have benefitted from R & D subsidies. Europe and Japan claim their industrial policies are necessary to counteract the trade distortions created by the U.S. multinationals, and argue that U.S. support of its space and defence industries represents a massive investment on industrial policy. Meanwhile European Community members have adopted a variety of measures to limit import competition. France and Italy, for example, have resisted Japanese products manufactured in England, by arguing for special rules of origin to ensure that the Common Market benefits only genuinely European products. France has effectively slowed down imports of certain categories of electronic goods from Japan by insisting that they be allowed into the country via only one designated port of entry.

3. Future Developments

It is possible to identify three distinct views of the way in which international trade should be managed in the future, aligned to three national groupings.

The view promoted by the European Community, and especially by France, is that the GATT system should be maintained to provide an orderly framework for the international trading system. However, the Europeans led by France propose that the GATT system should now be used to promote managed trade based on: international sectoral agreements; managed share arrangements; reverse preferences from LDCs and so on.

Third world countries, in the 1981 New Delhi Declaration, called upon the industrial world to abandon all trade barriers to their goods and to redeploy consumer goods industries to the third world. The worsening third world debt crisis has led to a strengthening of these demands.

The U.S. has favoured a continuation of progress towards freer trade under the GATT and is deeply suspicious of the European managed trade proposals. In response to third world resistance, the U.S. has proposed the creation of a "super GATT" which would provide the benefits of increasingly free trade exclusively to those countries sub-

5. Ibid.

scribing to it. The U.S. perceives further progress towards free trade to include agreement on a range of additional reductions in non-tariff barriers which include government procurement policies and intellectual property laws.

4. Canada-U.S. Trade

In response to the uncertainty and instability of the world trade situation, Canada has moved from the relatively purist approach it held in the late 1970s, favouring progress towards free trade on a broad international front, towards placing a priority on the negotiation of freer trade with the U.S. Given the world picture described above, and Canada's dependence on foreign trade in general (merchandise exports accounted for 24.3 per cent of GNP in 1983)⁶ and with the U.S. in particular (\$66.3 billion of our \$90.9 billion in 1983 exports went to the U.S.),⁷ establishment of a more secure trading relationship with the U.S. would seem vital to Canada's long term interests. Recognizing the complexities of the Canada-U.S. free trade debate, this section attempts only to cover some of its more salient features and to describe aspects of the trade background against which it takes place.

Background

There are five important factors in considering the background to freer bilateral trade with the U.S. including: the current balance of trade between the two countries; comparative growth in productivity; the existing structure of tariffs; non-tariff barriers; and present attitudes in the U.S.

The dollar value of Canadian exports to the U.S. has expanded markedly since 1980, in major part because of changes in the relative values of the two currencies. Over the same period, imports from the U.S. have declined from \$54.5 billion to \$54.1 billion, reflecting both currency values and the decline in Canadian domestic demand.

Industrial productivity levels in both the U.S. and Canada have shown high growth in recent years as the econo-

6. Conference Board, Worldbusiness Perspectives, No. 82, October 1984.
7. Statistics Canada, Exports by Countries, Cat. No. 65-003, January - December 1983.

mies recovered from the recession, with larger outputs but with employment growing much more slowly. Productivity measured as output per employee therefore grew quickly. This is a combination of cyclical recovery and labour-saving technological change. The figures below from the Conference Board suggest relatively parallel long term performance in terms of productivity by Canada and the U.S. vis-à-vis other industrial countries.⁸ This reflects the close links and similarity between the two countries, supporting the possibility of free trade.

Table 2.1

Output Per Employee Hour

Average Annual Rates of Change

	1973-83	1983
U.S.	1.9	6.2
Canada	1.7	6.8
Japan	7.4	5.7
France	4.6	6.2
Germany	3.5	4.8
Italy	3.6	0.6
U.K.	2.0	6.1

The existing tariff structure between the U.S. and Canada tends to favour the Canadian exporter and the U.S. consumer. Roughly three-quarters of our exports to the U.S. are tariff-free while the corresponding figure for our imports from the U.S. is approximately two-thirds. Moreover when the tariff cuts resulting from the last round of GATT are completed in 1987, the average tariff on U.S. origin imports will be 8 to 9 per cent while more than half our exports will face tariffs of 5 per cent or less.

Of more concern however are the range of non-tariff barriers which have been increased and strengthened by the U.S. in recent years. These range from the general and open "Buy-American" campaigns to government procurement regulations operated by individual states, which recently has raised domestic content requirements from 51 per cent towards the 70 per cent level (government procurement regulations are generally exempt from the GATT. Many of the products which Canada has shown it can design, produce and

8. Conference Board, Worldbusiness Perspectives, No. 81, August 1984.

export economically, for example, heavy electricity generating equipment, telecommunications equipment and railway and urban transit systems, therefore face the non-tariff barrier).⁹ Non-tariff barriers are a source of particular frustration to Canadian exporters in that they are not well publicized. Canadian companies have complained of investing considerable amounts in potential export sales to the U.S., to find out later that their efforts are blocked by an unanticipated and far from well-publicized regulation.

Finally, Canada is faced with the ambivalent U.S. attitude towards trade. While pressing internationally for progress towards trade which is free to respond to market forces, the U.S. has been raising trade barriers internally. This seems to be partly out of fear that its industry may no longer be able to compete internationally, partly in response to "unfair" competition from protected foreign industry, and partly (as discussed above) in response to what it sees as intransigence on the part of other nations holding competing views of the correct way forward through unstable times.

Bilateral Free Trade - Advantages and Disadvantages

The chief potential benefit cited for Canada in a free trade arrangement with the U.S. lies in the economies of scale to be realised by manufacturers in producing for the large U.S. market. Free access to such a market is seen as essential if Canadian industry is to compete internationally.

The main counter argument is that significant sectors of Canadian industry may fail in the face of too sudden competition from large and well established American companies. In such conditions, Canada could revert to the role of supplier of natural resources to North American industries. A further concern is that a Canada-U.S. agreement may lead to increasing dependence on the U.S., at the expense of more diversified trade with many countries.

The current Canadian approach to trade negotiations with the U.S. based on gradual freeing of trade in specific industrial sectors is designed to accommodate both sets of arguments.

9. Rodney C. De Gray, Trade Policy in the 1980s, C.D. Howe Institute, 1981.

5. Issues Pertinent to CCAC

Many important policy issues arise from the discussion of the international trade environment. The following will only touch on a few of these issues, because external trade is not a primary responsibility of this Department. The issues addressed are those that affect industrial performance and consumers, and that impact on Departmental mandates such as copyright.

Impacts on Consumers

Canadian trade policy has generally been based on protecting or promoting the interests of Canadian producers. Although such a policy stance may benefit Canadians, and hence Canadian consumers, through job creation, the overall effect of trade policy has not been to favour Canadians as consumers.

Specifically the following considerations are relevant:

(i) Tariffs and quotas are prevalent among many key consumer products: almost all clothing and a large number of textile products from third-world countries, footwear, and automobiles from Japan. Currently, clothing, textile and footwear products have the highest tariffs. By 1987, when the Tokyo Round of tariff reductions is fully in effect, those items will still have tariffs around 20 per cent. Such tariffs are, effectively speaking, an income transfer from Canadian consumers to Canadian producers. The reason is that the tariffs raise the landed costs of foreign imports. Domestic producers can charge up to the higher landed prices without suffering competition. Thus, Canadian consumers effectively have to pay higher prices than otherwise would prevail, for both imports and domestic goods, with the differential going to these domestic producers.

Quotas are also applied to many clothing and textile products to directly restrict penetration by foreign producers of the Canadian market. These quantity restrictions reduce the range of choice and the availability of many products to consumers. They also have the affect of maintaining or pushing up prices when the items are scarce. A good example is the "voluntary" quota on Japanese cars. According to Robert Crandall of the Brookings Institute in

Washington,¹⁰ American requests for Japan to restrict exports of Japanese cars to the U.S. have created a seller's market for Japanese cars and have pushed up prices by an average of \$1000 per car in 1983. In addition, as prices for imports rose, domestic car producers were able to raise prices to match. Mr. Crandall attributed a rise of about \$400 in the average price of U.S.-produced cars to the impact of the trade restriction.

The effects in Canada would not be dramatically different. Currently, Japan has voluntarily restricted its exports of cars to Canada to 170,400 for fiscal 1984/85.

With the gradual decline in tariffs under the GATT negotiations, and the growing uncertainty in world trade relations, countries are expected to rely increasingly on quotas and other quantity restrictions as trade barriers.

The negative impacts on consumers of tariffs and quantity restrictions are also discriminatory, since higher prices tend to hit lower income consumers harder relative to their income levels. In economic jargon, this is called "regressive". In addition, since it is usually the low-cost items that are under quotas, the reduction in consumer choice is also more severe for low income groups.

(ii) Canadian policy discussions regarding imports are generally made with consideration to the welfare of affected domestic producers but not that of Canadian consumers. The key bodies with influence on import policies are the Tariff Board, the Canadian Import Tribunal (former Anti-Dumping Tribunal), the Textile and Clothing Board and various agencies under the Department of Agriculture that control imports of food products. Consumer representation before these various bodies is generally slight, reflecting the raison d'être of these bodies: to promote the interests of Canadian industries. This point is confirmed by a recent study commissioned by CCAC.¹¹ The study examined the framework for import policy setting and concluded that:

"The interests of consumers have generally been given inadequate consideration in the operations of the Textile and Clothing Board, the Anti-Dumping Tribunal

10. Globe and Mail, February 12, 1985.

11. Frank Stone, Consumer Interest in Canadian Trade Policy, March 1982.

and the Tariff Board, which focus their inquiries on problems for domestic producers arising from imports, and make recommendations for special import protection without measuring the costs to consumers".¹²

The study found very few presentations of consumer interests before the Tariff Board. It also found that consumer groups have not been involved in the Anti-Dumping Tribunal's inquiries into dumping. Representation before the Textile and Clothing Board has been restricted to two instances, in 1977 and 1980, when the Consumers Association of Canada submitted briefs to the Board.

The study generally indicates that efforts to protect or advance consumer interests in the field of trade policies have been fragmentary, and that there is no well established voice for the consumer in relation to trade policies in the federal bureaucracy.

Thus, a key issue for CCAC is to increase the weight of consumer interests in free trade policy debates and policy formulation, to balance the predominance of industry concerns.

Competition and Efficiency

One major policy thrust of the Department consists of measures to increase competition and to lower concentration in industries where possible. More competition leads to lower prices in general. Competition is also key to the generation of proper market signals which lead to efficient allocation of resources in society.

The key determinant of competition is the size of the relevant market. In a country like Canada, the domestic population is too small to support more than a few producers in each industry, leading to higher concentration and lower degree of competition compared to larger countries like the U.S. (See also Part Three, Globalization and Segmentation)

Foreign and Canadian tariffs and quotas clearly set boundaries for the Canadian marketplace. Canadian industries cannot freely compete abroad to enlarge their market because of foreign tariffs and quotas. Conversely, foreign producers cannot freely compete in Canada due to Canadian tariffs and quotas. Thus, by delimiting marketing sizes, these are the major barriers to more competition and lower concentration in Canada.

12. Ibid.

The problem of tariffs has been recognized for quite some time.¹³ As tariffs have become generally lower in the last decade or so, the issue of the impacts of tariffs is being gradually replaced by that of non-tariff barriers. But in general, the effects of both are similar in that trade restriction leads to less competition in the marketplace.

A related problem faced by producers in a small market is lack of economies of scale. This is an inherent problem, but it can become more pronounced if producers try to turn out a fuller range of products. This results in short production runs for many items and consequently higher unit costs of production of such items. Thus, apart from the lack of competition, there is an inherent reason for generally higher prices in a small market, tied to the costs of production. Domestically, the effect is higher prices for consumers. More importantly, high costs of production result in inefficiency. Such producers are unable to face foreign competition, even if they are willing to. (This is a separate problem from that of high labour costs, which is usually mentioned as one reason for the uncompetitiveness of Canadian producers). The key way to solve the problem of market size is to enlarge the potential market of these producers, i.e. to export. But to penetrate export markets requires lower foreign trade barriers, which can usually be achieved only when barriers are reduced on both sides of the border. An example of this is the Auto Pact between Canada and the U.S., which allows Canadian car producers to sell tariff-free in the U.S. market and vice versa. This has led to substantial growth of the Canadian car industry.

Thus, trade barriers are especially detrimental to a country with a small domestic market because they lead to higher costs of production as producers are forced to use short production runs. In many industries, producers tend to refrain from producing a full range of products but still produce more than what would be optimal. In such cases, consumers suffer doubly as costs, therefore prices, stay high while the range of products remains below those available in foreign markets. This is a common experience for Canadians when comparing U.S. and Canadian consumer products.

13. A study done in the sixties became a classic document for identifying the negative impacts of tariffs on competition in Canada: H.C. Eastman and S. Stybolt, The Tariff and Competition in Canada, 1967.

Therefore, trade barriers are major concerns to CCAC in its mandate to increase competition, lower concentration, and improve efficiency of markets. In the atmosphere of uncertainty in world trade relations depicted earlier, it would seem worthwhile for this Department to participate in trade policy activities leading to lower trade barriers of all kinds, especially with the U.S.

Intellectual Property Protection

Intellectual property conventions affect external trade because these conventions prohibit the importation of works under certain conditions. This is particularly pertinent in the case of trade in computer or "information" services. Such trade is relatively new but is expected to play a key role in the future economic development of most industrialized nations.

Current legislation includes the following provisions:

i) Substantive Rights

One country may prohibit the importation of works from another country if those works would infringe intellectual property rights in the importing country. Such a situation arises when one country protects a type of work not protected in the other, or if the terms of protection are different. The country with the higher level of protection could bar the importation of works from the other country without the consent of the rights owner.

For example, in the past, neither Canada nor the U.S. granted protection to the designs of semi-conductor chips. Recently, the U.S. Congress has passed an act granting protection to the design of semi-conductor chips. It is conceivable that some semi-conductor chips produced in Canada might infringe that protection. In such a case, the U.S. could bar the importation of those chips. There are currently no proposals in Canada to grant similar protection to semi-conductor chips.

In the White Paper on Copyright published in 1984, "From Gutenberg to Telidon", a proposal was made to grant protection to computer programs. The proposed terms would be five years from the date of publication in machine-readable form. This proposal has been strongly criticized and is currently under review.

ii) Market Segregation and Import Restriction

Existing U.S. and Canadian intellectual property laws grant rights owners the power to divide markets on a territorial basis. Thus, a rights owner can prevent the importation into one national market of legitimately produced products intended for the other national markets. The Copyright White Paper proposes that such rights be restricted to books, records, musical works contained in records and cinematographic works, and "cultural works" to be designated by the Governor in Council. But legitimate copies of all other types of works, including computer programs, and databases could be imported into Canada from any country without the consent of the copyright owner.

In the atmosphere of economic restructuring, technological change and freer trade, co-ordination of copyright policies across nations will become increasingly important, particularly with respect to computer-related intellectual properties.

PART THREE

GLOBALIZATION AND SEGMENTATION: CHANGES IN INDUSTRIAL
STRUCTURE

Changes in Canada's industrial structure over the remainder of the 1980s will be characterized by two simultaneous trends: a tendency towards large size and more widespread markets (globalization), and a tendency towards highly individualized products and services, and methods of distribution (segmentation). These developments are the result of changing domestic and external economic conditions, and of rapid technological innovation. The nature of competition in the Canadian economy will be described below, followed by a discussion of the structural changes anticipated in the medium term.

1. The Extent and Evolution of Competition in the
Canadian Economy

An examination of the structural factors affecting the state of competition in various sectors indicates that the Canadian economy became more competitive, overall, between 1970 and 1980. The paper focusses on concentration, trade, regulatory change, and general conditions of entry and exit of firms. Data on these aspects varied from sector to sector, but the evidence is particularly clear for manufacturing industries. It must be noted, however, that aggregate and industrial concentration levels are generally found to be higher in Canada than those prevailing in the United States and other western industrialized countries. This conclusion does not alter significantly even when adjustments for trade with the United States are made. During the 1970s, there has been a tendency towards higher concentration, reflecting conglomerate merger activity by leading firms. This trend towards increased aggregate concentration levels moderated somewhat in the early 1980s. It appears that the COMBINES INVESTIGATION ACT, as it is presently framed, has not affected or impeded structural change in the Canadian economy, except in the regulated industries. Developments favouring competition in this sector may have occurred, in part, as a result of interventions before regulatory boards and commissions by the Director of Investigation and Research, following

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1. This section is a summary of a paper prepared by R.S. Khemani (Bureau of Competition Policy), for the Royal Commission on the Economic Union and Development Prospects for Canada, in December, 1984. We are most grateful for permission to use the findings presented here. Reference should be made to the original paper for detailed results, and a description of the measures used, together with a discussion of public policies bearing on sectoral or industry competition.

amendments to the Act in 1976 (some examples are discussed in Part Five, The Regulatory Environment). Increases in competition in Canada have come about because of global economic events and more liberal external trade, rather than conscious government policy.

High concentration levels in a particular industry (usually measured as the share of sales -- or another form of firm size -- accounted for by the four or eight largest firms in that industry) do not necessarily imply collusion or any other abuse of monopolistic position. But changes in industry concentration levels are usually associated with changes in other structural variables, such as barriers to entry, which can affect the discretionary power of sellers. Aggregate concentration, measuring the relative position of the largest firms in the economy as a whole (or a major sector), is of concern to the extent that large corporate entities can, by shifting their financial resources, significantly affect levels of employment or overall economic activity.

Table 3.1 presents estimates of the extent of "oligopoly/competition" prevailing in the Canadian economy as a whole, and in its major sectors, in 1980. Industries categorized as "effectively competitive" generally have four-firm concentration ratios (measured by sales) of less than 50 per cent and/or a level of imports in excess of 20 per cent and or evidence of entry of firms. This data was, where possible, supplemented with information concerning the extent of regulation pertaining to price, or other marketing controls. Industries that do not meet these criteria are classified as "oligopolistic", unless they are explicitly regulated or supervised by government, particularly with respect to price, supply or entry. The table suggests that approximately two-fifths (44 per cent) of Canadian GDP is generated in industry sectors which can be characterized as effectively competitive, one-fifth (18 per cent) originates under oligopolistic market conditions, and the remaining two-fifths (38 per cent) is government supervised or regulated. A comparable estimate for the United States is that 77 per cent of national income was generated, in 1980, by effectively competitive sectors. This comparison reveals that every major sector of the Canadian economy other than construction has a lower degree of effective competition than that prevailing in the United States.

An examination of the shares of large firms in Canadian economic activity at the more detailed industry level (140 sub-industries) indicates that there is considerable variation in concentration levels across sectors and industries. The Financial and Transportation-Communication sectors tend to be more concentrated than others and probably reflect the impediments to entry into these sectors imposed by govern-

Table 3.1

Contribution to Gross Domestic Product by
Sector and Type of Market Structure, 1980

Industry, Sector (1970 Standard Industrial Classif.)	Oligopolistic Industries	Government Supervised or Regulated	Effectively Competitive	Total GDP Contribution \$ Millions (% of Total)
<hr/>				
	Percentage*			
Agriculture, Forestry Fishing & Trapping (001 - 047)	0% (0)	47% (1.9)	53% (2.3)	11,571.2 (4.2)
Mining (051 - 099)	70 (4.8)	23 (1.6)	7 (0.5)	18,890.5 (6.9)
Manufacturing (101 - 399)	28 (5.7)	0	72 (14.9)	56,170.4 (20.6)
Construction (404 - 421)	0	0	100 (5.5)	15,071.8 (5.5)
Transportation & Communications & Utilities (501 - 579)	0	82 (9.9)	18 (2.2)	32,999.4 (12.1)
Trade (602 - 699)	44 (4.8)	2 (0.2)	54 (5.8)	29,443.1 (10.8)
Finance, Insurance and Real Estate (701 - 737)	17 (2.2)	49 (6.4)	34 (4.4)	35,505.6 (13.0)
Services (Community, Business & Personal) (801 - 899)	1 (0.1)	57 (11.0)	42 (8.2)	52,682.5 (19.3)
Public Administration and Defence (902-991)	0	100 (7.4)	0	20,101 (7.4)
Total (All Sectors)	18	38	44	272,622.8
Total Without Public Admin. & Defence	19	34	47	252,521.8

Sources: Statistics Canada, Gross Domestic Product By Industry, Cat. No. 61-213, 1980
 Statistics Canada, Corporation & Labour Unions Returns Act, Cat. No. 61-210, 1980
 in Khemani, R.S., op. cit.

Notes: * Percentages in parentheses based on total (all sectors) G.D.P.
 Totals may not equal 100 due to rounding.

ment regulations. As well, on an overall basis, concentration in these sectors has tended to increase during the 1975-80 period. Concentration has also increased in the Services and Retail Trade sectors, whereas it has declined in the Agriculture, Forestry and Fishing, Mining and Construction sectors. In Manufacturing the increase in concentration is of a relative small magnitude.

Examining individual industries in various sectors, particularly high concentration levels (CR4 levels of greater than 75 per cent) are found to exist in Tobacco, Coal and Coke, Department Stores, Variety Stores, Air Transportation, Railways, Pipelines, Telephones, Gas Distribution, Banks, Consumer Loan Cos. and Other Financial Agencies. Over the 1975-80 period, concentration levels in the majority of these industries have tended to increase. In two of the three cases where concentration levels have decreased between 1975 and 1980, the percentage point difference in CR4 ratios is approximately four percentage points (Consumer Loan Cos. and Telephones). In the remaining case of Banks, the difference in CR4 levels is only two percentage points.

It should be noted that in some industries concentration levels may be overstated because imports have not been taken into account. For example, the 1980 CR4 measure for the Motor Vehicles Manufacturing industry published by Statistics Canada is 93 per cent of domestic shipments, which does not take into account the fact that approximately 22 per cent of new motor vehicles sold in Canada in that year were imports from outside North America. It is estimated that average concentration at the 140 industry level declines from 53 to 43 per cent when adjustments for imports are made. On the other hand, weighting concentration measures for regional differences -- to take into consideration industries which serve distinctly local markets, or which are located in very limited areas for reasons of resource availability -- tends to increase average concentration levels. Barriers to interprovincial trade, such as provincial government procurement and industrial policies, transportation regulations and trade and professional licensing, tend to increase the concentration of regional industries, compared to national averages.

