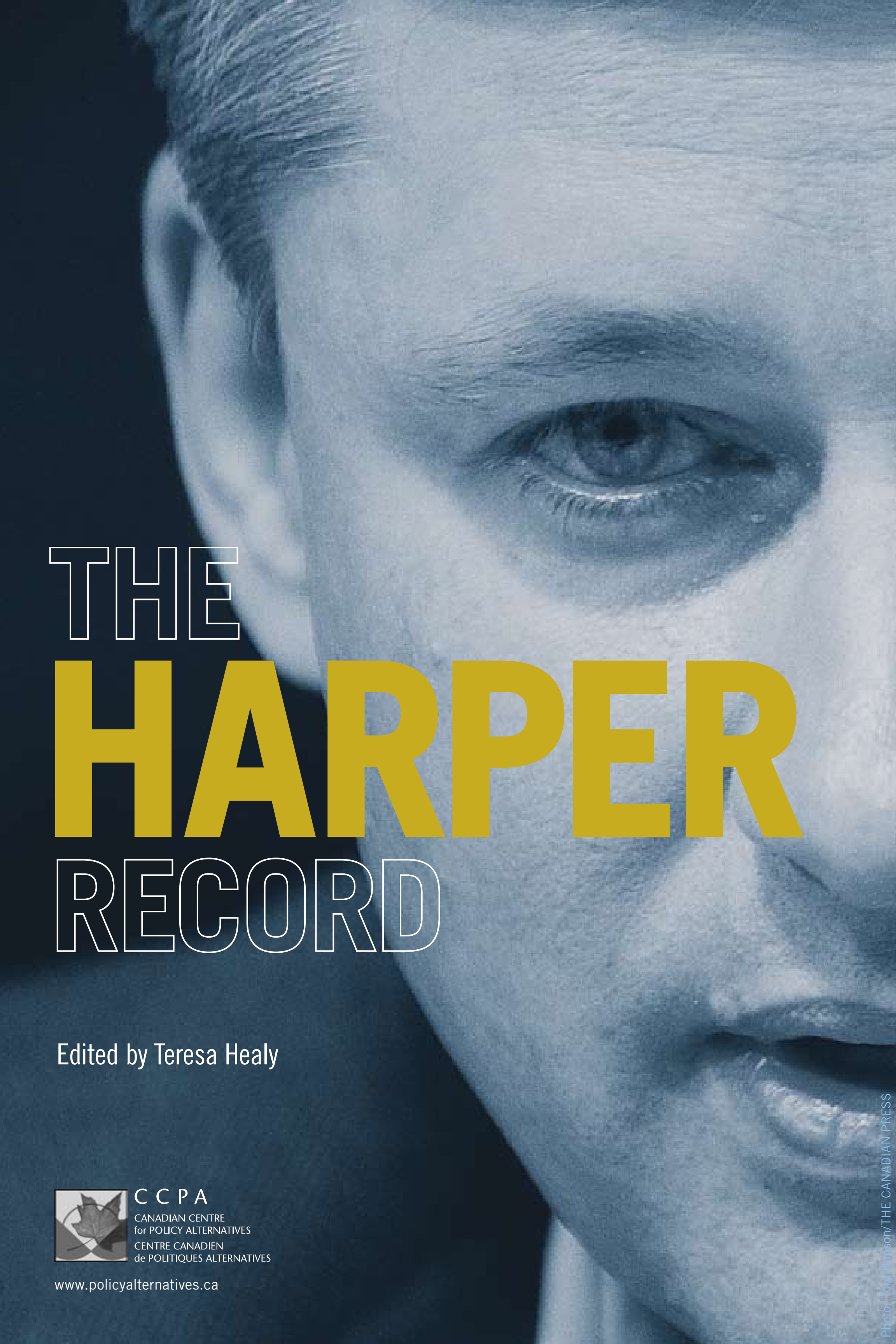

# THE HARPER RECORD

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# Foreign Ownership

Mel Watkins

A MIRACLE OCCURRED on May 9, 2008, right here in Canada. For the first time in 23 years, that routinely spineless entity known as the Government of Canada said "No" to a foreign takeover of a Canadian company.

Literally thousands of foreign acquisitions had been approved since 1984 when then Prime Minister Brian Mulroney declared Canada "open for business." Among the fallen were such Canadian icons as Falconbridge, Inco, Domtar, Algoma Steel, Hudson's Bay Company, Stelco, Fairmont Hotels, Four Seasons Hotels, Molson's, Labatt's, and the Montreal Canadians. Indeed, the *Investment Canada Act*, which formally took effect in 1985, mandated Investment Canada to shill for *more* foreign investment, so much so that some of us imagined that somewhere, perhaps not even in Canada, there was a giant machine for approving or rejecting foreign takeovers that automatically stamped "Yes" to every request for approval made to it. Was it possible that, finally, the machine itself had rebelled in boredom?

Regardless, there was that rarest of moments; the ground moved in Ottawa. I know. I felt the tremor, albeit the slightest, where I live, on the outer skirts of the capital. How could this have happened? Would there be aftershocks?

Messrs. Mulroney, Chrétien and Martin had never seen fit to "interfere" with the operations of external, frequently imperial, capital. How was it possible that Harper, the first truly neoliberal Prime Minister, had done such an amazing thing, causing the right-wing press, the *National Post* and *Maclean's*, to go ballistic and allege that Canada had become, I kid you not, North Korea.

The case in point was the sale of the space division of MacDonald Dettweiler & Associates (MDA) to Minneapolis-based Alliant Techsystems for $13 billion. MDA had the famed Canadarm to its credit and, more recently, the satellite Radarsat 2, largely financed by the Canada Space Agency and used for Arctic surveillance and the maintenance of Canadian sovereignty. Alliance Techsystems is a weapons company, a bomb manufacturer. To their everlasting credit, at least two MDA employees quit over objections to working for it, and retired MDA co-founder Vern Detweller said he supported them.

It's doubtful that the Harper government cared much about any of that. It can be presumed to have taken the unusual step of turning this takeover down for reasons of national security, not wanting Radarsat 2 under foreign control.

Steven Staples, social entrepreneur *par excellence* and the head of the Rideau Institute which led the successful campaign to block the takeover, thinks most Canadian prime ministers can be seen as appendages of the American president managing Canada as a subsidiary of the United States, but that Harper is a clone of George W. Bush and, being like him, gives the highest priority to national security.

If so, it's best not to expect any aftershocks. MDA looks like one of a kind, an example of that weird hybrid, neoliberal nationalism. This country is as "open for business" as ever. If there's not as much happening at the moment as there was, it's not because Canadian companies are suddenly playing hard to get, or because foreign buyers are deterred by the MDA case. It's because the chaos in global financial markets has made it harder to raise the funds to finance mergers and acquisitions.

There was the hope, albeit the slightest, that a Competition Policy Review Panel appointed by Harper in the immediate aftermath of the spate of takeovers in 2007 and mandated to look at both the *Competition Act* and the *Investment Canada Act*, would be compelled to do something positive. True, in a truly shameless act, all five panelists were business people, but it was possible to imagine that they would realize, now that they were on the public payroll, that they ought to make the effort to think like citizens. But they didn't. Their report at the end of June 2008, with the sporty