The extent to which the Canadian economy is dominated by a small number of large enterprises is indicated by Table 3.2. In 1980 the 25 largest enterprises accounted for 30.2 per cent of total non-financial sector assets. There were four government owned or controlled enterprises among the 25 and these accounted for nearly half (14.3 per cent)

of the group's share of total non-financial sector assets. Since 1965 there has been an increase in concentration of assets among the leading 25 enterprises. Similar trends are observed when the relative shares of the 50 and 100 largest enterprises are examined. Canadian private sector and government-owned enterprises appear to account for more of the increase in aggregate concentration in the economy than do the foreign-owned or - controlled enterprises. The relative share of assets of foreign enterprises has remained generally stable over the years, though there are some indications that it has declined between 1979 and 1980. The trend towards increased aggregate concentration levels has, however, tended to be more moderate during the 1975-80 period as compared with the 1965-75 period.

Table 3.2

Relative Distribution of Assets of the Largest Non-Financial Enterprises in Canada (per cent)

Enterprises:	1975				1980			
	Foreign	Canadian Private	Gov't	TOTAL	Foreign	Canadian Private	Gov't	TOTAL
Largest 25	5.4	10.0	13.8	29.2	5.8	10.1	14.3	30.2
Largest 50	8.6	14.2	13.8	36.6	8.4	16.1	14.7	39.2
Largest 100	14.5	16.6	15.4	46.5	13.5	19.5	16.2	49.2

Source: Statistics Canada, Corporations and Labour Unions Returns Act, Part I, Cat. No. 61-210.
in Khemani, R.S., op. cit.

Increase in the size of an enterprise (and hence, in its relative share) occurs because of internal growth or merger. In the late 1970s, from 24 to 30 per cent of asset growth among private sector firms was attributable to merger activity. Government enterprises' reliance on mergers for growth declined sharply over the period, but increased in the 1980s as a result of takeovers in the energy sector.

Estimates of industry concentration at the highest level of disaggregation available indicate that there has been a tendency towards stable or lower average concentration levels in Canadian manufacturing industries over the

1970s. Industries with initial high concentration levels have decreased in concentration. Moreover, there is significant turnover in the ranks of the leading four firms in the majority of manufacturing industries, suggesting that these firms are not necessarily entrenched in their market positions. Entry (and exit) of firms is fairly widespread in industries as well. In addition, there has been increased import penetration and trade exposure across manufacturing industries in Canada. As described above, however, for the major industry sectors, a relatively larger number of highly concentrated manufacturing industries exist in Canada than in the United States. Forty per cent of Canadian manufacturing industries as compared with 13 per cent in the U.S. have CR4 levels of greater than 70 per cent. There are also similar differences in the relative share of total manufacturing sector shipments these industries account for between the two countries.

The trend towards increasing aggregate concentration in the non-financial sector of the Canadian economy is due in part, as indicated above, to merger activity. To the extent that industry concentration is simultaneously decreasing, it may be inferred that mergers are occurring across, rather than within, industry sectors. Recent data suggest that the pace of merger activity is increasing (see Table 3.3); aggregate concentration levels may therefore be expected to increase in the 1980s as well.

Table 3.3

Merger Activity in Canada

	<u>Number of firms acquired</u>
1979	511
1980	414
1981	491
1982	576
1983	628

Source: Bureau of Competition Policy, Merger Register

A cross-tabulation of concentration levels and related economic variables (for 1970-79 data) suggests the following relationships:

- ⊙ Changes in industry concentration levels and domestic market growth tend to be inversely related.

- Changes in industry concentration levels and entry of new firms also tend to be inversely related.
- Entry of new firms and growth tend to be positively related.
- No relationship appears to exist between exit of firms and changes in or levels of concentration.
- Industries with low growth rates have higher rates of exit of firms.
- Entry of new firms has occurred in virtually all manufacturing industries regardless of the height of initial concentration levels.
- No relationship appears to exist between changes in concentration and extent of horizontal merger activity among firms. Seventy-three of the 163 industries examined have zero mergers.
- There has been an increase in import penetration virtually all across the manufacturing sector.
- While no pattern between import penetration and changes in concentration levels can be discerned, more than half of these manufacturing industries have decreased in concentration.

2. Globalization and Segmentation

The search for wider markets, both within Canada and across international boundaries, has been accelerated by technological and economic factors. This has led, in recent months, to many mergers and takeovers, within and between industry sectors. Notable examples are in real estate and insurance, and among securities dealers; among caisses populaires in Ontario and in retail trade in Manitoba; and even between partnerships of chartered accountants. Joint ventures have also been used, as a way of increasing size temporarily, particularly in high technology projects.

Such mergers have been possible, in part, because the recent recession and subsequent slow recovery (particularly of investment) have made available many weakened firms, whose survival can only be assured by joining with a stronger enterprise. This has been particularly so in the retail sector, and among securities dealers and caisses populaires. This economic factor will moderate over the near term, as recovery continues, but is likely to recur in the event of another cyclical downturn. Some mergers, on

the other hand, have occurred because of the need to compete in international markets -- indeed, some have been prompted by decisions of U.S. parent or associated companies (for example, among chartered accountants and insurance companies).

Technological factors have a major impact here. As communications and information technology advance rapidly, Canadian consumers will be exposed to new choices from distant sources (via advertising on cable or satellite television, for example), and will be able to place orders more directly (U.S. toll-free numbers will shortly be accessible by Canadians -- and have already been extended to France; some electronic banking networks are being established which cross international boundaries). Canadian businesses will also benefit from such changes -- if their products can compete in terms of price, or by providing a distinctive service. Installation of technologically advanced equipment may result in lower costs of production, but often requires huge initial investments; again, larger markets will permit the exploitation of economies of scale, but for trading partners as well as Canadians.

Technological change is also making the trend towards segmentation possible. Consumers have extensive information and are making increasingly specific choices about their expenditures. Though technology-intensive investment is sometimes very expensive, the costs of some capital equipment have fallen dramatically as a result of innovation; it is now possible for the originators of products and services with very limited appeal to reach small numbers of clients and manage businesses with inexpensive but powerful computers. Restaurants, for example, are catering to exotic tastes, while responding to demands for fresh, natural food, with sophisticated electronic equipment. This trend, that continual technological improvement makes it possible to realize economies of scale at very low volumes of output, will continue throughout the planning period, and will accelerate the trend to segmentation.

Larger enterprises -- in their efforts to reach more global markets -- are also segmenting their products or services in more detail. One method is by operating several distinct divisions, targetting specific clients. Dylex Ltd. is an example of a retailer using this approach, with ten store divisions trading under thirteen names. Another method is to franchise a product or service, giving the operator of the business more autonomy, making more flexible financial arrangements possible. Franchising, in particular, is expected to grow rapidly in the planning period, with important implications for marketing practices and

financial disclosure (to protect would-be buyers of franchises), as well as for protection of trademarks and industrial designs.

It therefore seems that globalization, the tendency towards large size or markets, will proceed simultaneously with detailed segmentation, and that small businesses will flourish alongside very large ones.

3. Issues Pertinent to CCAC

Mergers

One of the major responsibilities of this Department is to ensure that effective competition exists in the marketplace. A related responsibility is to ensure that acceptable marketing practices are used. Both effective competition and marketing practices may be indirectly affected by the merger trend and the tendency towards segmentation.

Many mergers have occurred as a result of pressures to diversify market bases, either geographically or sectorally. These pressures grew from technological change, the recent recession and subsequent slow growth, and changing market demands. Many firms use the merger route to penetrate, or even more likely, to consolidate markets. Merger activities could result in larger concentration of market power in fewer hands. The foregoing has shown that merger activities have contributed to growing concentration in terms of asset size since 1965. The heightened merger activities of recent years will further strengthen that trend.

Concentration of market power due to mergers will not always be immediately apparent, because the affected businesses may occupy different industry and/or geographic groupings. In fact, as noted above, one of the reasons for merging is to gain strength from having a foot in more than one market. An example is the growth, through merger, of Trilon Financial Corp., which has diverse interests in life and general insurance, a major trust company, and in real estate brokerage. Such mergers allow the financial activities of the trust company to compensate for cyclical savings in the insurance and real estate markets, without necessarily increasing concentration in the individual industries.

Currently, mergers can be subject to review by the Department under the Combines Investigation Act, which states that a merger is illegal when it lessens competition to the detriment of the public. But, charges by the Director of Investigation and Research are adjudicated by the criminal court. Convictions under the Criminal Code are

difficult to obtain because offences must be proved "beyond the shadow of a doubt". Recent proposals to move adjudication of merger cases to the civil courts would make prosecution easier and allow the Department to make merger enquiries more aggressively. Amendments to the COMBINES INVESTIGATION ACT are likely to be introduced in Parliament soon (see also Part Eight).

Segmentation

Parallel to the merger movement is the trend towards specialization in smaller and smaller market segments. As noted above, this is in response to consumer behaviours changing from mass consumption to highly individualised buying patterns. The resulting market segmentation, both geographically and along product lines, is causing some breakup in mass advertising. Advertising is changing from mass media to localized and target-specific advertising. These changes will likely cause changes in the designs and packaging of some consumer goods. More variety in packaging and labelling may emerge.

These developments may make it more laborious in the future to inspect packaging and labelling and to enforce misleading advertising laws.

PART FOUR

TECHNOLOGY

In recent years, technological change has been a focus of attention among consumers, industries, academics, labour unions and government policy-makers. There is no indication that technological change in the form of innovation has accelerated in the 1980s compared to the past few decades. However, recent preoccupation with technology is strongly influenced by its applications: the introduction of computer technology to production lines, offices and consumer products. Computer technology is associated with electronic automation that may dramatically alter production relationships between capital and labour. The application of electronics is also surprisingly wide in scope. These two factors, impact on production and the scope of applications, underlie the attention paid to technological change recently.

It is also important to distinguish between the commercial application of technology and scientific knowledge. Video technology, for example, has been in existence for many years. It is the successful launching of consumer video technology that has created the recent explosion in new products in the consumer entertainment field.

Therefore, in an examination of how technology will affect the environment relevant to this Department, it is useful to consider the following factors: among the broad array of likely new technologies

- (i) which have significant impacts on society and the economy?
- (ii) which have direct implications for consumer products?
- (iii) which appear to have commercial potential?

In addition, it is also important to ask if the patent system could affect the introduction of such new technologies.

Among likely new or emerging technologies, three appear to deserve attention, due to expected wide impacts, strong implications for consumers, and high commercial potential. These are: information technology associated with electronics, new materials, and biotechnology.

1. Information Technology

Information technology is clearly the most prominent among the three, in that it is already widely used. Included are a wide range of related technologies, from robotics, to computer database access, teletext and videotex, electronic funds transfer, electronic mail, home banking, and point of sale debit card system. Last year's Environment Assessment report devoted a section to information technology, as it was clearly an imminent issue.¹ Most of the trends were already apparent, and these were discussed in detail. The following will therefore only present a brief summary of information technology.

Computer technology made its first impact in the field of data processing. To date, this application is still the most important. A key development has been the use of personal computers for database access. This has opened up wide acceptance of the computer and its application to a wide range of areas outside of scientific and technical fields. From this emerges other wide-ranging possibilities, such as electronic mail that requires the link up of electronic technology with the telephone, and teletext which delivers visual information to users. Cellular radio telephones may become widely used with further deregulation of the telephone industry (see Part Five, The Regulatory Environment). These telephones utilize microprocessors working with a central computer that manipulates locations and frequencies of telephone calls. But the most significant impact of electronic technology will probably be in the area of financial services.

Automatic tellers are already widely used in Canada, and other uses of electronic funds transfer will likely become more prevalent, e.g. home banking. The future will see further development of point of sale systems, such as debit cards usable at the point of purchase. See Part Six Financial Institutions, for a fuller treatment of issues of financial services to consumers.

2. New Materials

Many potentially exciting new technologies are being researched and developed in North America, Europe and Japan. Many of these relate to space and ocean technologies, and to industrial engineering. Although ultimately some of these may have an impact on consumers, it is

1. CCAC, Environment Assessment, March 1984, "Trends in Technology", p. 2-22.

difficult to assess such impacts at this early stage. There is, however, one area of industrial engineering that appears to have direct implications for consumer products. This is the area of new materials.

There is general awareness among the metal industry and among industrial engineering firms that there are constraints to total reliance on conventional materials such as metals. For example, according to a study conducted by a consultant for the Department of Energy, Mines and Resources and a number of private sector firms,² major reductions in the market for all metals are expected to occur within ten years. The study surveyed major industries, universities and research institutions across Canada and the U.S. and found a startling consensus among experts that the trend is probably irreversible.

Some of the key developments identified by this and other studies³ are the trends towards increased use of plastic composites and of ceramics, displacing steel and other metals, with applications in the automobile industry, in construction, and in consumer goods.

New materials, sometimes referred to as advanced industrial materials, are expected to substitute for conventional materials, mostly metals, because of various physical properties, but also because of potential cost competitiveness. The major problem in forecasting the precise use of these materials is that no specifications exist for some of the newer materials such as advanced ceramics. However, there is a broadly expressed consensus that by breaking away from conventional designs, it is possible to achieve lighter weight, better quality, more durability and low prices by incorporating new materials.

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2. G.A. Jewett, The Impact of Materials Technology on the Markets for Metals, December 1983.
 3. Hatch Associates Ltd, Assessment of the Needs and Opportunities in Advanced Materials Technologies, April 1984.
- C.M. Chihrin, Advanced & Industrial Materials in Japan, August 1983.

Department of Regional Industrial Expansion, Office of Industrial Innovation, Technology Portfolio, June 1984.

Some substitution has already taken place. For example, since around 1980 plastics have caught up with metals in terms of industrial consumption by industries in North America. Plastics have been used as simple substitutes for metals where lighter or cheaper materials can be used. But the trend indicates that new materials will begin to impact on engineering designs as well, leading to the use of these new materials as primary materials rather than substitutes.

Another major reason for the above trend is international competition. Japan and the U.S. are both providing massive research support for materials technology. It is clear that, even for no other reason, any successful applications of new materials by either country will force rapid substitution to occur in other countries, including Canada.

Ceramics

Advanced ceramics are chemical products made from oxides found in clay. Most estimates of growth of this industry (based on limited data) relate to the application of ceramics in automobiles, including the concept of a ceramic car engine. At this time, more than twenty firms in the U.S. have multi-million dollar research programs in ceramics engineering, including Ford and General Motors.⁴ It is estimated that a ceramic car engine will be commercially available within ten years.

Advanced ceramics have extremely high strength at high temperature, and excellent resistance to corrosion and oxidation. Ceramics are also readily available as part of the earth's crust and have low costs of manufacture. These factors make ceramics attractive substitutes for materials that are costly to extract or manufacture, or are energy-intensive.

The market for advanced ceramics was about \$4 billion in 1980, mostly as electronic components, and cutting tools, with about half of that market in Japan⁵. MITI (the Japanese Ministry of Trade and Industry) is the holder of most of the Japanese patents.

4. G.A. Jewitt, op. cit.

5. Ibid.

Plastics

Although plastics appear to be inferior to metals in terms of stiffness, high temperature tolerance, and electrical conductivity, recent advances have produced reinforced plastics that come much closer to metals in these properties. In addition, plastics are much lighter and cheaper.

The cost effectiveness of plastics is evident not only in weight reduction of final products but also in energy intensiveness of the materials themselves. Concrete takes about six times the amount of energy to manufacture compared with plastics. Steel takes about thirty times as much energy to make.

A major example of plastics substituting for metals is in the automobile industry. Due to the requirement for fuel economy, cars are now made lighter with the use of more aluminium and plastics in place of steel. Substitution of metal by plastics also occurs in consumer appliances. It is expected that reinforced plastics using block co-polymers will substitute for metals in large volume in the engineering field.

Applications of New Materials

It may be concluded from the above discussion that perhaps the most useful example of material substitution will occur in the automobile industry. Next to a house, the automobile is probably the most important possession for the average consumer. The automobile industry also has pervasive impacts on the economy in terms of employment, and links with other industries.

The most notable trend for this industry in the past decade has been the drive towards fuel efficiency, better engineering, better aerodynamics, and lighter weight. Some of these features have been achieved largely through downsizing. Downsizing obviously can not go on indefinitely. Future improvement will have to come from better technology. New technology will not only lead to new designs with conventional materials, but also to new designs with new materials. For fuel efficiency, material substitution is a clear alternative. Reinforced plastics are a good example of such substitutes. For better engineering, research efforts among car manufacturers (mentioned earlier) are centred on a light weight diesel engine made of ceramics. Such an engine could reduce engine weight by 50 per cent and increase fuel efficiency by 100 per cent.

Other components such as spark plugs are also expected to be made of higher proportions of ceramics in the future.

Implications for the Average Canadian

For the average Canadian not connected to R&D in industrial design or to the automobile industry, what are the implications of the above discussion?

The most important is probably the likely emergence of products within ten years that have vastly different physical characteristics from those in the past. In the case of the car, for example, new standards may have to be set for performance. But the applications of new materials will go beyond the automobile into other consumer products, such as appliances, sporting goods, and possibly medical products. Proper standards and labelling will facilitate understanding new physical properties.

The second implication is for the metal industry. A reduction in the demand for metals will mean declines in employment in mining and in the metal processing industry. These will have significant regional repercussions, since certain parts of Canada are very dependent on these industries, e.g. B.C. and parts of Ontario. Currently, both regions have significant overcapacity in metal mines. If demand for metals fails to improve in the long run, the outlook for the economies of these regions will be noticeably darkened. This is especially true for B.C. due to its reliance on two key metals, copper and zinc, both of which will be strongly affected by material substitution. In the case of copper, fibre optics as substitute for copper wire is already a reality.

The overall impact of new materials on the Canadian economy can be substantial. Although no hard data exists to document new materials, it is clear from the various studies quoted earlier that Canada lags severely behind the U.S. and Japan in new material technology. Canada traditionally relies on resource exploitation as one of its basic economic strengths. Indeed, exporting resources is a basic element of the Canadian economy, and some of these resources are metals.

3. Biotechnology

Biotechnology refers to the field of knowledge which combines genetic engineering, enzyme systems, and cell culture and process technology for the production of goods and services. Some countries, notably the U.S. and Japan, have put great emphasis on promoting biotechnology, regarding it as one of the key technologies of the future.

Estimates of world market size are not reliable at this early stage, but indications are in the order of \$50 billion by 1990. Although only a few products based on biotechnology are currently marketed commercially, over \$2.5 billion had been invested in about 100 U.S. biotechnological companies by 1984.⁶

The impact of biotechnology will be comparable to that of electronics: very widespread by industry sectors and affecting both industrial and consumer markets. The most important applications will be in the health care and food sectors. These will have direct impact on consumers. Other applications will be in agriculture, mining and metal extraction, natural resource processing, waste treatment and chemicals. In the following discussion, the focus will be on food and health care products since these directly relate to commercial and consumer markets.

In the food sector, future developments in artificial flavouring, enzymes, preservatives and vitamins are expected to be strongly influenced by biotechnology. The following are some estimates of market potentials in Canada:

By 1995, the market for biotechnology-based enzymes will reach \$55 million, and about two-thirds of the artificial flavouring and sweetener market will be biotechnology-based, at about \$130 million.⁷

For the health care field, the major impact will come from genetic technologies. The expected rate of expansion of biotechnological health care products in Canada can be seen from the following estimates:

In 1985, about \$140 million in sales of biotechnological pharmaceutical products are projected, out of a total market in pharmaceuticals of about \$1.3 billion. By 1995, \$2.3 billion in sales of biotechnological products are expected, which will be about 60 per cent of the total \$3.9 billion market in pharmaceuticals and biological products⁸.

6. Dr. C. Forena, Study on Biotechnology, an internal paper prepared for the Department of Regional Industrial Expansion.

7. Ibid.

8. Ibid.

The most promising areas in pharmaceuticals are in the production of biotechnology-based amino acids, antibiotics, enzymes, hormones, and aromatics. Specific examples include interferons and insulin. For diagnostic products, vaccines and anti-toxins will be the key products for biotechnology-based production.

The implications are obvious when one bears in mind the demographics of the Canadian population: as aging occurs over a wide segment of the population, health care products will be a major growth market. (See also Part Seven on demographic trends)

Regulation of Biotechnology

One of the most pressing concerns associated with biotechnology is the unknown threat, if any, that it may pose to the human environment. Biotechnology produces biological agents that may infect other organisms or may cause pathological changes in these organisms.

The realisation of such potential hazards has prompted the adoption of guidelines regulating biotechnology research by 26 countries, including Canada. These are called recombinant DNA guidelines, or rDNA guidelines. These guidelines specify biological and physical containment that will be required for various experiments, indicating specific standards and procedures. There are also instructions concerning waste disposal and safety of personnel working with the experiments.

However, these guidelines relate only to the research stage. There are no guidelines once the products pass from research to commercial production.

There are a number of important questions to be answered before regulation can be effective. The first is, what are the hazards involved in commercial production of biotechnological products?

The difficulty of answering such a question can be understood, given the wide variety of new processes and products arising from biotechnology. To identify potential hazards, it is necessary to establish a monitoring system that has the capability of evaluating the nature of specific processes and products and assessing risks to consumers and to the biological and physical environment. This is clearly the role of a government regulatory agency or agencies. The major problem associated with regulation is the wide variety of products and potential hazards. It is difficult to devise a single set of guidelines for commercial biotechnological products.

The solution may be in the form of regulation by various agencies, as in the case of existing laws and regulations governing food products (for which CCAC shares responsibility). But there are inherent problems with existing laws and regulations, as spelt out by the following paragraph from a paper reviewing the Canadian situation in biotechnology regulation:⁹

"These laws and regulations, however, were in many instances, enacted or promulgated before the advent of new biotechnology and it is not yet clear that they are adequate to deal with the health and safety aspects of its commercial exploitations. The important questions that now arise in various industrialized countries are: what are the laws that are in place and may apply; which are the regulatory agencies that may or should be involved; what are their powers and capabilities to regulate commercial biotechnology; and what else may be required. There are also uncertainties about the hazards that may be involved and numerous questions regarding risk assessments that are required. In effect, commercial biotechnology everywhere is on the frontier of regulations and it is only recently that it began to receive more focused attention.....The legal and administrative frameworks for health and safety regulations in Canada involve federal and provincial laws and agencies and in some instances municipalities. They entail a variety of mechanisms for cooperation. One of the early questions in this connection is whether the enablement (express or inferred legal authority) which these frameworks and arrangements provide are sufficient to regulate commercial biotechnology. Next to be answered are the questions whether commercial biotechnology and its products pose unique regulatory problems and issues, and what are the present policies for resolving them. It is also necessary to ask what knowledge and other resources are presently available and what more or what else may be required to develop regulations for commercial biotechnology that may be needed in Canada."

Biotechnology regulation may involve at least these Federal Departments: National Health and Welfare, Agriculture Canada, Environment Canada, Labour Canada, Transport Canada, National Research Council, and Consumer and Corporate Affairs Canada.

9. A.S. Bandzierz, "Safety and Regulation in Biotechnology", June 12, 1984, Science and Technology Canada.

4. Patents and Technological Change

Although technological change as measured by the rate of invention does not appear to be at a higher level in the 1980s as compared to earlier decades,¹⁰ the types (rather than the numbers) of technologies recently being developed and applied commercially tend to have more pervasive impacts on the economy. This is due to the fact that these new technologies, such as microelectronics, dramatically alter the capital-labour relationships in the productive process and are applicable across a wide range of industries, and to situations ranging from the factory to the office to the home. In some ways, recent technological change associated with microelectronics may rank with the invention of the factory system during the industrial revolution and to the automobile during the early 20th century. The applications of these inventions dramatically changed the structure of society and of the economy.

As discussed earlier in this section, emerging technologies, including future applications of computer technology, new advanced materials, and biotechnology, are expected to generate wide impacts. It is this awareness that causes the general preoccupation with technological change today.

In addition, it has been pointed out that Canada tends to lag behind major industrialized countries in these technologies. Thus, the concern becomes that of how to promote more technology in Canada in terms of invention and/or applications.

Technological change can be facilitated by a number of factors, such as R & D expenditures, investment, incentive policies by the government, higher education, and better information. What is most relevant to the mandate of CCAC is better information.

One of the key avenues to information on industrial and scientific knowledge is the patent system. Japan has demonstrated its success in exploiting the patent system to facilitate technological change. Patent information is

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10. The popular notion of an increasing pace of technological change is an incorrect one. According to international patent data, rates of invention increased fairly steadily during the 1950s and 60s to reach a peak in 1972, fell back dramatically during the mid seventies and began to recover in the late 70s and early 80s (though not to the previous high level).

actively promoted to maximize the potential benefits of the stock of knowledge in the patent system.

Canada does not have an active program of patent information dissemination. But there is a well developed patent database in this Department. An analysis of the database has recently been performed by the Strategic Policy Research Branch as part of a submission on patent and technology to the MacDonald Royal Commission.¹¹

The findings of that study include the following:

The Canadian Position

- (i) Canada grants a very high number of patents annually to foreign nationals (third only to Great Britain and the U.S.). This suggests:
 - (a) Foreign companies have an interest in protecting their technology rights here because they see the Canadian market as a potentially profitable one.
 - and/or
 - (b) These companies see Canadian industry as potentially competitive in world (and probably more importantly the U.S.) markets.
 - (c) They see Canadian industry as able to adapt to, and adopt new technology quickly enough to become a competitor
 - (d) Canada has a relatively large store of technical information available for potential use under licence by Canadian industry (in the patent files). Much of this information is not available to other industrial countries.
- (ii) Canada produces only about 0.3 per cent of the world's new technology annually. Its rate of technology generation tends to fluctuate in step with that of the rest of the world.

11. Ellis, E.D., and Waite, D., Canadian Technological Output in a World Context, prepared for the Royal Commission on the Economic Union and Development Prospects for Canada, November 1984. We are most grateful for permission to use the findings presented here. Reference should be made to the original paper for detailed results, and a description of the methods used.

However, given Canada's small population base and economy, the figure is relatively respectable. Moreover, the rate has remained stable for Canada while, except for Japan, other major trading nations have lost shares by varying amounts.

- (iii) Canada is not good at protecting its technology abroad by international standards. More than half of Canadian's foreign patenting is done in the U.S. (No other developed country is in this kind of position relative to a major trading neighbour). In terms of the ratio of patenting at home to patenting abroad, Canada is low on the list of international contenders. If the U.S. figures are taken out of the calculations, then Canada shows up very badly. It appears that benefits might be derived from more patenting outside the U.S. market.
- (iv) Canada does fairly well at moving out of stagnant technology areas and into growing ones. Canada shows up about the middle of developed countries in terms of its capacity here. Between 1970 and 1983, Canadian companies have shown a strong growth in patenting in the more internationally active areas of electrical invention, and in 1983 Canadian patenting in both the internationally growing chemical and electrical technologies was stronger than in chemical and electrical technologies generally.

International Competitiveness in Technology

Canada obviously and inevitably buys much more technology, in the form of capital goods, than it creates. The U.S., though still in a dominant position as the world's largest creator of technology, is losing its share of the technology markets. Japan has become a major competitor and other smaller nations are taking increasing (though still small) shares.

This increased international competitiveness should benefit Canada as a net importer of technology. Policies and programs to take advantage of the situation are still needed.

5. Issues Pertinent to CCAC

Rapid changes in technology are impacting strongly on production processes in industries, on consumer products, and in particular on financial and information services. As in many industrial issues, developments in the marketplace, and sometimes even public policy stance, tend to favour and

reflect the concerns of producers more than those of consumers. Application of new technology in financial services, such as electronic funds transfer, has many implications for consumers, which will be discussed in Part Six below.

Another expected technological change is the emergence of new materials substituting for conventional materials such as metals. The effects on society and on consumers can be widespread. The applications of new materials will include many consumer products, e.g. appliances, cars, sporting goods, etc. Because the physical specifications of new materials such as ceramics do not yet exist, monitoring of the developments in commercial applications is important as many will end up as consumer products, requiring setting of standards, and labelling information.

Biotechnology may become the major technological breakthrough to occur since the electronic revolution. The applications of biotechnology are as widespread as those of electronics. However, biotechnology may pose unknown threats to society as the potential hazards of such chemical changes to humans and to the environment are not well known. The key policy issue is that of regulation.

Despite the expressed policy stance of the current government to lessen regulation of the marketplace, certain areas may actually require increased regulation or at least surveillance. Biotechnology is clearly one such area. In fact, it may require extensive and complex regulation. Furthermore, regulatory activities may involve a large group of federal and provincial agencies. This department, with its mandate over consumer products will likely be involved in the development and possibly enforcement of some aspects of biotechnology regulation. Again, monitoring of developments in biotechnology by this and other departments will facilitate the coordination of regulatory response among various agencies. This issue is expected to grow in importance.

Another relevant issue for CCAC is the relationship between biotechnology and patent law. Patent law must be clarified with respect to uncertainties that may hinder the growth of biotechnology in Canada.

Biotechnology and Patent Law

Recent developments in biotechnology have raised several issues respecting the patentability of certain types of biotechnology innovations. These issues have had to be addressed by all major patent jurisdictions, not just Canada. Briefly, the issues are as follows:

i) What types of biotechnology innovations should be eligible for patenting? In particular, should the following be eligible:

- isolated naturally occurring organisms
- genetically altered organisms, whether they be micro-organisms or higher life-form plants or animals
- processes for producing organisms, and
- the organism products of such processes.

For Canada, important questions concern the certainty under our law as to whether these various types of innovations are patentable, and how the scope of patentable subject matter in Canada compares to that elsewhere.

ii) What constitutes acceptable disclosure of biotechnology inventions or, more precisely, in what circumstances, if any, would deposit of micro-organisms in an accredited depository be an acceptable mode of disclosure? The recent decision of the Patent Appeal Board in ABITIBI sheds some light on Canadian patent law with regard to these questions, indicating deposit is acceptable in certain circumstances, but uncertainty remains.

iii) Finally, there is the issue of the compatibility of the Patent Act and plant breeders' rights legislation, should the latter be enacted. If the range of biotechnology innovations which is held to be eligible for patenting under the Patent Act becomes very broad, to include higher life-forms like plants, there could be some overlap with the coverage provided by plant breeders' rights legislation, and arrangements would have to be made to ensure the two pieces of legislation work in harmony.

These issues must be addressed and solved in time to facilitate the development and commercial applications of biotechnology in Canada.

Finally, this Department can improve technology transfer by promoting the use of patent information. This comment applies to technology in general, but clearly has special implication for biotechnology, as indicated in the preceding paragraphs. The use of the patent system could be part of an overall government policy to promote technological change. This is particularly important in face of the projected problems for the resource sectors. Technology itself will be one of the key solutions to structural changes caused by technology.

PART FIVE

THE REGULATORY ENVIRONMENT

A notable recent development has been the pressure for less intervention by government. This trend started in the U.S. and is apparent in Canada as well. This phenomenon existed during the last term of the previous government, but is now clearly an objective of the current government.

Key to the notion of less intervention is the idea of deregulation. Regulation in one form or another pervades the economy of today. Examples of regulation include environmental controls, health and safety standards, price setting or tariff regulation, licensing, market restriction (geographically or by industry sector), and labour standards. Many of these regulatory mechanisms define the rules of the game for businesses and individual citizens in today's economy, and are probably necessary in one form or another. The notion of deregulation really applies to the pulling back of excessive interference in the market, to allow the latter to operate more freely, rather than the complete dissolution of regulatory mechanisms.

The process of deregulation will probably entail changes in every regulatory area mentioned above, and in many industries. A full treatment of such changes will be a study in itself. The primary focus of this report is on assessing changes that may strategically affect this Department. It is thus useful to restrict discussion to key emerging areas that have some implications for this Department:

- (i) price and market regulation in telecommunication;
- (ii) price and market regulation in transportation; and
- (iii) regulation by marketing boards.

1. Regulatory Changes in Telecommunication

Telecommunication services to consumers have been dominated by virtual monopolies in the telephone and telegraph markets by the telephone companies and CNCP respectively. A number of developments have occurred that are creating or will create more competition in the future. These include the emergence of:

- (i) enhanced services;
- (ii) the terminal interconnect market and customer-owned telephones;

- (iii) cellular radio-telephones;
- (iv) cable T.V. companies with potential to use cable networks for two-way communication; and
- (v) entry into long distance telephone services by companies independent of the telephone companies.

The following briefly discusses each of these in turn.

(i) Enhanced Services

Enhanced services refers to a range of activities in which ordinary telecommunications services are combined with the storage, processing or creation of information. In other words, ordinary telephone transmission of voice or data information is combined with computer technology to change or manipulate the information transmitted.

Enhanced services can be best described by reference to what is defined as "basic services". A basic service is the offering of capacity for transmission of information, such as voice, data or video. The service provider's transmission network is not used as an information storage system. An enhanced service is any service over and above the basic service. For instance, computer processing applications are used to act on the content of the message, to restructure, reformat or edit information. In addition, voice and data storage and retrieval applications are also enhanced services.

In a July 12, 1984 decision, the Canadian Radio-television and Telecommunications Commission (CRTC) stated that enhanced services provided by parties other than common carriers (i.e. telephone companies) need not be regulated. In addition, Bell Canada is not permitted to engage in electronic publishing involving editorial control over content or in the creation or distribution of its own databases. However, common carriers may establish databases related to their common carrier functions, such as directories and message storage. The CRTC has also decided not to impose restrictions on transfer of the offering of enhanced services to a separate subsidiary of common carriers.

The field of enhanced services is still very new. Little information exists to describe the dimensions of this new industry. But like the interconnect industry (see below), it will be characterized by competition. Indeed, non-carrier providers of enhanced services will not be regulated, while telephone companies are restricted to only

certain kinds of enhanced services and will remain regulated in these new services in conjunction with their basic services.

(ii) Terminal interconnect and customer-owned telephones

Developments in terminal interconnect were discussed in last year's Environment Assessment.¹ The basic situation has not changed.

To summarize, the decision by CRTC to allow the connection of non-Bell terminal equipment to Bell's network has spawned the development of a whole new industry supplying new terminal equipment, resulting in increases in the availability of new terminal devices to be used on telephone networks. This has meant wider user options and lower costs. In addition, interconnect has begun to increase the innovative use of telephones for both data and voice in an integrated fashion.

The terminal interconnect industry has undergone some shakeout of fringe and smaller firms, leaving larger, full-service companies in the market. It is expected that the industry will stabilize over the next few years. Interconnect is clearly a positive development in terms of consumer options and new products.

A recent development in the U.S. pointed the way to even further erosion of telephone companies' dominance of the terminal market. The U.S. Federal Communications Commission has allowed private businesses and individuals to own and operate pay telephones, ending a monopoly that until now had been enjoyed by telephone companies. Pay telephone operators will pay a monthly fee, set by state authorities, to the local phone company to hook up to the network. This could set a trend for Canada as well.

(iii) Cellular telephone

Cellular radio telephone refers to a mobile telephone that utilizes computer technology to switch frequencies enabling the telephone to establish contacts with extensive telephone networks not possible with simple mobile telephone units. This is referred to as system interconnect, in that an independent telephone network and equipment is hooked up to a telephone company's network. In this case, the equipment is mobile.

1. CCAC, Environment Assessment, March 1984, "Trends in Technology", p. 3-5.

There is currently only one licence holder for cellular telephone, Cantel Communications Inc. It has the licence to operate in 23 cities across Canada. Cantel is allowed to operate its own network among cellular telephones, but to access public switch networks, it must hook up with the networks of telephone companies in each region. The telephone companies will also be licensed by the Department of Communications to compete in the cellular market. But they are required to set up independent subsidiaries to operate in this market. The telephone companies will supply their networks to both Cantel and their own subsidiaries on the same terms. Bell Canada has already established a subsidiary, Bell Communication Systems Inc., as its interconnect subsidiary. Cantel is currently negotiating with major telephone companies to make the arrangements for interconnection.

Unlike terminal interconnect, which only creates competition in existing services, cellular telephone will expand telephone services to new areas of usage, i.e. new markets. Should the cost of service decline, mobile cellular telephone may become a widespread form of mobile communication.

(iv) Cable T.V. network

Existing cable T.V. companies have networks that link up to many Canadian homes. These cable networks are currently only used for one-way T.V. and radio signals, but have the potential to be used for two-way communication. Such a use would convert cable companies into telephone companies.

To date, one of the major rationales for telephone monopolies has been inherent efficiency of a single network system. A parallel network has evolved in the past decade that rivals the telephone network in coverage and has the added capability of carrying two-way T.V. and voice signals. Cable companies have not indicated strong interest in moving into the telephone market. This may be partly due to the reluctance of the cable industry to become highly regulated like the telephone industry. However, in the course of further deregulation of the telephone industry, there may come a time when cable companies will become interested. At the same time, the use of fibre-optics as a transmission medium in place of copper will also allow the telephone companies' networks to operate for both voice and T.V. transmission. It may take some time before telephone networks use fibre-optics on a comprehensive scale but this is anticipated to occur. Thus, there will be potential competition between the cable T.V. and telephone companies.

(v) Long distance telephone services

Following a trend started in the U.S., the CRTC is considering permitting more competition in long distance telephone services. CNCP has filed an application with the CRTC for permission to enter into long distance telephone services using public switch networks in Ontario, Quebec and British Columbia. The hearing has concluded, and the industry is awaiting a decision by the CRTC.

If CNCP is allowed to compete, it may pave the way for other long distance service companies to emerge. In theory, long distance services do not require the massive investment in networks required by local services. Typically, a long distance service links two points, each of which will have a concentrated network in its neighbourhood, but the network need not service the whole town or city, much less an entire province, at either end of the long distance by-pass. Thus, natural monopoly is not an issue, and many carriers can emerge in the industry.

The telephone companies do not object to the concept of competition, but have argued that they should be allowed to rebalance the rates that they charge for local and long distance services. The current practice by telephone companies is to allocate the portion of their fixed costs that is not traffic-sensitive to the costs of operating the local networks. Under this practice, the telephone companies appear to be charging rates for local services that are below costs. They argue that to maintain this "subsidy" of local services, they have been charging higher rates for long distance services. In the face of competition in long distance services, the telephone companies now want to rebalance rates such that they can charge lower long distance rates to meet the competition and charge higher local service rates to end the "subsidy".

This Department, through the Director of Investigation and Research of the Bureau of Competition Policy, has argued against the position taken by the telephone companies, in that those non-traffic sensitive costs should not be totally allocated to local services because they are associated with both long distance and local services. A more appropriate costing formula is the main subject of Phase III of the costing enquiry, a proceeding nearing completion before the CRTC. Another issue raised by the Director relates to the potential abuse of monopoly power in allowing the telephone companies to charge higher rates in the market that has no competition. It appears that the telephone companies are using the current practice of cost allocation to justify higher rates in the market without competition. But that practice of cost allocation is itself questionable.

This issue of long distance service competition and the impact on local service rates will remain a critical one in the changing regulatory environment.

A method to change the determination of local rates is the introduction of local measured service or LMS. LMS will levy user charges on local calls. There are a number of formulae for LMS, the basic principle being to tie the service charge to time, duration, frequency and distance of call.

If the telephone companies' rate rebalancing proposal is accepted by the CRTC, large increases in local rates could result. The impact of higher local rates would be substantial. First, demand for local services is probably less price-elastic than is demand for long distance services. This permits a monopoly to maximize profits, without giving customers any bargaining power in terms of refusal to buy the service. Second, higher local rates can impose substantial burden on "vulnerable" consumers, including the elderly on fixed income and the unemployed. Third, there will be substantial impacts on businesses which are very dependent on the telephone. These include firms in the data processing and transmission sector, in consulting, in sales promotion, in real estate and in the travel and accommodation industry, e.g. airlines and hotels.

On the positive side, lower long distance rates can benefit some of these same users of telephone services. The net result depends on how local and long distance rates are finally determined.

In summary, the above depiction of the trend in the regulatory environment towards more competition in telecommunication generally implies a diminution of the traditional dominant position of the telephone companies vis-à-vis their customers. Many consumer complaints have been launched against telephone companies due to their dominant position, for instance:² telephone companies have the right to enter customers' premises for inspection purposes without advance notice; they can deny service to customers under numerous circumstances most of which are beyond the customers' control; telephone companies are limited in their liabilities for damages, while customers are fully responsible for the condition of telephone equipment.

Thus, more competition is a trend beneficial to consumers. It will force a balancing of power, and more consumer choice into the field of telephone services.

2. Canadian Consumer, June 1984.

However, it also poses important problems for consumers, as mentioned earlier: price increases in local services if the telephone companies succeed in their rate rebalancing proposal, and the implied threat towards universality of services.

The most pertinent issue relates to universality. For universality to prevail, the concept of what constitutes "basic service" must be defined. Most Canadians will probably agree that basic service,³ however defined, should be available to all residents in accessible locations, at a reasonably low price. The emerging environment in telecommunication services, which may pose a threat to basic service, requires urgent attention to be paid to this concept.

More competition is definitely beneficial to consumers. Cellular radio, cable T.V. and other devices will increase competition against telephone companies. One potential barrier to full development of new communication technologies is the complex regulatory environment that involves federal and provincial regulatory agencies. At this stage, provincial regulatory bodies have not kept pace with CRTC in terms of their attitude towards new competition arising from new forms of technology. Residents of Ontario, Quebec and British Columbia appear to be substantially ahead in this regard, as Bell Canada and B.C. Telephone are regulated federally. Thus, another emerging issue appears to be the co-ordination of regulatory approaches across Canada. This is clearly related to the notion of having basic service in all regions of Canada.

2. Regulatory Changes in Transportation

Air Transport

Since the late 1970s, a number of proposals have been put forth to liberalize regulation of air transport. The pressure for deregulation in Canada intensified with the passage of the U.S. Airline Deregulation Act of 1978 (especially to the extent that Canadian travellers selected U.S. airlines whenever possible). In 1982, the House of Commons Standing Committee on Transport recommended

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3. The term basic service here refers to the provision of telephone service at a socially acceptable minimum level. It should be distinguished from the "basic services" defined under the regulation of enhanced services.

substantial liberalization of entry and pricing in Canadian domestic air transport. In 1984, the Canadian Transport Commission (CTC) held a series of hearings across Canada on air fare regulations. While the CTC took a somewhat skeptical view of the benefits of deregulation, the "New Canadian Air Policy" announced by the former Minister of Transport on May 10, 1984 called for significant changes in the direction of domestic air policy, toward more flexible entry and pricing. In particular, that policy provided that:

- All previous policies that reserved certain markets for particular carriers and defined air carrier roles should be abandoned. Any new or existing carrier could be considered for any type of domestic service route using any type of equipment. For example, with approval from the CTC, carriers like Wardair could fly routes originally reserved for Air Canada. This change introduced more overall competition into domestic routes.
- Starting no later than 1986, airlines would have unlimited freedom to reduce fares while increases would be subject to approval by the CTC. Neither increases nor decreases in discount fares would be subject to CTC control.
- There would be parallel actions to liberalize trans-border and international air services. Non-stop services would be facilitated, especially between city pairs without existing direct service.

At the same time, the House of Commons Standing Committee on Transport was asked to study the issue of the appropriate pace and the process of airline liberalization.

Since the announcement of the new air policy, the CTC has smoothed the procedures for application filing and the approval process. Carrier licences can now be consolidated, where previously, separate licences had to be held for separate routes. As to prices, there is no restriction on reductions up to 30 per cent for regular fares or on reductions for "excursion" fares (return travel plus advance booking plus Sunday stayover). The CTC retains control over reductions larger than 30 per cent for regular fares.

Research conducted for the Department suggests that regulation of fares and entry in the Canadian airline industry has resulted in higher-than-competitive fares for most city pairs. Regulation seems to have suppressed competitive price-cutting, and protected the regulated carriers from the threat of entry by more efficient competitors. As a substitute for price competition, there has also been a tendency

toward excessive non-price competition (e.g., extravagant in-flight service). This research suggests that removal of regulatory controls on entry and pricing would result in lower fares for most city pairs and a new emphasis on leaner, "no-frills" service. Experience suggests that in many cases consumers prefer no-frills service at lower fares to the high fare/high service quality combination that results from regulation.

For the present, it appears that the new government will take a cautious approach to continued airline deregulation, to allow for consultation and further assessment of its implications for carriers as well as consumers. The pace of deregulation may also be affected by decisions about the possible privatization of government-owned carriers. The Department will continue to play an important role in the evolution of airline regulatory policy, because of its general mandate for the maintenance of an efficient market system.

Railway Transport

The major reviews of railway regulation and reform presently being conducted are:

- i) CTC (Railway Transport Committee) public inquiry into the known effects and implications for Canadian railways and shippers of the U.S. rail deregulation resulting from enactment of the STAGGERS RAIL ACT OF 1980.
- ii) Transport Canada's review of collective ratemaking; Section 279 RAILWAY ACT and Section 32(2) TRANSPORT ACT.
- iii) CTC (Railway Transport Committee) public inquiry into rail freight traffic interswitching.

These three reviews are related in important respects. The new competitive environment south of the border as a result of STAGGERS has generally been viewed as positive, and Canadian shippers involved in transborder trade have called for similar changes in Canada. Specifically, the CTC has been asked to recommend to the Minister of Transport amendments to sections 275 and 380 of the RAILWAY ACT to permit secret rebates on transborder traffic. Presently Canadian shippers are disadvantaged in that they cannot participate in confidential contracts unless they do so directly with a U.S. carrier, and the legality of this is not clear. The Canadian railways allege that they have been short-hauled in favour of U.S. carriers who offer secret rebates to Canadian shippers or U.S. receivers of Canadian shipments.

With respect to collective ratemaking, the Director of Investigation and Research has recommended that it be restricted to participating direct connectors in both domestic and transborder markets. This would permit rail transportation to rely primarily upon competition and market forces to set rates and levels of service. It would also achieve uniformity between the Canadian and U.S. legislation, thereby avoiding antitrust actions by the U.S. authorities pursuant to the SHERMAN ACT. Since January 1984, when the temporary immunity granted to CN and CP by the Interstate Commerce Commission expired, it is claimed that neither company has engaged in collective ratemaking on transborder traffic. No negative effect of this independent conduct has been documented.

The submissions received in the Interswitching Enquiry call for amending General Order T-12 which prescribes the interswitching limit at four miles. Railroads almost exclusively own their rights-of-way, so that a shipper in a given transportation market may not have direct access to competing railroads. In many cases this results in a railroad having "local monopoly power" vis-à-vis a shipper, in that the shipper is captive to a single railroad. The Director has recommended extending regulated switching to the commercial and industrialized limits of each economic zone to reflect the growth of cities and the development of industrial parks.

One last significant development has been the granting of Public Convenience and Necessity certificates by the CTC, to the Trans-Ontario Railway Company and the Erie Express Railway Company, to incorporate and operate a railway pursuant to Section 11.1 of the RAILWAY ACT. Their respective business plans are to purchase the Canada Southern Railway (CSR) which links Windsor-Detroit with Niagara Falls-Buffalo. They are both in competition with CN and CP who have also submitted a joint application to purchase the CSR. The entire matter has been the subject of recent CTC hearings pursuant to Section 27 of the NTA. The acquisition of the CSR by either Trans-Ontario or Erie Express would be a precedent for increased entry by new independent railroads in a national rail market in which CN and CP presently control over 97 per cent of the rail tons and revenues.

Trucking

(i) Review of Extra-Provincial Trucking by the Canadian Conference of Motor Transport Administrators (CCMTA)

On May 31, 1984 federal and provincial Ministers of Transport agreed to take action on regulatory reform. The Ministers developed explicit terms of reference for the

CCMTA to provide it with guidelines for implementation plans for regulatory reform of extra-provincial trucking in Canada.

These terms of reference directed the CCMTA to (among other things):

- a) undertake action to increase the ease of entry in extra-provincial trucking by: shifting the burden of proof on operating authority applications from the applicant to the respondents; and, implementing a specific commodity list which would be exempt from entry control (except fitness);
- b) eliminate rate approval for all extra-provincial rates and rate filing for commodities on the exempt commodity list;
- c) give further study to: eliminating the current "Public Convenience & Necessity" test entirely in favour of a fitness test (i.e. effectively eliminating the regulatory barrier to entry); eliminating or further reducing rate filing requirements; and, taking action at a regional level on appropriate further regulatory reforms.

Staff of the Bureau of Competition Policy are active in the CCMTA working group which is involved with this regulatory review. The position of the Director of Investigation and Research through his representatives has consistently been one that favours deregulation, specifically advocating decreasing unnecessary entry restrictions and eliminating rate inflexibility which comes from rate approval and rate filing requirements. It is expected that this type of deregulation will lead to rate and service competition within trucking which will pressure firms to become innovative and cost conscious in an effort to increase overall efficiency in the face of new competition.

(ii) Provincial Regulatory Reviews

Various provincial governments have recently been reviewing their intra-provincial trucking regulations with a view to deregulating the trucking industry. The Director has participated in these regulatory reviews in British Columbia, Alberta, Manitoba and Ontario and will be participating in Saskatchewan's regulatory review. The position taken has been to advocate reduced regulation, which in turn encourages increased competition and its resulting benefits.

The rationale for collective ratemaking in the trucking industry is questionable. The effect of collective rate-making when viewed in the context of regulated entry effec-

tively eliminates price competition in many trucking industries.

The justification for rate filing has been that it prevents price discrimination among shippers (i.e. all shippers regardless of size and volume of purchase are charged the same rate) and that it provides shippers with an opportunity to obtain rate information. It is the Director's view that rate filing requirements do not prevent price discrimination since regulators do allow for volume discounts in trucking rates. Furthermore, ineffective policing of rates allows truckers to illegally discount rates with a minimum chance of being discovered doing so. With respect to shippers making use of filed rates, regulatory boards admit that few, if any, shippers take the opportunity of using the tariff library. However, from a competitive perspective, rate filing requirements with their pre-notification requirements (i.e. rates have to be on file for a fixed period of time before they become effective) provide truckers with an institutionalized mechanism for coordinating or fixing rates. These issues should remain of direct interest to the Department, given its mandate for the maintenance of an efficient market system.

Ocean Shipping

Ocean shipping carries approximately one quarter of Canadian foreign trade. Recently there have been a number of developments in the shipping mode that relate to the Department's mandate for the maintenance of an efficient market system. These include: (i) demands for changes in the legal environment of liner conferences, to encourage greater responsiveness to user needs; (ii) the coming into force of the UNCTAD Code of Conduct for Liner Conferences; and (iii) establishment of a task force on deep sea shipping.

(i) User demands for changes in the legal environment of liner conferences

Liner shipping, the regularly scheduled component of ocean transport, accounts for roughly two thirds of the value of Canadian seaborne trade. Liner conferences fix rates and conditions of service in deep sea trade routes. The SHIPPING CONFERENCES EXEMPTION ACT, 1979 (SCEA) exempts liners conferences from provisions of the COMBINES INVESTIGATION ACT.

Recently there have been demands by Canadian exporters and importers for changes in the provisions of the SCEA, to encourage greater responsiveness to user needs. In parti-

cular, the Canadian Shippers' Council and other user organizations have called for:

- improved consultation requirements to strengthen the ability of users to bargain effectively with conferences;
- new measures to deal with conferences that abuse their privileges under the SCEA; and
- provisions to encourage competition among individual members of the conferences and to moderate the impact of conference loyalty (tying) contracts on users.

At the same time, users have indicated their preference for government to serve primarily as a referee rather than a regulator of conferences.

A set of proposals to amend the SHIPPING CONFERENCES EXEMPTION ACT has been developed by an interdepartmental committee chaired by Transport Canada. CCA has played an important role in developing these proposals, and ensuring that the users' interests are reflected in them. These proposals were incorporated in Bill S-12, which was introduced in the previous Parliament. A new bill is expected to be introduced in the current session of Parliament.

(ii) UNCTAD Code of Conduct for Liner Conferences

The UNCTAD Code of Conduct for Liner Conferences came into force in October 1983. The Code endorses the conference system and approves of government reservation of cargo to national shipping lines. The suggested formula for cargo allocation assigns 40 per cent to the exporting country's carriers; 40 per cent to the importing country's carriers; and 20 per cent to cross-trading countries.

Cargo reservation under the UNCTAD Code is of concern to Canada because it reduces the scope for free commercial choice in the market for shipping services. Canada has not taken a position on the Code to date. The U.S. has enacted legislation that may be used to resist cargo reservation by its trading partners.

(iii) Task Force on Deep Sea Shipping

Early in 1984 a Task Force was established by the Minister of Transport to assess factors affecting the growth prospects of a Canadian deep sea shipping fleet and the need for changes in government policies to promote deep sea shipping objectives. The Task Force was also asked to

consider whether defensive measures are needed to protect Canadian interests from foreign government intervention in ocean shipping. Chaired by Professor Gunnar K. Sletmo, an expert on the ocean shipping industry, the Task Force includes members representing shipowners, exporters and labour groups. The Task Force is expected to issue its report early in 1985.

The issues being considered by the Task Force carry important implications for the allocation of resources in the Canadian economy. Development of a deep sea fleet would involve substantial costs and might entail changes in the operation of the market for shipping services.

3. Marketing Boards

Introduction

In the last two decades, marketing boards, which may be defined as "statutorily sanctioned, compulsory, horizontal cartels of the producers of agricultural products,"⁴ have had a pervasive influence on the Canadian food system. Marketing boards are prevalent in many sectors of Canadian agriculture and can be found in all provinces in Canada.

Marketing boards have their origins in the cooperative movement of the early 1900s. They were formed, initially, to increase the market power of producers. Early attempts to establish marketing boards were not very successful. Enabling legislation both at the federal and provincial levels were declared ultra vires. Provincial governments, it was ruled, did not have the legislative authority to regulate interprovincial trade, while the federal government could not regulate intraprovincial trade. The result of this was the creation by provincial governments in the 1930s of a number of local boards with the authority to regulate only the intraprovincial aspects of marketing. It was also at this time that supply management originated at the provincial level with controls of the production and price of fluid milk.

The nature and character of marketing boards as we know them today were shaped by the federal Agricultural Products Marketing Act of 1949. This legislation provided provincial marketing boards with the authority to regulate both intra-provincial and interprovincial trade by having the federal and provincial governments delegate their powers to the boards.

4. Forbes J.D., Hughes R.D. and Warley T.K., Economic Intervention and Regulation in Canadian Agriculture, Ottawa, 1982.

The last step in the development of the marketing boards system to its present state came with the implementation of the National Farm Products Marketing Agencies Act in 1972. Passed in an attempt to deal with the difficulties caused by competition between provincial boards, i.e. the notorious "chicken and egg" wars between Ontario and Quebec, the legislation has acted to enshrine the concept of supply management.

An Overview of Marketing Board Activity in Canada

At the risk of oversimplification, marketing boards can be divided into two categories. The first includes individual commodity boards responsible for administering the various powers in relation to a single commodity. The second encompasses those with supervisory responsibility over individual commodity boards. The boards presently in existence in Canada can be broadly classified into five groups depending on the powers delegated to them by the legislation creating them:

- (i) Promotional boards. These boards have education, promotion and development as their sole objectives. They do not directly control the supply or the price of the farm commodity in question. An example of a promotional board is the Alberta Cattle Commission.
- (ii) Single-selling-desk agency boards. Some boards have adopted centralized selling systems for their products through which all sales and payments are made. Examples are the Ontario Hog Producers' Marketing Board and the British Columbia Fruit Board.
- (iii) Negotiating boards. Boards of this type negotiate prices, terms, and conditions of sale with processors and other large buyers on behalf of their grower members. The Ontario Vegetable Growers' Marketing Board is an example of this type of board. It negotiates the prices to be paid by processors to, for example, tomato growers.
- (iv) Price setting boards. These boards go beyond negotiation and fix the prices which must be paid to producers. They may also operate as single-selling-desk agencies. The Ontario Asparagus Growers' Marketing Board is an example of a price setting board.

- (v) Supply management boards. Boards with supply management powers control supply by assigning production quotas to individual producers, setting producer prices, usually on the basis of cost-based formulas, regulating interprovincial movement of product, and disposing of "surplus" output. Import controls are usually also a standard feature of supply management schemes. Examples of supply management boards are those governing the production and farm-gate sale of fluid milk, eggs, broilers, and turkeys.

Presently, there are over one hundred marketing boards in Canada covering over one-half of gross farm sales. Numerically, most of the boards are producer-controlled and have jurisdiction only within a province. The Canadian Dairy Commission and the Canadian Wheat Board are Crown corporations or federal government boards. The national agencies for eggs, broilers, and turkeys lie between these polar institutional types; they operate under joint federal-provincial agreements, and co-ordinate the activities of the provincial boards for their respective commodities. It may be noted here that marketing boards with supply management powers and production or marketing quotas are confined to milk, poultry meat, eggs, and tobacco. These accounted for close to half the boards and approximately 25 per cent of total farm cash receipts in Canada in 1978-79.

Issues in Marketing Board Regulation

Marketing boards were introduced to combat some very real economic and social problems in agriculture, in the food system, and in rural society. Primary among these were the low and unstable nature of returns to producers, the threat posed to the existence of the family farm by vertical integration in agriculture, wide disparities in bargaining power between producers and other members of the food system, and imperfections and inefficiencies in the marketing system for agricultural products.

Numerous studies have been conducted recently which assess the economic and welfare outcomes of commodities produced under marketing board arrangements. The studies suggest that marketing boards, such as the fruit and vegetable boards, whose primary aim is to establish countervailing power for farmers, have worked to the advantage of both producers and consumers. The studies show that, under these boards, producers have secured "fair" returns, while at the same time markets have functioned better, information flow has improved and product quality has been controlled. However, a great number of criticisms have been levelled

against boards with supply management powers. In fact, the Economic Council of Canada, following substantial study of a number of marketing boards, stated that it had "considerable difficulty in justifying the continued existence, or the creation, of new supply management boards".⁵

The studies show that supply management has implications for economic efficiency and, in addition, that such arrangements have led to a sizeable income transfer from consumers to producers. Specifically, the studies have found that:

- (i) Cost-of-production formulas, typically used in supply management schemes, generate prices to producers at levels so high that prices not only cover producers' operating costs but, in addition, provide producers with substantial economic rents, giving rise to high quota values.
- (ii) Quota policies attached to supply management commodity arrangements have led to allocative and production inefficiencies.
- (iii) Supply management schemes are inherently regressive in terms of their redistributive effects with the largest share of the benefits accruing to the largest producers.
- (iv) The higher costs resulting from all these factors lead to the adoption of tariffs on related products and higher prices for product users.⁶

4. Issues Pertinent to CCAC

Regulation of telecommunications, transport and agriculture falls outside of the mandate of CCAC per se. However, this Department has the responsibility of promoting competition in the marketplace. The various changes

- 5. The Economic Council of Canada, Reforming Regulation, Ottawa, 1981.
- 6. The Director of Investigation and Research, Combines Investigation Act, has submitted briefs to hearings conducted by the National Farm Products Marketing Council in connection with inquiries into the merits of establishing marketing agencies with supply management powers for potato and broiler type hatching egg producers in Canada. Fuller treatment of these issues is contained in the Director's submissions.

expected in the regulatory environment discussed in this section will alter the nature of competition in the industries affected. Through intervention before regulatory boards, the Department works to enhance competitive forces in various sectors of the economy. The Department has the responsibility to identify potential problems in deregulated markets. Less regulation will create more reliance on competition laws to ensure that deregulated sectors operate efficiently and competitively.

The Department is already involved, through the Director of Investigation and Research of the Bureau of Competition Policy, in the CRTC enquiry into the costing method of telephone companies. This will have direct impact on consumers through possible price changes in local and long distance services. A related impact is the question of universality of telephone service. Will telephone services remain more or less "universal" under deregulation or will such services be restricted, via higher prices, to consumers who can afford them? This question goes beyond competition laws to the needs of vulnerable consumers.

Thus, the major concerns for CCAC resulting from regulatory changes in various sectors include the promotion and/or the maintenance of competition and the consideration of intended or unintended discriminatory effects on various classes of consumers. These require monitoring of developments in regulatory changes, research into impacts on consumers, and actual intervention before regulatory boards.

Finally, some marketing boards with supply management powers have been shown to cause inefficiencies in resource allocation and higher than warranted prices to consumers. This may be an area of increasing concern to consumer advocates, and could grow into an important issue for this department.

PART SIX

FINANCIAL INSTITUTIONS

In considering structural changes in the Canadian economy, the financial services sector provides a clear example of the inter-related effects of technological innovation and economic uncertainty. These effects are trends towards larger corporate networks, linked across industries, and towards increased segmentation and specific targetting in the provision of services. In addition, this structural change is occurring in a regulatory context which is characterized by: wide variation from one industry to another (between banking and investment dealing, for example); jurisdictional overlap; and, pressures for change (Quebec, for instance, has recently enacted legislation to permit insurance companies to engage in a wide variety of financial services). The emerging form of the financial sector offers major benefits to most consumers, but may involve new risks of insolvency and conflicts of interest among institutions, of concentration of market power, and of changes in the availability of different financial instruments required for capital formation.

1. The Four Pillars

The activities of Canadian financial institutions have historically been segregated, according to their core activity, into four groups -- referred to as the "four pillars" -- commercial lending (banking), trust and fiduciary services, insurance, and underwriting and investment counselling (securities). The need to prevent misuse of depositors' funds through conflicts of interest, and the degree of specialization which developed around each core activity resulted in regulation at different levels of government which has tended to maintain this segregation of the four core functions.

Until the 1960s, stability of interest rate differentials according to the term of an instrument and the risk associated with it resulted in stability, and hence specialization, in the types of loans and services offered by the various types of financial institutions, which, in several cases, were bound by upper limits on the interest rates they could charge for loans. By the late sixties, and increasingly in recent years, economic forces, and technological advances in communications and data processing, led to blurring of the boundaries between the different industries in the financial sector. The economic factors included massive demand for consumer credit and major financings in international markets together with fluctuating nominal and high real interest rates.

As the various types of institutions have begun to engage in more than one of the four core activities, the governing legislation for each has been modified in piecemeal fashion, with the result that some institutions are regulated in several different jurisdictions, and sometimes by several agencies or ministries of the same jurisdiction. In other cases, the same activity may be regulated for some institutions but not for others. For example, banks, trust companies, credit unions, caisses populaires, insurance companies and securities dealers accept deposits which can be accessed by cheque-like instruments; only chartered banks, however, are required to maintain cash reserves with the Bank of Canada. Such a difference can result in differences in yields on deposits offered by the various institutions, as well as distortions in the ability of the central bank to effect changes in monetary policy.

The banking industry in Canada is highly concentrated, with the eight chartered banks accounting for more than 95 per cent of industry revenues in 1979; the four largest banks generated 75 per cent of total revenues.¹ Moreover, since the mid-seventies, banks have held approximately two-fifths of the total assets of the financial sector (see Table 6.1). Competition in banking has increased, as other institutions offer near-bank services, and some fifty-nine foreign banks have opened Canadian subsidiaries following changes to the BANK ACT. Nonetheless, chartered banks have succeeded in maintaining the largest share of the financial services market because of their networks of branches throughout Canada (in most cases), and their long-established expertise in data-processing systems which has enabled them to respond quickly to technological changes. In fact, according to loan statistics, the banks have increased their shares of the consumer and mortgage loan markets. Other institutions are seeking to compete with banks in provision of consumer services by developing shared networks -- among different financial institutions within a region, for example, or by linking with retailers such as department stores, more widely spread across Canada. Further development of electronic funds transfer systems, including the use of debit cards and point-of-sale terminals, will continue to affect the market for deposits and short-term credit, and will have significant impacts on consumers, which are discussed in more detail below.

1. Table IV in R.S. Khemani, The Extent and Evolution of Competition in the Canadian Economy, December 1984. From Statistics Canada, Cat. No. 61-210.

Table 6.1

Types of Financial Intermediaries in Canada:
Canadian Assets (billions \$ Cdn)

	at the end of 1967		Third quarter, 1984	
	(\$ billion)	(per cent)	(\$ billion)	(per cent)
1. Banks	25.7	38.9	191.6	33.2
2. Pension funds (selected)	8.0	12.1	79.8*	13.9
3. Life insurance cos.	12.8	19.3	82.4	14.3
4. Trust cos.	4.3	6.5	57.1	9.9
5. Credit unions	3.8	5.7	49.0*	8.5
6. Mortgage cos.	2.7	4.1	44.8	7.8
7. Financial corps.	4.6	6.9	23.8	4.1
8. Property insurance cos.	2.3	3.5	16.2	2.3
9. Investment funds	1.5	2.3	20.6	3.6
10. Investment dealers	0.6	0.9	11.1	1.9
TOTAL	<u>66.3</u>	<u>100.0</u>	<u>576.4</u>	<u>100.0</u>

* 2nd quarter

Source: Bank of Canada, Review.

Statistics Canada, Financial Institutions, Cat. No. 61-006.

(Adapted from Association of Canadian Financial Corporations,
Submission to the MacDonald Commission)

Note: Line 1 includes chartered banks (schedule A and B) and Quebec Savings banks and excludes mortgage loan subsidiaries of chartered banks for 1984 (See line 6).

Line 2 includes only pension plans administered by the federal government, the Quebec government, and trustee federal-government employee funds.

Line 3 includes life insurers and accident and sickness branches of life insurance companies.

Line 5 includes the aggregate of local and central credit unions.

Line 6 includes mortgage loan companies, real estate investment trusts, mortgage investment companies, and mortgage corporations. Mortgage loan subsidiaries of chartered banks represent \$33.3 billion of the 1984 total, on 5.8 per cent of all assets of financial intermediaries.

Line 7 includes financial corporations, financial leasing corporations, and business financing corporations.

Line 9 includes closed-end funds, investment funds, and segregated funds.

Alberta Treasury Branches, and Province of Ontario Savings offices also provide banking services to consumers. In March 1983, their assets were \$2.962 billion and \$0.673 billion respectively. These amounts are not included in the table above.

Other types of financial institutions have responded to the major presence of banks by merging, or by acquiring assets of companies in the same or different core activities, or outside the financial sector. For example, Trilon Financial Corp. holds 98 per cent of London Life Insurance Co., and has announced plans to acquire Firemen's Fund of Canada, a general insurer; Trilon's 49 per cent owned Royal Trust Co. Ltd. plans to merge its real estate operations with those of A.E. Lepage. Crownx Inc., another holding company with extensive insurance activities, has announced plans to acquire a trust company, a U.S. broker dealer, and an investment counselling firm in 1984. There are many more examples, and the trend seems likely to continue as firms seek a broad asset base to finance new services, and to reduce their risk from highly cyclical elements of insurance and real estate activities.

Investment dealers have also undertaken extensive mergers during 1984, and this is due to technical and regulatory changes specific to their industry, as well as to competitive pressure within the larger financial sector. Developments in data-processing and telecommunications have made it straightforward to place orders simultaneously on several exchanges in distant countries. The Boston and Montreal stock exchanges have recently linked their trading floors electronically. Deregulation of commission rates for stock trading is complete in the United States, and occurred in Ontario and Quebec in 1983 (Alberta and British Columbia still maintain fixed commissions). Stock market investors have eagerly sought lower prices, and hence discount brokers are flourishing (including the Toronto Dominion Bank's Green Line Investor Service) and the profit margins of traditional investment dealers have suffered. A parallel development is a reduction in fees paid to underwriters of financial offerings, particularly for very large offerings. These trends tend to favour large size -- institutional investors and large block traders in the first instance, and large, well-established firms whose financings are exposed to little risk in the second -- and may have important impacts on the availability of capital to risky or innovative ventures in the future. Canadian investment dealers have been criticized for having inadequate access to capital,² a situation which might be resolved, it is suggested, by ending restrictions on foreign ownership of investment dealers.

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2. Submissions to the Ontario Securities Commission hearings into the structure of Canada's securities industry by the Financial Executive Institute and T. Courchene. Quoted in Financial Post, December 1, 1984.

2. Potential Problems of the Changing Structure

Regulators in several jurisdictions are currently investigating the changing structure of the financial sector, and the changes to regulation which might be most appropriate to this evolving structure. In the meantime, however, the financial sector is already changing rapidly, and the impacts of these changes may not easily be reversible. The principal policy issues to be addressed are:

- **Need to ensure solvency of institutions and protection for consumers:** several chartered banks are active in international markets, and have risky loans outstanding to developing countries and in the energy sector; many lending institutions have a high share of non-performing loans because of the recent recession; insurance companies still have no contingency fund which might provide coverage for consumers' in case of insolvency.
- **Conflict of interest:** the activities of three Ontario trust companies in financing a property flip for the benefit of proprietors has focussed attention on conflicts of interest; cross-ownership of companies in different industries within the financial sector raises concerns about self-serving deals; chartered banks have been criticized for the extent to which officers of major borrowers sit on their boards of directors.
- **Industry and aggregate concentration:** the sector is dominated particularly by banks, but also by holding companies such as Trilon and Crownx which have extensive links to major Canadian industrial corporations.
- **Increased foreign ownership** as a possible means of decreasing concentration, and increasing access to capital.
- **Regulation by function rather than by type of institution,** addressing some of the consequences of cross-ownership, and federal-provincial jurisdictional concerns.
- **Improved service for consumers,** including equality of access, freedom of choice in methods of payment, etc., and disclosure of terms and conditions of service.

Many financial institutions see the breaking down of traditional boundaries between the "four pillars" as providing substantial benefits to consumers (both individuals and businesses), by the establishment of financial "super-markets", with a complete range of services available at one location. Consumers view the merging of functions across the industry as healthy if it facilitates new entries into the various lines of business,³ but support a role for governments to maintain safeguards for consumers. The Consumers' Association of Canada (Ontario branch) has, however, stated that the merging of core functions through cross-ownership is a symptom of an alarming degree of concentration in the industry, and of the desire for a small number of conglomerates to increase control over many sectors of the Canadian economy.⁴ The Association believes that separation of functions minimizes the risk of conflicts of interest, and ensures an appropriate degree of specialization; it therefore advocates restrictions on cross-ownership in the four core industries, and on levels of ownership in individual institutions.

In addition to requiring safeguards against wrong-doing or exposure to excessive risk, consumers are demanding provision of the widest possible range of services, to all customers. While technology and merging of functions have led to development of highly segmented services, targeted to the specific needs of individuals, concern is growing that some consumers will be excluded from these markets altogether. Automated services, for example, which provide low cost banking to customers, at their convenience, and often without frustrating line-ups, may be confusing to those who are unsophisticated in the use of electronic terminals, and completely inaccessible to the visually and physically disabled. Services to the poor, particularly those whose only income is a government cheque, may be reduced as these customers are unlikely to maintain large balances (providing loanable funds to the institutions), and their credit ratings usually preclude borrowing, a more lucrative activity to lenders than providing chequeable deposits.

"Unbundling" of financial services -- that is, separation of the various elements of the services and charging a

3. Canadian Trend Report, No. XVII, March 1984, p. 33.

4. Consumers' Association of Canada (Ontario), Submission to the Task Force on Financial Institutions, Ontario Ministry of Consumer and Commercial Relations, November 1984.

separate fee for each -- tends to result in higher costs to the poor, who do not have the resources of time and idle balances to make best use of a wide range of services. In extreme cases, recipients are cashing government-issued cheques at storefront cash services where they must pay a fee, up to six per cent of the value of the cheque, though under the Bank Act, banks may not charge fees to cash such cheques.⁵ The Royal Bank has recently closed branches which were specially designed for low-income customers;⁶ opened in the mid-seventies, they had never been profitable, but were intended to expand their possible market, and to be an example of social responsibility. Meanwhile, four of the five largest chartered banks have set up special facilities for particularly wealthy customers,⁷ providing such services as valet parking, private lounge with work table and calculators, investment counselling, newsletters, and flexible fees which are waived if a large deposit is maintained. Technical innovations are likely to increase the segmentation of services available at all financial institutions, with concomitant polarization of customers. In response to similar developments, several states in the U.S. are considering legislation to require so-called "lifeline" rates for disadvantaged customers, including, for example, four free transactions per month.⁸

Electronic funds transfer systems (EFTS) offer comparable possibilities of significant benefits to consumers and risks of polarization between sophisticated and disadvantaged users, as well as risks of abuse. Electronic systems include: automatic teller machines, which have been in use for about ten years, and by 1984 were used by approximately one third of all bank or near-bank customers; telephone bill payment; interactive videotex banking; and point-of-sale systems in various forms. The principal advantages of electronic systems are improved convenience and accuracy, and greatly reduced costs. Consumers' concerns include the following:

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5. "Cheque Cashers win as Banks Bounce Poor", Globe and Mail, December 3, 1984.
 6. "Royal Bank's Inner-city Branches Latest Victims of 1980's Austerity", Globe and Mail, August 17, 1984.
 7. "Monied Elite", Globe and Mail, October 12, 1984.
 8. Wall Street Journal, "Lifetime Rates for the Poor Stir Debate", October 31, 1984. Also, Wall Street Journal, October 18, October 12, 1984.

- **Security and privacy:** prevention of unauthorized access or theft -- at present, responsibility for security is largely left to the consumer, with the possible result that suppliers' measures to assure security may not be as vigorous as they could be; privacy concerns arise from the proliferation of information collected about users, and whether such information might be misused or inadequately protected -- use of a single universal access code or electronic card could result in the accumulation of a detailed profile of each user's movements, preferences and habits, which might be abused by marketers or government agencies; exposure to unnecessary embarrassment is also a risk of authorization checks, which may be subject to error.
- **Freedom of choice:** choice of payment method -- restrictions by vendors may be overt (refusal by gas stations to accept cash after dark, requirement for a major credit card by car-rental agencies, hotels and so on), or indirect, through differential pricing of different methods; such cross-pricing can lead to transactional inefficiencies, and inequities between different groups of consumers, and over time, particularly if late adopters (generally, the least enthusiastic users) ultimately pay more for the service than early users.

Choice of financial institution -- shared networks should provide access to the widest possible range of financial intermediaries, or small institutions and their customers will be disadvantaged. The Canadian Payments Association currently admits banks, trust companies, and credit unions and caisses populaires as members, and settles payments among them; however, the extent of permitted sharing between them (particularly regarding horizontal agreements) is treated by two different pieces of legislation -- the BANK and COMBINES INVESTIGATION ACTS. The outcome of the current review of regulation of the financial sector may also have a bearing on sharing of networks within and between types of institutions.

- **Reversibility and availability of "float" period:** these two features of payments using cheques are felt by consumer advocates to be particularly important, partly as a way of giving the consumer some leverage vis-à-vis the merchant. It should, nonetheless, be noted that even under existing law, a

payee may sue for breach of contract if payment is stopped on a cheque. "Real time" electronic payments systems such as debit cards and full point-of-sale service remove the "float" period during which a customer continues to earn interest on the funds, or may decide to stop payment. In principle, the savings to merchants arising from lower risk, reduced paperwork and increased earnings on cash balances could be passed on to consumers. There are, however, two sources of variation in the time it takes for transactions to be processed. These are the efficiency with which records are processed, either by the retailer or the financial institution, and the processing capacity of either supplier at average and peak activity periods. Variations arising from these sources would introduce unintentional float periods, thereby benefitting certain users -- perhaps in remote or small locations -- and resulting in distortions. (Similar processing considerations apply to updating of lines of credit, and may affect the universality or freedom of choice referred to above). Reversibility of payments is perhaps better handled through a customer complaint/satisfaction system which would apply equally to all forms of payment.

- **Development of standards:** including liability for and methods of redress; interconnect and shared networking; proof-of-payment records; value dating criteria for debits and credits to retailer and consumer accounts; and security measures.

3. Issues Pertinent to CCAC

The blurring of the boundaries of the four pillars will have important impacts on many sectors of the Canadian economy. This is due to widespread linkages that the financial sector has with the rest of the economy. Many of the issues are related to the regulation of the financial institutions. As such, these are the responsibilities of the provincial governments, and of the federal Department of Finance and other federal departments. However, because of the potential impacts in other sectors of the economy and on various segments of society, a few critical issues are pertinent to CCAC.

One key issue is the potential concentration of market power. As noted earlier, the major banks have a significant share of the financial services market. They have the financial power and the expertise to continue dominating the traditional market for consumer deposits and loans. At the

same time, with the blurring boundaries, banks can attempt to penetrate the markets for insurance, trust and investment dealing. In response to the potential threats posed by the banks, the other players (e.g. trust and insurance companies) are engaging in merger activities to consolidate their strength.

A question clearly emerges: how will concentration change in the financial services market? On the one hand, competition will improve with the blurring of market boundaries, as more players are allowed to compete in different markets. On the other hand, competition will decline if a few major players, e.g. the banks, move to dominate the different markets. The banks, for example, appear to have increased their dominance in the business, consumer and mortgage loans markets over time. Merger activities among the non-banks will also alter concentration.

These and related issues of concentration will likely become key issues for this Department as the financial services industry evolves in the near future. As described earlier in the section on deregulation, while this Department is not responsible for direct regulation, the process of deregulation will lead to more reliance on the market, and hence an effective application of competition laws. Thus, not only will CCAC have a role in monitoring the results of deregulation and the blurring of financial markets, but it may be pertinent for the Department to express concern over possible changes in concentration to regulatory agencies.

Increased competition among different types of financial intermediaries is likely to improve access to capital markets for Canadian businesses, as the distinctions between the four core activities breakdown. However, concentration in specific segments of the financial sector may make it more difficult for small or risky ventures to raise capital. Concerns for shareholder protection and corporate disclosure will likely increase, especially as technology facilitates crossing jurisdictional boundaries.

The other key area of concern relates to consumer issues. Less regulation, more competition and the blurring of market boundaries may give rise to higher risk of insolvency of institutions and lower protection and concern for consumer interests. There are also various consumer issues noted earlier in this section such as possible discriminatory services to the different classes of consumers, and problems related to electronic funds transfer (privacy, fraud, error resolution, and the loss of float periods). Rapid technological change may also contribute to such problems.

Other consumer issues which have yet to be examined include the costs of financial services (fees and commissions), the range of choice available to consumers (geographic and by type of service), and the quality of financial services. All these will change as blurring occurs in the various market segments of financial services.

Due to the large numbers of regulatory bodies involved and the traditional lack of a co-ordinated voice for consumers in regulatory bodies, a crucial issue for CCAC is the analysis of potential impacts on consumers and the presentation of a voice for consumers before regulatory bodies that are currently considering changes to the financial institutions.

PART SEVEN

SOCIAL TRENDS

Developments in the social environment are discussed here. These developments will have strong implications for the marketplace because they influence consumer behaviour.

1. Impact of Demographic Changes

Social trends in the next five to ten years will be affected less by population growth than by its composition. This will have implications for life cycle patterns and for the number of disadvantaged, or vulnerable Canadians, and hence for social concerns and the manner in which they are expressed.

The overall growth rate of the population is projected to decline gradually,¹ despite the fact that people are living longer, because the total fertility rate has fallen sharply. As shown in Table 7.1, growth will shrink from approximately one per cent per year in the 1980s to 0.65 per cent in 1996. Although immigration targets are expected to be maintained at low levels, the share of growth in Canada's population attributable to international migration will gradually increase.

Table 7.1

Projected Growth of Canada's Population

	Population (thousands)	Rate of Growth (annual average %)	share (%) attributable to:	
			natural increase	net immigration
1981	24,205	1.05	79.5	20.5
1986	25,440	1.02	79.9	20.2
1991	26,549	0.87	77.5	22.5
1996	27,412	0.65	70.9	29.1

Assumptions: Total fertility rate 1.7 by 1991
Net immigration 50,000 per year

Source: Statistics Canada, Population Projections for Canada and the Provinces 1976-2001, Cat. No. 91-520

1. Statistics Canada, Population Projections for Canada and the Provinces 1976-2001, Cat. No. 91-520.
Projection No. 4.

It is often pointed out that the Canadian population will be aging over the remainder of the century, that is, that the share of older people is gradually increasing as mortality declines. However, it should be noted that the number of children under fifteen is in fact increasing (after declining from an earlier peak in 1966), and is projected to peak in 1992 (see Figure 7.1). This absolute increase in the number of births reflects the size of the "baby boom" generation of 1945-1965, which is expected to complete childbearing by the mid-90s. Nonetheless, because the fertility rate is so low (assumed to drop to 1.7 by 1991), family sizes will be markedly smaller in the 1990s than they were in the 1950s. As Figure 7.1 shows, the young population aged 15-24 declines gradually until 1993, as a result of low birth rates in the 1970s. The overall dependency ratio, which compares the youngest and oldest segments of the population with those of working age (18-64), is projected to be more or less stable over the planning period (see Table 7.2). The dependency ratio of young people is expected to decline steadily, while the older age group increases.

Figure 7.1

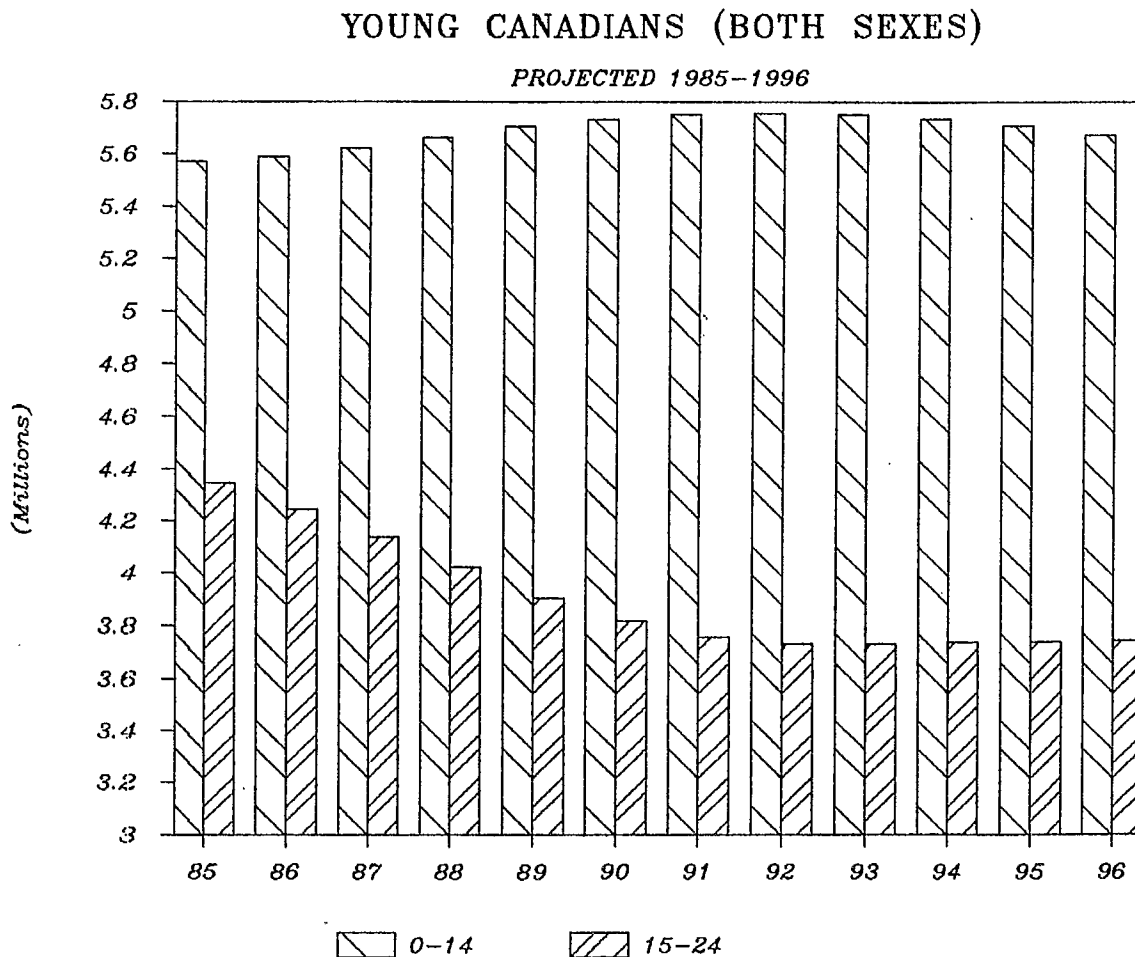


Table 7.2

Dependency Ratio: Young people, and Elderly, as a share (%)
of Canadian Population aged 18-64 (both sexes)

	Aged 0-17	Aged 65 and over	All "Dependents"
1981	45.55	15.30	60.85
1986	41.80	16.15	57.95
1991	40.75	17.65	58.37
1996	39.35	18.54	57.88

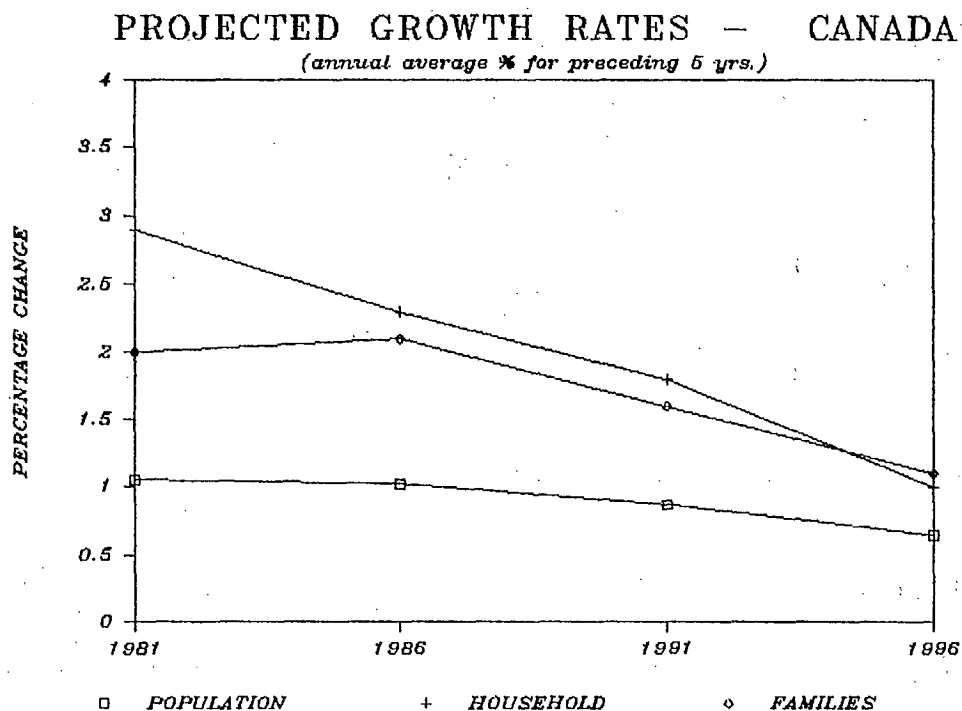
Assumptions: Total fertility rate 1.7 by 1991
Net immigration 50,000 per year

Source: Statistics Canada, Population Projections for
Canada and the Provinces 1976-2001, Cat. No. 91-520

Declining mortality rates result in more old people in the population, and also improved life expectancy at all ages. The latter effect indicates that more Canadians will survive serious injuries and illness, but may be partially or completely disabled. Improvements in mortality rates are not enough to offset the expected decline in fertility rates, according to the assumptions on which these projections are based. These assumptions are determined by patterns which are already well established, and changing them will have very little effect on the growth and composition of Canada's population in the next ten years. Assumptions about international migration, on the other hand, have a much stronger impact. The projections discussed here are based on net immigration levels of 50 thousand per year, much lower than the 100 to 150 thousand per year which prevailed in the 1970s. Targets for immigration to Canada are set by the Canada Employment and Immigration Commission, in consideration of labour market requirements, in addition to the special circumstances of refugees. The pessimistic outlook for employment in Canada has led the Minister to reduce 1985 targets for immigration (for the fourth consecutive year) to 85-90 thousand. Emigration from Canada, which is not measured directly, is assumed to be between 40 and 50 thousand per year.

Changes in fertility and life expectancy in Canada are accompanied by changes in family and household formation. Marriage rates are declining, although the decline shows signs of levelling off; divorce rates are increasing (except in 1983 when the number of divorces fell by 2 per cent); single people are eager to maintain their own households despite economic adversity. The number of families is expected to grow more rapidly in the early 1980s than in 1976-81, and thereafter to slacken (see Figure 7.2 and Table C.3). The number of households is projected to grow at a gradually declining rate; nonetheless, the average annual increase is always above 100,000 in the planning period.

Figure 7.2



The significant characteristics of households in the planning period, illustrated in Figure 7.3, are the increasing shares of families headed by single people, particularly women, and the increasing shares of people 65 and over living alone, again, particularly women. Even though the number of families is increasing, the size of those families is expected to decrease.

Table 7.3

Projected Growth of Canada's Households and Families

	HOUSEHOLDS			FAMILIES*		
	(000)	average annual increase (000)	(%)	(000)	annual average increase (000)	(%)
1981	8,190	205	2.9	6,295	113	2.0
1986	9,128	188	2.3	6,947	130	2.1
1991	9,957	166	1.8	7,516	114	1.6
1996	10,467	102	1.0	7,937	84	1.2

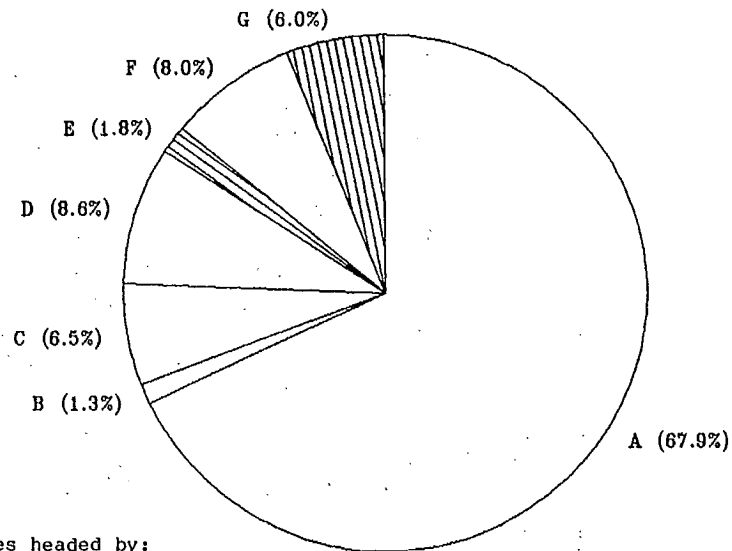
Assumptions: Total fertility rate 1.7 by 1991
Net immigration 50,000 per year

Source: Statistics Canada, Household and Family Projections, 1976-2001, Cat. No. 91-522

* including secondary families, whose heads are not heads of households (i.e. those sharing accommodation). Secondary families as a share of total families declines from 1.5% to 1.1% over the forecast period.

Figure 7.3

TYPES OF HOUSEHOLDS IN CANADA
1981



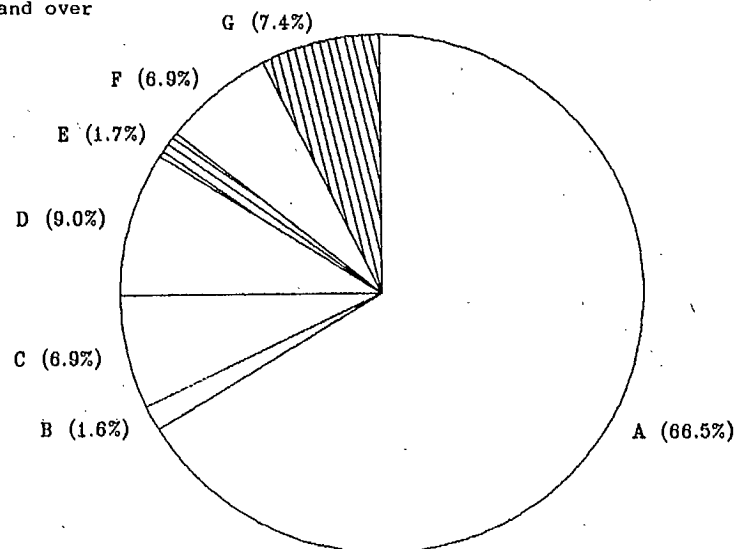
Primary families headed by:

- A couple
- B single male
- C single female

Living alone:

- D male, under 65
- E male, 65 and over
- F female, under 65
- G female, 65 and over

1996



Source: Statistics Canada, Household and Family Projections, 1976 - 2001, Cat. No. 91-522.

It should be noted that inasmuch as many of these families are headed by single parents, or by couples who both work, the demand for child care services outside school hours is likely to increase over the planning period. For families who are not afflicted by poverty, the declining numbers of children offers the prospect of increasing discretionary spending, particularly on items for children, and for educational and leisure activities.

The rate of growth of the labour force, which was high by historical standards in the 1970s, is expected to slow to approximately one per cent per year in the remainder of the 1980s and less thereafter -- only slightly faster than the growth of the source population.² Such changes are, however, gradual, and slight compared to the high levels of unemployment which are expected to persist in the planning period. Changes in participation rates, particularly for young people and women, will have much more impact on labour force growth than will population growth. The ending of mandatory retirement policies in many sectors will tend to raise participation rates among older Canadians, while increasing flexibility or liberalization of pension programmes may result in more widespread early retirement, and hence falling participation rates for younger Canadians. Women have recently joined the labour force at rapidly increasing rates, due partly to economic pressures, and partly to their achievement of higher levels of education. Both effects are likely to persist in the next few years.

Whatever the rate of growth of the labour force, technological innovation and evolution of the structure of the economy, as well as the composition of Canada's population, will affect the skills and occupations required over the planning period. Detailed projections of employment by occupation have been developed for the United States economy,³ for the period 1982-1995. It is felt by Canada Employment and Immigration that these projections provide a preliminary view of Canada's occupational structure in the 1990s, as the two countries are subject to similar demographic and technological changes.

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2. David K. Foot, The Impact of Population Growth and Aging on the Future Canadian Labour Force, PEAP Policy Study No. 83-6, May 1983.
 3. Employment Projections for 1995, United States Bureau of Labor Statistics, Bulletin 2197, March 1984.

The fastest growing sectors are computers and health services. The numbers of professional and technical workers will continue to increase faster than total employment, and will account for an increasing share of the total as technical innovation proceeds rapidly. However, not all jobs whose share will expand require post-secondary training. These include many occupations in health and personal services, maintenance and repair, transportation and distribution.

Changes in educational occupations reflect demographic change: kindergarten and elementary school teachers will increase rather rapidly, whereas secondary school teachers are expected to decline in number until the early 1990s. Growth in job training programs will be reflected in growing demand for vocational and community college teachers, but the numbers of university teachers is projected to drop because of a shrinking college-age population and higher tuition costs.

Occupations which are expected to decline in number and in share of total employment include those specific to declining industries, such as railroad conductors and brakemen, and typesetters and compositors, and those whose skills have been superseded by new technology, such as stenographers, central telephone operators, postal clerks and production operatives replaced by robots. Farming occupations, which have declined rapidly throughout the century because of mechanization and consolidation of landholdings, are expected to continue to decline, although more slowly than in the past.

Construction trades are characterized by large cyclical fluctuations in employment, but on average will grow at about the same rate as total employment. Here again, though, technical innovation will affect specific occupations: modular and prefabricated construction will reduce demand for carpenters, but new types of electrical equipment will increase requirements for electricians. Table 7.4 indicates which occupations are likely to contribute most to employment growth by 1995, which will grow fastest (often from a very small base in 1982), and which will shrink fastest.

Table 7.4

**Occupations Grouped According to Projected Employment Growth
in the United States, 1982-95**

Largest growth occupations
(absolute numbers)

Building custodians
Cashiers
Secretaries
General clerks, office
Salesclerks
Nurses, registered
Waiters and waitresses
Teachers, kindergarten and elementary
Truckdrivers
Nursing aides and orderlies

Fastest-growing occupations
(rate of growth)

Computer service technicians
Legal assistants
Computer systems analysts
Computer programmers
Computer operators
Office machine repairers
Physical therapy assistants
Electrical engineers
Civil engineering technicians
Peripheral EDP equipment operators

Rapidly declining occupations

Railroad conductors
Shoemaking machine operators
Aircraft structure assemblers
Central telephone office operators
Taxi drivers
Postal clerks
Private household workers
Farm labourers
College and university faculty
Roustabouts (i.e. oilfield labourers)

Note: Ten highest ranked occupations in each category, out of a total of 1,700 occupational classifications in the U.S.

Source: Employment Projections for 1995, United States
Bureau of Labor Statistics, Bulletin 2197, March 1984. (Also quoted in Steering the Course, Economic Council of Canada, 21st Annual Review, 1984).

2. Social Attitudes and Values

Social attitudes and values will evolve in the context of the demographic changes described in the previous section, and of the economic activity prevailing over the next five to ten years. Perhaps the most significant characteristic of social trends in the late 1980s will be polarization: between high-income earners and the poor, in a moderately growing economy with high unemployment; between adaptive and vulnerable consumers at a time of rapid technological innovation; and between individual interests, coalescing around single issues, and community-wide needs, at a time of political change.

The previous Environment Assessment detailed ways in which Canadians changed their habits and values to cope with economic uncertainty.¹ Consumers were described as operating their households in a very businesslike manner: increasing incomes where possible; changing lifestyles and expenditures to stress long-term value, and often greater simplicity and frugality; and participating in the hidden economy, through exchange of services and home-produced goods (sometimes using systematic computer-based networks), as well as through unrecorded cash transactions or activities intended to avoid taxes. Many of these changes are expected to persist throughout the planning period, regardless of the extent of economic recovery.

Demands for greater flexibility are likely to increase, in relation to employment, compensation, and consumer expenditures.² Canadians have found that their ability to cope is predicated on flexible arrangements, such as flexible working hours (especially for working mothers), part-time work or job sharing, working out of the home (often in conjunction with another job) and, as a corollary, extended shopping and business hours, and co-operation in transportation, child care, ownership of large tools, and even in household formation. Demands for more flexible compensation will include issues such as "fairness" -- whether group benefits should be extended to part-time or temporary workers, for example, and equal pay for equivalent work, at a time when men and women are showing signs of being less committed to their "traditional" roles in the workplace (or at home). Greater flexibility will also be required in the composition of benefit packages, as different employees

1. CCAC, Environment Assessment, March 1984, "Social Trends", p. 9-13

2. Canadian Trend Report Update, October 1984.

perceive and articulate their varied needs for life insurance, pensions, medical or dental care, or even sports facilities or extended leave. Unbundling, or segmentation, is as important in employment and compensation arrangements as it is in the markets for consumer products and services.

Another major trend which is expected to increase over the next few years (whatever the state of the economy) is the emphasis on quality: high quality of life, made possible, in part, by increasing flexibility; and value for money in products and services. This trend is manifested both in adopting a lifestyle of simplicity -- seeking non-material satisfaction and voluntarily making do with less -- and in planning purchases as investments, with quality and durability in mind as well as price. Such attitudes are partly responsible for increasing polarization in consumer markets, as high-quality, specialized, but expensive goods and services, as well as generic or "no-name" products increase their market shares. Emphasis on quality and value is also responsible for increasing concern with nutrition, fitness and health, and for a shift in continuing education registrations towards courses related to career advancement, health and maintenance skills noted in the Environment Assessment of March 1984.³

Canadians seeking to improve the quality of their lives are increasingly budgeting their time as a resource whose value is comparable to that of money. In some instances, time is devoted to improving nutrition by growing vegetables and preserving them at home, in others, time is saved for an alternative activity by shopping at a single location, rather than seeking out money-saving sales. Such budgeting is particularly important in households where more than one member is working or studying, yet there is a desire to spend "quality" time together. Careful budgeting of time is particularly important if paid work is being done in the home, and hours of work are at the discretion of the employee.

Concern for quality also extends to the environment -- both at home and at work. The Canadian Trend Report's research of print media indicates that Canadians are becoming more aware that lifestyle, environmental awareness and stress management are crucial in disease treatment,⁴ with disease-related stories receiving almost four times as much newspaper space in 1983-84 as in 1977. Self-help and

3. CCAC, Environment Assessment, March 1984, "Social Trends", p. 7.

4. Canadian Trend Report, Volume XVII, March 1984 p. 138-139, 141.

volunteer support groups are seen as successful non-medical ways of coping with disease, with improved nutrition and exercise habits the best way to prevent disease. Canadians are urged, in the press, to advocate their interests in preventive health -- to promote non-smoking areas at work or in public spaces, for example.

Demands for greater flexibility in economic and social relationships are sometimes seen as evidence of a challenge to traditional middle-class values,⁵ and indeed, the mass market that characterized the years of a large, stable middle class appears to be breaking down rapidly. However, as noted in the previous Environment Assessment,⁶ the attitudes associated with coping successfully -- frugality, hard work, self-reliance, conservative budgeting for long-term purchases, emphasis on quality -- have coincided with a trend towards political conservatism, more home- and family-centered activities, and renewed stress on family values in public debate on such issues as abortion, pornography and voluntary euthanasia. A major risk inherent in these changes is that the polarization, alluded to above, between those who have coped successfully, and their attitudes and concerns, and those who have not, will intensify. A further risk is that the coping behaviour characterized by self-reliance and conservative values may lend to more individual-centered, or single issue activism, rather than community-oriented.

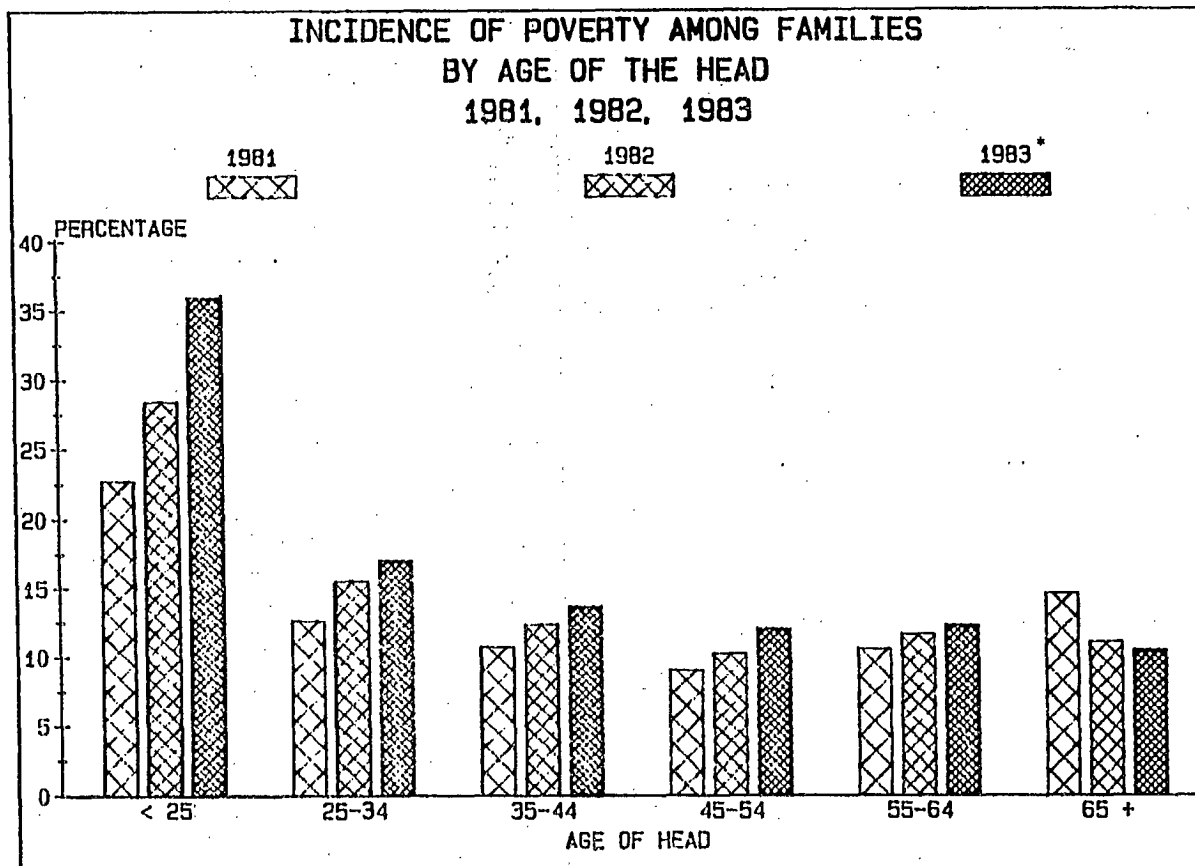
As described in the previous Environment Assessment, some groups of Canadians are particularly vulnerable because they lack resources to cope with uncertainty or adversity. These resources include money, education, time and energy, and emotional adaptability.⁷ The most certain obstacle to coping is poverty. The incidence of poverty continues to increase, despite modest economic growth, and in 1983 some 4.3 million, or 17.9 per cent of all Canadians were living in poverty (defined by Statistics Canada as spending more than 58.5 per cent of income on food, shelter and clothing -- the income level varies according to region from \$14,000 to \$19,000 for a family of four).

5. Canadian Trend Report, Special Report for CCAC, December 1983.

6. CCAC, Environment Assessment, March 1984, "Social Trends", p. 2-8.

7. Ibid., p. 14, 25-32.

Figure 7.4



Source: Statistics Canada, Cat. Nos. 13-206, 13-207; in NAPO, Poverty in Canada in the 1980s

N.B. * preliminary estimates

° all figures are based on Statistics Canada Low Income Cut-offs - 1978 Base

The striking fact about this fraction is the extent to which it exceeds the unemployment rate, though unemployment is the primary factor increasing the number of poor Canadians. In fact, approximately half of the poor in Canada are employed -- but are earning inadequate incomes. Because unemployment rates will be high throughout the 1980s, poverty rates are likely to remain high, and increasingly to affect young people: almost forty per cent of families whose head was aged less than 25 were living in poverty in 1983, an increase of 13.2 per cent since 1981. By contrast, only 10.4 per cent of families whose head was 65 or over were poor, down 4.1 per cent since 1981 (see Figure 7.4).

1985 is International Youth Year, and the concerns of, and opportunities for young people will receive special attention. However, with young people between 15 and 24 already contributing almost half of Canada's unemployed (though they comprise just over one quarter of the labour force), it is likely that problems of long-term unemployment and poverty will plague young Canadians throughout the planning period. Current unemployment statistics probably underestimate the magnitude of the problem for young people inasmuch as many of them have given up looking for work (or have never worked), and are, therefore, no longer measured in the labour force. Welfare provisions for the long-term unemployed are between 30 and 60 per cent below the poverty line established by Statistics Canada, according to a report by the Social Planning Council of Metro Toronto.⁸ payments for a single unemployed person 25 years old vary from \$108 and \$154 per month in New Brunswick and Quebec respectively, to \$459 per month in Prince Edward Island (Prince Edward Island, however, ranked from sixth to eight among the ten provinces in various welfare payments to families).

Young people who have limited work experience are likely to make poor employees, having never developed consistent and reliable work habits. Perhaps increasing workplace flexibility, including job sharing, will benefit them. The least educated are, however, the least likely to be well informed about the availability and appropriateness of training courses. An observation in the previous Environment Assessment bears repeating: the majority of those who retrain as adults have already completed a university degree or community college diploma.⁹ press coverage in 1983-1984 indicates widespread concern over rising suicide rates among children and young people.¹⁰ Young people are particularly vulnerable to disillusionment and loss of self-esteem, and are increasingly exposed to family breakdown and violence.

Considerable press attention has also been devoted to government provision of services to the poor in any age group, and whether such programmes should be targetted more

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8. David Thornley, The Adequacy of Welfare Benefits: Responding to the Recession, Social Planning Council of Metro Toronto, Social Infopac Vol. 3, No. 4, October 1984.
 9. Canadian Association for Adult Education, From the Adult's Point of View, 1982.
 10. Canadian Trend Report, Volume XVII, March 1984, and Special Report for CCAC, December 1983.

specifically, or available universally. One example cited in the Canadian Trend Report serves to illustrate the conflict between successful coping strategies and the needs of the poor: the Canada Mortgage and Housing Corporation reported that 13 per cent of tenants occupying subsidized, low-rental properties earned \$30,000 or more in 1981. These tenants were obviously better informed about the availability of services than the intended recipients. The need for low-cost housing remains acute, and a consensus about appropriate methods of assistance, and which level of government should have jurisdiction, is yet to emerge.

The concerns of the elderly in Canada's population may be stressed less over the next few years than those of young people because, though the population is aging, young people still form a much larger share of the working age population (see Table 7.2 in the previous section).

Indeed, for older Canadians not afflicted by poverty, the 1980s and 1990s hold great promise: better health, gradually increasing longevity and few financial commitments as mortgages are paid off. As noted in the previous section, the number of people 65 and over maintaining households (especially single people) is projected to increase significantly. A life-cycle savings model suggests that the increasing proportion of older Canadians may result in increased overall savings rates -- by 0.2 percentage points in the 1980s and by 0.4 percentage points in the 1990s.¹¹ Such a result would have a positive effect on capital accumulation and economic activity. Nevertheless, optimism about the role of older Canadians in the next ten years must not detract from the needs of those who are affected by poverty and infirmity, for these are in many ways the most vulnerable Canadians -- most at risk from isolation and lack of adaptability. Inadequate or outdated pensions, both in level of benefits and provision for dependents, produce major inequities in income, particularly for widowed and never-married women. These problems must be addressed, both in the short term, and as the share of older Canadians begins to rise rapidly, towards the end of the century.

11. David K. Foot, Daniel Trefler, Life-cycle Saving and Population Aging, University of Toronto Department of Economics and Institute for Policy Analysis: Working Paper #8308, March 1983, p. 19-24. The projections are based on age-specific expenditure and saving patterns of 1966-76, and the household projections used in Section 7.1 above.

3. Consumer Behaviour and Advocacy

Many of the changes in consumers' behaviour associated with coping successfully are expected to continue. In addition, the values inherent in the ability to cope with uncertainty are likely to have significant effects on the patterns of consumer advocacy and activism over the next few years. As Canadians become discriminating shoppers, insisting on satisfaction in quality and service, as well as price, they are likely to demand measurable value in programmes and regulations designed to assist them, and to voice their demands in very specific terms.

Adjustment of consumers' behaviour to profound uncertainty has taken place simultaneously with the rapid spread of new information systems. Such new technologies have made it easier for consumers to make choices and express their preferences in detail, and for marketers (usually retailers) to react quickly to these choices. For example, great variety in mortgage loans, both in respect to payment schedules and level and method of calculating interest rates, is possible only with rapid and reliable data processing and computing equipment; supermarkets are able to stock a greater range of goods, in smaller volumes per item, because of inventory management systems linked to checkout scanners.

Analysis of Canadian newspaper stories indicates that the following trends are developing:

- greater sophistication in planning and timing purchases, often to take advantage of special discount or credit arrangements;
- continued spending for security and long-term value, rather than impulse buying -- this trend is reinforced by the continued growth of household formation (particularly among the large 25 to 39 age group), and indicates that personal savings rates will remain high, and credit will expand slowly;
- increased segmentation of consumer markets as very specific preferences are expressed, and polarization of these markets into high quality "upscale" and low price "no-frills" shares;

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1. Canadian Trend Report, Volume XVII, March 1984,
Canadian Trend Report Update, October 1984.

- greater emphasis on service, as well as price, particularly in food and general retailing, and in financial services (see Part Six, Financial Institutions).

The skills of self-reliance, which include careful planning and comparison of products and services are unlikely to diminish; nor are demands for durability and value for money. A major effect of these trends is continuing pressure for detailed information -- for disclosure of content, function and risk in such a way as to make informed choice and planning possible. Another example of technical innovation which will have an impact on disclosure to consumers is the development of measuring techniques capable of detecting traces of substances at magnitudes lower than parts per million.²

The tendency to adopt simpler living and family habits is likely to continue, though in modified form: interest in improved nutrition and its health effects will persist, resulting in steady sales of home gardening supplies, and declining sales of "junk" food; but discretionary spending will resume as economic confidence grows, especially in leisure activities such as travel and restaurant meals.³ Purchases of used clothes and clothes swapping are also likely to decline as methods of conserving resources. Sales of such items as microwave ovens are likely to increase, as they combine the possibility of cooking varied, nutritious meals, even in small quantities, with the need to budget time carefully.

Increasing segmentation and polarization, referred to above, has led to declining brand and store loyalty, as consumers have come to rely more on their own judgement and comparisons. A concomitant development, widely reported in the press, is increasing reluctance on the part of consumers to accept advertisers' claims, coupled with growing unwillingness to watch television commercials -- this trend is also facilitated by technological change including use of remote control tuners and "zapping" devices and availability

2. G.T.T. Molitor, "Worldwide Search for Consumer Trends" in Consumerism and Beyond, Marketing Science Institute, April 1982.
3. J.G. Barnes and L. Sooklal, "The Changing Nature of Consumer Behaviour", Business Quarterly, Summer 1983, and Barnes and Sooklal, Coping with Economic Hardship, for Consumer and Corporate Affairs Canada, December 1982.

of viewing alternatives through cable and pay television. An advertising agency predicts that by 1989, only 55 to 60 per cent of television audiences will remain tuned in to watch television commercials.⁴ Because advertisements have traditionally provided a method (sometimes indirect) of informing consumers, such changes suggest increasing requirements for alternative methods of disclosure. Many U.S. consumer products companies are using tollfree telephone numbers to answer customers' questions, and to improve service.⁵ Changes in advertising practices in response to consumer preferences and proliferating media are likely to intensify the targetting of products and services to consumers, and the polarization of high- and low-priced shares.

Finally, the growth of the hidden, or informal, economy is unlikely to abate, as a means of maintaining self-reliance and cutting costs. Despite the recovery, CROP reports a continued increase in the number of Canadians polled making unrecorded (cash) payments to 15 per cent, up from 13 per cent in 1983 and 12 per cent in 1982.⁶ Such payments are most common in Quebec (20 per cent of respondents), and the recipient is most likely to be under 30 years old (52 per cent of respondents, 18 years and older).

Polling by Decima Research Limited indicates that "by virtue of having coped with their uncertainty, and by changing their behaviour and assessments of what works and what doesn't, [consumers have] developed a greater sense of their ability to control events and make decisions for themselves, as individuals".⁷ Such a sense of control among Canadians coincides with the rejection of the "old ways of doing things" that resulted in a decisive federal electoral victory for the Progressive Conservative party in September, 1984. Polling also indicates that among the new features that Canadians expect in the style of government are an emphasis on marketplace solutions, rather than intervention, to solve problems, and a consultative, rather than adversarial approach, including all levels of government and

4. "Tuning out Ads a Growing Trend", Globe and Mail, October 31, 1984.
5. "Toll-free phone lines", Globe and Mail, October 31, 1984.
6. The CROP Report, 84-4, September 1984.
7. Allan R. Gregg, "The Changing Consumer: Implications for Business", in The Business Outlook, 1985 and Beyond, Conference Board of Canada, October 1984.

various interest groups in decision-making. These expectations are coupled with an increasingly vociferous determination to achieve satisfaction in the solutions to social problems -- for greater accountability among decision-makers.

As described in the previous Environment Assessment,⁸ this new form of social activism is oriented to specific issues, often of concern to middle-class rather than poor Canadians. Content analysis of press coverage indicates that this trend is continuing.⁹ Middle-class activism is described as an "informal polity", grouped around issues rather than ideological positions, and not aligned with any political party. However, individual groups maintain a network of contacts with each other, and sometimes form loose coalitions. They are expected increasingly to explore ways of using the Charter of Rights and Freedoms to advance their claims, as an authority which overrides legislation or regulations that are counter to their interests. The attitudes of these activists are described as similar to those of participants in the "informal" economy: self-reliant, conservative and opposing intervention. While the major consumer organizations like the Consumers Association of Canada and the Public Interest Advocacy Centre are expected to continue their highly professionalized lobbying activities on a wide range of issues, and are seen as appropriate participants in consultation at many levels, there is a serious risk that the needs and concerns of the most vulnerable Canadians may not receive widespread discussion and equitable resolution.

"Self-help" and privatization of government services are proposed as solutions to many social problems;¹⁰ however those most in need usually lack the necessary emotional and financial resources, and time. Commercialized services (profit-making) comprise an increasing share, for example, of Ontario's health and social services sector -- more than 90 per cent of 332 nursing homes, almost half of 70,000

8. CCAC, Environment Assessment, March 1984, "Social Trends", p. 16-20.

9. CTR Special Report for CCAC, December 1983, and Canadian Trend Report Update, October 1984.

10. Canadian Trend Report, Volume XVII, March 1984, p. 176.

(licensed) day-care spaces, and so on.¹¹ Proponents argue that the profit motive provides an incentive for efficiency, flexibility and effective performance. However, recent research suggests that lower costs are often achieved by reducing quality of service and staff incomes, and warns of unequal access to care, lack of accountability, and the danger of public policy being defined by commercial interests.

At the same time, volunteering and charitable activities, upon which much of the work of advocacy organizations as well as last-resort welfare agencies depends, are in decline. Although the number of registered charities increased by 16.7 per cent between 1981 and 1984, a recent Gallup poll reported that 77 per cent of Canadians contributed money to them in 1984, down from 88 per cent, and only 25 per cent performed volunteer work, compared to 49 per cent earlier.¹² Another poll reports corporate giving rose very little in 1983 despite the recovery in profits, and that as a share of company profits before taxes, donations fell sharply, from 0.7 per cent to 0.4 per cent for the surveyed firms.¹³ Though corporate donations are projected to increase, the bulk of total donations continues to come from individuals. Organizations dedicated to the cure or prevention of major diseases, particularly among children, receive the most donations; those which touch people's emotions, such as Terry Fox's run or the famine in Ethiopia also find it easier to raise funds quickly. The continuing problems of Canada's natives, single-parent families, ex-convicts or low-income elderly receive less attention.

Although Canadians favour a less interventionist regulatory style, they will continue to rely on governments in matters of consumer protection and enforcement. Marketplace forces are seen to have a beneficial effect on consumer prices during supermarket or gasoline price wars, and when banks are discounting mortgage rates and improving payment terms. However, a continuing need for vigorous competition is perceived over the long term: supermarket price wars risk driving competitors out of business, and banks may

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11. Caring for Profit: The Commercialization of Human Services in Toronto, Social Planning Council of Metro Toronto, October 1984.
 12. "Fewer Canadians Giving to Charity, Gallup Study says", Globe and Mail, November 14, 1984.
 13. "Firms' Gifts to Charities Expected to Rise", Globe and Mail, November 20, 1984.

accumulate disproportionate power in the evolving market for financial services. The following general areas of concern are seen as particularly important to Canadian consumers over the next few years:

- **Competitive pricing for basic goods and services** including food, shelter, transportation, energy and other utilities. While this may imply deregulation in some sectors, such as airlines or agricultural marketing boards, there is also concern that access to basic services, such as local telephone calls, not be infringed (see section B.4, The Regulatory Environment).
- **Health and safety protection** at home, at work and in the wider environment, including monitoring of food, drugs, consumer products, toys, workplace equipment and air quality.
- **Standards for services** and the application of guarantees and provision for redress in such sectors as information processing, financial services, travel agencies, and so on.
- **Information and disclosure** to permit informed choice in all types of transactions.

These concerns are interrelated -- for example, it is impossible to maintain competitive prices without meaningful disclosure of content and function -- but they provide the framework in which Canadians require -- and welcome -- government action.

4. Issues Pertinent to CCAC

From the foregoing discussion, the following issues are expected to be important.

The most difficult and also most relevant issue is the emerging polarization in society. Consumers are polarizing because at least two important groups are emerging: the middle to above-average income class with self-reliant values, and the unemployed and disadvantaged who are becoming increasingly entrenched. These two groups typify the underlying changes in society. There is a trend towards conservatism and belief in free enterprise and freedom from state intervention. There is also continuing pressure for governments to facilitate adjustments to the structural changes in the economy, which throw people out of work and worsen the condition of the disadvantaged.

Some of the preceding parts of this Report already highlight the underlying dilemma. An example is the emerging trend towards deregulation in telephone services that may result in the loss of basic services to some Canadians. Another example is the possible emergence of discriminatory financial services to different consumers according to income levels. These changes are results of freer markets but may put pressure on the government to protect or assist the disadvantaged, thereby interfering with the market mechanism. The inherent dilemma is also captured by the issue of affirmative action.

Policy-makers will continue to face the dilemma of pressure for freer markets, with pressure to assist the vulnerable in society. The dilemma will become particularly acute for CCAC, which is called upon to fulfil the critical role of balancing the interests of consumers and producers.

Segmentation is occurring among consumer markets. The mass consumption pattern of the past appears to be declining. Accordingly, the mass media is breaking down and localized advertising is on the rise. There will also be increasing emphasis on quality and specialized products. Such developments will lead to pressure by consumers for more information: product information, labelling, and true advertising. Localized markets and localized advertising may make such issues more time-consuming to deal with. Information is particularly important in the fast changing world of electronic funds transfer systems. Here, consumer concerns go beyond information to protection against fraud and preservation of a balance of bargaining power between consumers and producers (the financial institutions).

Consumers' increasing concern for self-help and freedom from state intervention may also prompt more frequent use of the Charter of Rights and Freedoms to fight the government's own actions. This point will cause complications and delays in the enforcement of some of this department's laws, and will be addressed in Part Eight Legal Factors.

Finally, many issues which directly affect the consumer are also results of structural changes in the socio-economic system. Such issues are dealt with in Parts Two to Six which examine the structural changes individually, and discuss the implications for consumers.

PART EIGHT
LEGAL FACTORS

1. Introduction

This is a review of the legal environment building on the corresponding section in the previous Environment Assessment.¹ That document set out a detailed background for assessment of the legal environment in which the Department operates, and evaluates the Department's position in response to the two major recent legal developments in Canada, namely the passage of the Charter of Rights and Freedoms, and the Constitution Act. Reference should be made to that assessment for a more detailed analysis of the issues.

By way of general comment, the legal environment has proved somewhat more predictable than it appeared one year ago. The roof has not fallen in despite the great uncertainties created by recent changes to the basic or constitutional law governing Departmental operations. However, as a result of the Charter of Rights, great reliance still cannot be placed on past legal decisions.

2. The Division of Powers

CCAC operates very much at the point where the powers of the provinces and of the Federal government meet. The previous assessment reviewed the division of powers and how recent court decisions affected the Department's operations. In recent years the courts had not been kind to the Department under the trade and commerce power. In *DOMINION STORES v. THE QUEEN*, the Supreme Court of Canada had held that *THE AGRICULTURAL PRODUCTS STANDARDS ACT* did not apply in respect to intra-provincial transactions, and in *LABATT BREWERIES OF CANADA LTD. v. ATTORNEY GENERAL OF CANADA*, the same Court had struck down some of the compositional standards of the *FOOD AND DRUGS ACT*. Over the past year, the courts inclined to use the trade and commerce power in a manner more supportive of federal legislation. In *A.G. CANADA v. CANADIAN NATIONAL TRANSPORTATION LTD. et al*, the court upheld Section 32(1)(c) of the *Combines Investigation Act* as a valid exercise of the trade and commerce power. The Federal Court of Appeal also upheld the tied selling

1. CCAC, Environment Assessment, March 1984, "Legal Trends Over the Medium Term".

provisions of the Combines Investigation Act under the Trade and Commerce power in *BBM BUREAU OF MEASUREMENT v. D.I.R.*

Criminal law had in the past been considered a secure head of federal power. But the *HAUSER CASE* had thrown doubt on the scope of this power because in upholding the *NARCOTIC CONTROL ACT*, the Supreme Court of Canada refused to see it as criminal law, but rather a question of the residual power, "Peace, order, and good government". There is reason now to suspect that this decision is an anomaly, and that it is not likely to result in erosion of the criminal law power.

In the criminal law area generally, there are numerous proposals for reform. Such proposals include a reclassification of offences into crimes and regulatory offences and alternative methods of and approaches to sanctions for offences. As these proposals develop and are implemented, there will most likely be implications for the enforcement role of CCAC.

As suggested in the previous assessment, the extent of the residual power remains uncertain. The comment that the specific heads such as weights and measures, patents, copyrights, and bankruptcy will present few constitutional problems for CCAC remains valid. A challenge to metric policy had succeeded in the Ontario Provincial Court and caused a great deal of concern among officials. It was successfully appealed by the Crown. The case was instructive because the regulations in question were arguably an unusual or unexpected extension of the power to pass regulations and therefore it could be expected that they would be challenged, and that such a challenge stood some chance of success. The other warning that came out of this case is that it is easy to come to believe that defensible programs lack support when they are constantly subjected to attack. The public seems generally to have assumed that metric was here to stay. When the contrary looked possible, public sympathy began to manifest itself.

During 1983 a Discussion Paper was circulated dealing with the power of the provincial governments to implement their policies through the operation of special tribunals without offending the federal power to appoint judges. If constitutional agreement can be reached in this regard, and this may now be possible, many of the problems associated with attempts to protect consumers through a regulatory approach may be overcome. Prospects in this area are enhanced by growing co-operation between the provinces and the federal government, giving rise to the possibility of savings through the pooling of resources such as common inspection services.

3. The Charter of Rights and Freedoms

The previous assessment predicted that the Charter would become increasingly important for CCAC and this has proved to be the case. The Charter is being invoked frequently in challenges to Department powers and policy. The meaning and intent of the Charter is not clear, and of equal importance, the evidentiary and procedural rules that are to apply in Charter challenges can only be guessed at. At present the compulsory licencing provisions governing pharmaceuticals under the Patent Act are under attack and the rules and procedures governing proof of constitutional facts form an important part of the controversy. Sensitivity to the Charter is clearly appropriate, and policy options and mechanisms that avoid Charter Challenges seem to be indicated, if only because the uncertainty of the law in this area can make policy uncertain. Because it is very difficult to characterize a claim as being totally without merit, the potential for harassment by well-heeled litigants will tie down resources.

In the SOUTHAM CASE the special powers of search and seizure under the COMBINES INVESTIGATION ACT were found to be inconsistent with the CHARTER, and further attacks on the Department's powers of search and entry can be expected. But the special provisions compelling oral and documentary evidence in Combines enquiries have been upheld in ZEIGLER. However, Section 17 of the Act, dealing with compulsory subpoena power, was struck down by the Saskatchewan Court of Queen's Bench in the case of CRANE V. COUTURE. The Department of Justice has appealed this decision.

The previous assessment expressed concern about reverse onus provisions and how they would fare under the CHARTER. A recent Ontario decision upheld the reverse onus provision of section 36(1)(b) of the COMBINES INVESTIGATION ACT. However, to date, provision in the Combines Investigation Act requiring that corporations be tried by a judge alone has been found to be consistent with the Charter.

4. New and Emerging Issues

The future will likely see the emergence of new or extended intellectual property rights in Canada and the United States, either by statute or by judicial decision. In Canada, the Federal Court Trial Division has given preliminary recognition to copyright in computer programs. In the United States a limited form of protection has been extended to semi-conductors and micro chips.

The United States may show more aggressiveness in the field of intellectual property as the United States seeks to protect its domestic market from foreign competition and to secure preferential access for United States products in countries like Canada. American initiatives in this area may well reflect a deteriorating trade balance in that country as a result of the overevaluation of its currency. These American initiatives will place an added burden on the policy bureau as it is called upon to advise other departments and agencies in relation to industrial property based trade issues.

The movement toward free trade will result in greater demands upon the policy making resources of the Department because the lowering of trade barriers will result in many of the statutes administered by the Department emerging as barriers to trade in the areas of intellectual and industrial property, standards, metrology and labelling.

Access to information, freedom of information and privacy laws will require the Department's attention. Specifically, it can be expected that commercial and industrial interests will attempt to use these laws as a means of reducing access to information in order to inhibit market entry by potential competitors. This is likely to happen in the area of controlled substances such as pharmaceuticals and agricultural chemicals.

The pharmaceutical industry will certainly make continued demands upon the resources of the Policy Bureau, what ever the outcome of the present debate may be, because all of the practical policy options create substantial scope for continued controversy. They also suggest greater demands on the Corporate Bureau to settle a new round of conflicts over the interpretation and implementation of the law if changes are made in the PATENT ACT in relation to drugs.

5. Amendments to the Combines Investigations Act

Bill C-29, which died on the order paper of the previous Parliament, included new provisions respecting mergers: mergers challenged by the Director of Investigation and Research would be adjudicated by the regular federal and provincial civil courts. Only those mergers which are likely to lessen competition significantly, and which are not likely to bring about gains in efficiency which result in a substantial real net saving of resources for the Canadian economy, may be prohibited by the courts. There would also be a requirement for unusually large mergers to be prenotified to the Director.

Under Bill C-29, the present criminal law section dealing with monopoly was to be repealed and replaced with a civil law section concerning abuse of dominant position. Cases under this section will be adjudicated by the civil courts. A court may make an order against a firm or group of firms where three conditions are satisfied. First, that the firm or firms involved substantially or completely control the market in question. Second, the firm or firms must have been engaged in a practice of anti-competitive acts, examples of which are given in the section. And third, the practices complained of must have had, be having or likely to have the effect of lessening competition substantially. An efficiency defence would be provided.

The Bill contained a number of other changes that would be significant to CCAC in the medium term, but a detailed discussion of them is premature at this stage in that a new Bill has not yet been tabled before Parliament.

PART NINE

THE POLICY FRAMEWORK FOR CCAC IN THE CONTEXT OF FEDERAL
GOVERNMENT PRIORITIES

1. Introduction

The major policy considerations facing the Department, as identified from the emerging priorities of the Conservative government, are set out in this part of the 1985 Environment Assessment. This analysis draws upon the following sources:

- the Speech from the Throne
- the Economic Statement
- various cabinet documents
- policy statements by Ministers, and
- media reports and interpretations.

The new government's broad priorities are the four challenges reported in A New Direction for Canada: An Agenda for Economic Renewal, tabled in the House of Commons in November 1984.

These challenges are:

- to put the federal fiscal house in order,
- to redefine the role of government,
- to adopt growth-oriented policies, and
- to facilitate change in a fair and open manner.

2. The Imperative of Economic Growth

Major policy announcements of the current government have emphasized its preoccupation with economic renewal in Canada. The theme focusses on developing opportunities for growth. This challenge has two premises: first, the private sector must be the driving force of economic growth, and second, the mounting deficit constitutes a major obstacle to sustainable development.

There is heightened concern in government that Canada is losing ground in its traditionally strong export markets. This is, in part, because of the domestic lag in adopting new technologies as readily as international competitors have. The government is therefore reviewing the structure and patterns of federal grant and subsidy programs to industry.

To support private sector initiatives the government is exploring ways to foster a climate for the birth and growth of new business. In approaching this venture the government believes that most of the new job creation in Canada between 1978 and 1982 was generated by small business (firms with less than two million dollars in annual sales or less than fifty employees). To support small business in economic growth, options are under active consideration to direct more federal funding to market-oriented research and development, and to encourage the adoption of new and emerging world technologies.

While planners can expect a perceptible shift away from federal support for declining industries, the proposed focus on growth-oriented firms and sectors will not result in any dramatic stimulus from the federal level. Expenditures on new industrial development programs will be subordinated to attempts by the federal government to bring the deficit within acceptable limits. As new programs are announced they will be delivered increasingly through provincial and territorial governments to maximize adaptability to regional needs and to harmonize development initiatives.

In this context of structural change, the government is moving to update the legislative and regulatory framework, to give scope for market forces to determine the direction of the economy.

3. Obstacles to Economic Growth

Five significant obstacles to economic growth in Canada are the size and projected growth of the deficit, the present regulatory framework, the slow pace in adopting new technology, restricted mobility in labour markets and centralized control over regional development.

The government currently regards the deficit as the most serious obstacle to economic growth. The deficit has curtailed the effectiveness of traditional macro-economic levers. Interest costs are adding about \$4 billion each year to the annual increase in the national debt. The debt itself is rising faster than the economy is growing. Concern with the pattern of government borrowing centres on the fear of future inflation, the cost of risk premiums on long term debt and the rise in long term interest rates. Current government thinking holds that high deficits and accumulated debt shift resources away from job-producing equity investment in the private sector.

Options available to tackle the deficit are restricted by the nature of government spending. Only about 23 per cent of federal expenditure is directly on goods and ser-

vices. The balance, in roughly equal shares, is in transfer payments to three groups -- to individuals (mostly child and elderly benefits), to provinces and municipalities (post-secondary education, health care, and grants in lieu of taxes), and to others (largely Crown corporations, scientific research and cultural organizations). Within these parameters, resource constraints on all federal departments including CCAC will persist throughout the planning period. Central agencies will continue to demand even greater improvement in productivity.

Barriers to trade, and regulated markets impede economic growth. Canada faces significant challenges in meeting its current international obligations to reduce trade barriers. It is also preparing to participate in a new round of GATT negotiations. Concurrently, the government is examining the range and complexity of interprovincial trade barriers. Regulated sectors under federal jurisdiction will experience gradual exposure to competitive forces during the medium term. Early priorities of the government are to substantially deregulate the transportation and telecommunications sectors. Simultaneously, the Ministerial Task Force on Program Review (Nielsen Task Force) is examining options to reduce the burden of federal reporting requirements and compliance on business, especially small business.

The government regards the difficulties of access to registries of intellectual property by individuals and small corporate entrepreneurs as a particular obstacle to exploiting new technology. However, availability of markets will continue to determine the prospects for commercial applications even while government strives to broaden the dissemination of technological information. In this context, penetration of foreign markets and reduction of Canadian and foreign trade barriers will be crucial for success.

Federal initiatives have been developed for discussion with the provinces to enhance labour market access and mobility. These proposals contain new job creation and training programs. They also generate hopes for releasing locked-in savings (such as pension funds) for diverse investment opportunities, greater self-reliance and more risk-taking on the part of workers. Such aspirations come at a time when the structures of financial institutions in Canada are undergoing rapid change. How these forces will interact is uncertain. The government can expect to be called upon to strike a balance between its intention to foster the entrepreneurial spirit in individuals and a responsibility to protect workers' savings.

At a time when the government wants to release and stimulate the creative abilities of Canadians through less

intervention, it is also committed to balancing regional development. The degree to which these goals are reconcilable may well depend on how effectively program delivery is decentralized.

4. Achieving Economic Growth

The government is committed to approaching economic renewal in as open and responsive a manner as possible without abrogating its fundamental responsibility to govern. Consequently, some major policy decisions will be deferred until the pressure of international developments obliges the government to accelerate or shorten the consultation process.

Efforts to build a consensus focus on securing the broad agreement of the provinces and the territories on the issues of economic development and deficit reduction. The release of a series of consultation and discussion papers is intended to solicit the preliminary agreement of the provinces and territories to a range of options. These, in turn, will set the framework for consultation with the other economic partners: business, labour and voluntary organizations. The priority issues are job creation and training strategies, enhanced trade and export financing, regional development and promotion of small business. Discussion will follow on the more sensitive and complex issues related to deficit reduction -- child and elderly benefits, the unemployment insurance program and social housing.

The primary objectives of the federal-provincial-territorial consultations are to harmonize the policies of both levels of government, to the degree possible, and to reduce the duplication of services and programs while respecting constitutional jurisdictions. The challenge will be to determine which national standards must prevail while attempting to accommodate conflicting regional needs and demands. Consensus has been reached with the provinces and territories on the value of the Economic and Regional Development Agreements (ERDAs), and the opportunities arising from subsidiary agreements. The ERDAs have been accepted as the appropriate framework for the delivery of federal support.

Despite the degree of federal-provincial-territorial cooperation, agreement with the other economic partners will be difficult to reach. The government is dealing mostly with national business, labour and voluntary organizations, and the divergent interests of these groups will severely tax the federal resolve to achieve consensus on the major issues. Unresolved issues will be sent to Parliament, which

can expect a heavy legislative agenda commencing in the Fall.

The government hopes to reduce the deficit by \$10 to \$15 billion by 1990. As part of the initial round of cuts, the fiscal framework for 1985-86 reduced the allocation to the Economic and Regional Development Envelope by 11 per cent. Continuing this effort the Ministerial Task Force on Program Review is examining 989 federal programs; the final reports are expected in November. By mid-February six study teams were active. The study teams on Services and Subsidies to Business, and on Regulatory Programs are likely to make recommendations affecting CCAC, which are expected to be considered by Cabinet before the spring Budget.

The government has resolved to exercise greater control over the federal public service in its drive to reduce the deficit. The objective is to "down-size" government. This attempt to achieve control is manifest in three developments. The position of chief of staff, with appropriate support, has been created in each minister's office to provide political guidance on recommendations from officials. The Chiefs of Staff meet regularly under the chairmanship of a senior adviser in the PMO. In support of this structure, the communications policies of all federal departments and agencies have been centralized to a degree. Officials can expect a protracted period of adjustment until a new accommodation develops. Control has been further enhanced by two announcements. In November, the President of the Treasury Board declared a freeze on person-year growth. In mid-February the Deputy Prime Minister announced a moratorium on approval of all departmental initiatives, except for those arising out of prior obligations or urgency, in order to facilitate the work of his Task Force.

The government's commitment to promoting the entrepreneurial spirit is beset with difficulties. On one hand, there is a desire to promote freer markets through reduction of trade barriers. This policy is intended to facilitate economic renewal by creating access to markets for new businesses and for existing growth-oriented businesses. The western provinces tend to accept this policy as favourable because most of their exports are already tariff-free, and because Canadian trade barriers have pushed up the costs of goods imported by these provinces without the benefits to them of more manufacturing activities. Canadian trade barriers tend to promote manufacturing activities in central Canada where producers find the largest population centres. Freer trade may permit equal access to foreign markets for all provinces, thus offsetting the advantages to central Canada. In addition, imports will be cheaper.

However, freer trade may also continue to put central Canada in a favorable position if certain sectoral trade arrangements tend to promote activities that gravitate towards this part of the country. An example is the existing Auto Pact between Canada and the United States which allows free trade in automobiles and parts. Because the largest population centres of both countries lie close to Ontario, this province benefits from the growth of car production activities. Thus, the exact nature of freer trade will largely determine regional impacts. Freer trade in "foot-loose" research-intensive industries may tend to favour the western provinces. It can be expected that regional interests will influence the course of freer trade arrangements with the U.S. and other countries. Regional balance in economic development is also an important objective in economic renewal.

Despite stated aspirations, some protectionist measures will persist at both the national and regional level, and equalization payments will remain an irritant in federal-provincial relations. Support for growth-oriented industries will proceed incrementally. The withdrawal of federal aid for non-competitive firms and industries, which may be major employers, will be gradual to avoid sudden increases in unemployment levels.

PART TEN

DEPARTMENTAL ISSUES AND IMPLICATIONS

1. Introduction

The Environment Assessment discusses the macroeconomic outlook; the various structural changes expected in the economy (including trends in external trade, in industrial organization, in technology, in the regulatory environment, and in the financial sector); social trends; legal trends; and government priorities.

These together constitute the environment in which CCAC is expected to operate in the planning period.

A number of issues have been noted and discussed in the context of the various sections dealing with trends and structural changes. These issues are the potential challenges for this Department. In the section immediately preceding this, priorities of the present government relevant to CCAC are also discussed. These form the overall directives for federal departments including CCAC. Together, these issues and priorities signal key implications for this Department.

Accordingly, Part Ten is a preliminary effort by staff of the Strategic Policy Research Branch to synthesize the issues arising from the Environment Assessment, and to set out possible implications for CCAC of these issues. These possible implications will provide a basis for further discussion by departmental managers. This analysis should facilitate a more comprehensive planning exercise later, when the intentions and requirements of the government are communicated in greater detail. Further comments and input on the strategic implications will be sought, as well as departmental initiatives and responses. The timing will be at the discretion of Policy Committee. Consequently, the implications suggested here should be treated as neither exhaustive nor definitive.

2. Departmental Issues

Many of these issues are inter-related and cut across a number of areas, (e.g. issues in EFTS arise from technological, structural, and regulatory factors, and will affect consumers and competition policy). Some of the issues enhance each other, while others are in apparent conflict (e.g. deregulation and protection for consumers). Further,

some issues may even conflict with government priorities. The following provides an integration of the issues and priorities, showing the potential threats and opportunities facing this Department.

- The macroeconomic outlook is that **slow growth and high unemployment** will persist through the balance of the decade. The highest incidence of unemployment will likely occur in the outlying and resource-based regions of the country. This has two consequences. The first is that there will be a persisting pool of vulnerable consumers as a result of the unstable labour market. A slack labour market with excess supply of labour will likely heighten the problems of disadvantaged groups, both in seeking and keeping employment and in sustaining income growth. The unemployed and low-wage earners constitute a key segment of vulnerable consumers.

The second consequence arises from the uneven distribution of the projected slow-growth regions. These will mostly be the resource-based areas of the country, which will likely contain the highest incidence of social and consumer problems.

- The current **world trade environment is beset with uncertainty**. To stall protectionism, which may further worsen Canada's chance of economic renewal, the present government is leaning toward freer trade, at least with the U.S. Freer trade will benefit consumers in general and will introduce more competition and efficiency into the Canadian economy. This is obviously a position with which CCAC can easily identify. In addition, Canadian import policies have traditionally advanced the positions of Canadian producers and neglected the interests of consumers. In moving towards freer trade, the current government will likely proceed very cautiously, to avoid causing the total collapse of some protected industries.
- There are signs of a **rising merger trend**. This merger trend appears to be part of adjustments by business towards competing for changing markets. Businesses are merging across traditional industry boundaries, as well as within the same sectors.

Increasing mergers have arisen partly from the pressure to survive the last recession and partly from the drive to penetrate or consolidate market shares. The recession caused severe competition as

demand slumped in many industries. Many firms trimmed their operations, and cautiousness continues to prevail. Merging with existing firms appears to be one way to capture new opportunities.

In addition, structural changes are occurring in the economy, that require penetration of new markets. Merging allows a firm in one market to quickly develop a foothold in another market by being partner to another firm in the latter market. The two (or more) firms can combine diverse experiences and expertise to consolidate their positions, e.g. trust, real estate, and insurance.

This rising merger trend may become an important issue for this Department, as some mergers will increase concentration of economic power. In many cases, mergers across industry boundaries may not initially appear to be "anti-competitive", but may in fact increase the aggregate economic power of the merged organization significantly.

- Changing demographics are gradually altering the population mix and related social values, which is producing various kinds of **polarization**. As the average age of the population increases, retailers are facing more mature consumers. These consumers are more individualistic and express their demands in specialized markets rather than mass markets. Many retailers believe that mass markets are breaking down. Consumers are increasingly drawn to stores that cater to localized needs and deal in specialty products. In turn, advertisers see a breakdown of the mass media and are developing localized advertising. These developments will lead to growing segmentation of consumer markets.

Consumers are not only becoming more segmented, but such segmentation is leading to more polarized expression of views about society. There is a trend towards self-reliant values on the one hand, emphasizing non-intervention by the government, while a persistent pool of disadvantaged and unemployed puts pressure on governments to maintain social services for the vulnerable. In addition, polarization may also develop among middle class consumers who believe in non-intervention by the government on the one hand but want more information about the increasingly segmented and pluralistic product and service markets.

- The present government has indicated that promotion of **technological change** to facilitate economic renewal is one of its goals. Technological change will not only affect industries but also consumers. Many emerging technologies may significantly alter the nature of consumer products in the future. New materials such as ceramics are likely to displace metals in many applications. Biotechnology will have applications in food, in chemicals, in medical goods and health care products. These new materials and products will have new physical characteristics (that are currently unknown). Such new physical characteristics may give rise to demand for close monitoring by government agencies charged with standards and consumer protection.

For biotechnology, the hazards are still unknown. The effects of hazards, if any, could be wide-spread. This may invite rather complex and extensive regulation by the government despite general retrenchment in regulatory activities. At this stage, monitoring of developments is crucial.

Some new technology in electronic funds transfer systems (EFTS) are already in application. Various consumer concerns have been identified such as privacy, fraud, transaction confirmation and error resolution. As new types of EFTS are adopted, some of these issues will become more important.

- Another framework policy embraced by the government is **changing the regulatory environment** to allow market forces to operate more freely. Changes in the regulatory environment to permit more competition in telecommunications and transportation will improve economic efficiency. Consumers will benefit from lower prices and more options.

Although CCAC is not primarily responsible for regulation of these sectors, it has the mandate to promote competition and balance consumer interests. Thus, it has the role to intervene before regulatory boards to present its views on the effects of regulatory changes on competition and consumers. The major current involvement is with the issue of rate rebalancing by telephone companies. The Department has argued against the position taken by the telephone companies to rebalance rates so that long distance rates will face competition (and most likely fall) while local service rates will absorb various fixed costs (and most likely rise). Such

changes in rates will adversely affect consumers in the market (local services) where there is no competition. In addition, a rise in local service rates may threaten the concept of universality. Some consumers may not be able to afford to subscribe to a local telephone.

- Changes in the financial sector will affect the goals of economic renewal and deregulation. Structural changes are occurring in this sector that will significantly alter the nature of financial services to consumers and businesses. These changes are occurring as regulation of financial industries is under review. This sector is so closely linked to all other sectors in the economy that its evolution will affect overall economic performance.

"Blurring of the boundaries of the four pillars" will generally benefit consumers. But concentration may increase, and solvency of institutions will also be a major concern. Access to capital for business expansion may improve, but risky ventures may be shunned. Concerns for shareholder protection and corporate disclosure will likely increase, especially as technology facilitates crossing jurisdictional boundaries. The financial sector is a good illustration of the various inter-related structural changes described. All of these changes are affecting this sector: new technologies, merger trend, segmentation of markets, deregulation, and the interactions between consumer and corporate behaviour.

- Superimposed on all these issues is the new government's determination to downsize the public sector.

3. Possible Implications

Given the issues identified in the previous section, the following attempts to identify, in a general fashion, the implications of the issues for the Department. The intention is to discuss the possible alternatives and reactions, leaving decisions regarding directions to be followed for the Strategic Overview and other planning processes.

- The prospects of continuing slow growth and high unemployment over the medium term will impede efforts to "down-size" government. Demands will persist for social programs to ease the burden of structural adjustment. This will make it difficult to effect meaningful spending cuts because transfer

payments account for roughly 77 per cent of total federal expenditures. Therefore, in order to redefine the role of government, all federal departments and agencies will face renewed demands to **increase productivity and to justify discretionary programs.** Concurrent with this thrust, public expectations of the Department will grow in volume and change in nature as a result of developments in the external environment. As a consequence of these divergent pressures, senior management will find it more difficult to reallocate resources. This may invite a review of the departmental objective and sub-objectives in order to chart a stable course over the planning period. Particular attention will need to be focussed on **respecting constitutional jurisdictions and on harmonizing programs with provincial and territorial governments.**

- Uncertainty about the direction of world trade patterns will continue throughout the medium term. The desires of major world trading partners for freer trade among nations may be thwarted by strident calls for more protection of declining industries and sectors. Continuing efforts to retard freer trade will be detrimental to the Canadian economy, which is characterized by high concentration and associated problems of efficiency. There is an opportunity for this Department to improve efficiency in the marketplace by **vigorously promoting consumer interests in trade policy development.** This will lead to freer trade, lower prices and lower concentration. CCAC will simultaneously foster competition policy by actively promoting the consumer policy aspect of the Department's mandate in the debate over freer trade options for Canada.

Market adjustments will not take place without individual enterprises and consumers confronting major tensions. The Department will need to assess its **capacity to monitor these changes** for the impact of corporate concentration, and the adverse consequences of potential restraints to trade, as threatened industries react to the prospects of stiffer international competition. The Department must also determine what resources it can muster to promote the principles of competition on the international level, to ensure that the anticipated influx of foreign investment operates in an optimal fashion in a healthy marketplace.

- Increasing mergers in Canada will present the Department with a major challenge over the planning period. Mergers of firms across different markets will make it increasingly important to **detect abuse of dominant position** resulting from new market concentrations. Mergers will also increase the exposure of traditional vulnerable consumers and create new groups, as the nature of information related to business structure grows in complexity. The department will need to **assess the scope and degree to which these changes increase the exposure of vulnerable consumers**. If they are deemed to be severe, measures must be adopted to minimize the negative consequences of this trend. Such measures probably will have to be developed through extensive consultation with provincial counterparts.
- The changing population mix, resulting in more mature consumers and polarization of social values, will invite appropriate policy responses. Individualistic and sophisticated consumers will demand more information and disclosure related to their transactions in growing specialty markets. On the other hand, there is a trend towards conservative values, such as self-reliance and belief in non-intervention by governments.

The Department must reassess the needs of consumers in light of these developments and in keeping with the government's intent of respecting the jurisdictions of all levels of government. It is also appropriate to review product safety to **balance the need for consumer protection with the government's commitment to downsize its operations**, and to intervene less in the operations of the private sector. It will be necessary to determine to what degree the legislation and regulations administered by the Department represent obstacles to growth, to establish a judicious equilibrium between the rights of consumers and the need to contribute to economic renewal.

The segmentation of consumer markets, leading to a breakdown in mass advertising, will make it difficult to monitor consumer issues in the future. Regional variations in marketing practices may therefore need to be addressed.

- Technological change will also challenge CCAC over the planning period. This concern stems from the anticipated growth in biotechnology, new materials

and the copyright implications of information systems. CCAC will need to **harmonize its legislative initiatives**. Domestically, this applies to the patentability of biotechnology and any decision to grant plant breeders' rights. Internationally, this means greater co-ordination through bilateral and multilateral consultations. The full automation of the U.S. Patent and Trademark Office, and automation in Europe and Japan will enable Canada's trade partners to accommodate growth in innovations and the granting of proprietary rights much more efficiently than Canada. This may lead to proportionately fewer registrations in Canada, and possible impediments to the diffusion of foreign technologies in this country.

- The growing concern with piracy of intellectual property among trading nations and the acceleration of parallel imports will require **increased international consultation** to balance the proprietary rights of innovators with the adaptation of new technologies in growth-oriented industries. In addition, the Department must decide how it might support the government's priority of promoting growth-oriented small business through adaptation of the new and emerging technologies.
- The changing regulatory environment will have major impacts on CCAC. The thrust to deregulate in the transportation and telecommunications markets are early priorities of the federal government. In the deregulated environment, there will be greater reliance on the use of competition policy laws to ensure market efficiency. This will lead to **increased demand to monitor market performances and may require more enforcement capacity where market failures occur**. Enforcement activity may be obstructed by the promulgation of the equal rights provisions of the Charter which apply to corporate persons. The Department will need to examine these developments in order to seek successful prosecutions in both criminal and civil jurisdictions.
- Despite the trend towards deregulation, certain new technologies may increase the requirement for regulation in the interest of public health and safety. This is particularly so in the case of emerging biotechnologies and chemicals. Because of potential threats to the environment and higher life forms, **extensive international, intergovernmental and interdepartmental consultation** may be required in the development of standards and regulations for production, transportation and marketing of new products and processes.

Restructuring of regulatory jurisdictions will present opportunities to promote consumer interests. Interventions before regulatory bodies to balance consumer interests with traditional support for producers may advance the government's thrust toward freer trade. Representations before these bodies could protect consumers' freedom of choice, and access to universal services. Conversely, any initiatives to deregulate on product identification and product safety will meet countervailing demands for new standards in disclosure and against hazards in the application of new materials and processes. The Department will need to balance these competing influences.

- A number of trends developing in the external environment have implications which may impact directly and indirectly on Canadian consumers. In general, the impact on consumers of developments arising from freer trade, mergers and changes in the population mix have already been identified. Developments arising from technological change, regulatory reform and other structural changes may have **discriminatory impacts on vulnerable consumers**. In the financial sector, growth in the use of EFTS may adversely affect the range of services available to low income groups because of market segmentation and targeting by institutions on accounts with potential for high returns. In the development of regulatory reform, deregulation in telecommunications may threaten the universality of basic services as possible increases in the cost of local services cannot be absorbed by certain low income groups, especially those on fixed incomes. Both of these issues imply opportunities for **enhanced advocacy of the needs of vulnerable consumers** by the Department.
- There will be an uneven regional distribution of vulnerable consumers. The provincial governments of some regions will face fiscal constraints as their regional economies provide them with less-than-expected revenues. Some provincial social services programs may be cut back. A good example is in B.C., where cutbacks have already occurred. Thus, CCAC may face uneven regional demand on its **resources for consumer services**. Government initiatives to enhance labour mobility will also affect vulnerable consumers, particularly in regions with high unemployment.

- Slow economic growth will also imply that recent patterns in the rate of incorporations will continue. In other words, **no significant upsurge in new business formation is expected** despite positive steps by the government to improve business confidence and promote economic renewal. At the same time, despite unpredictable interest rates, **bankruptcies are not projected to rise significantly** because businesses are reducing their indebtedness and lowering their leverage ratios. High leverage was the key reason for high levels of bankruptcies during the last recession.
- The present government is clearly in favour of **economic growth via private sector initiatives**. Frequently, this will mean policies designed to facilitate the interests of producers. In a free market environment, such developments will generally also benefit other members of society. Conflicts arise where a true free market does not exist, as in the case of tariff and non-tariff barriers to trade, and where polarization of social values occurs, as in the case of equality of employment. In such cases, the interests of other members of society, e.g. consumers, need to be articulated in the policy formulation process. This Department can be the focal point for **balancing the interests of consumers and producers** by assisting efforts to broaden the areas of consensus between them. Such a search for consensus is an alternative to the adversarial relationship which otherwise prevails.
- Given the discussion (at the outset of this section) of restraint measures and the need for yet greater gains in productivity, reallocation of internal resources is most likely to be the primary method of preparing to meet the challenges which have been delineated above. The Department will have to develop a comprehensive **long range human resources strategy**, in concert with the initiatives of central agencies, to identify the skills required and to implement the training and retraining strategies implicit in new directions of government policy. In turn, this demands a clear statement of **internal priorities for the mid-term** in supporting the thrust of the new government's objectives.

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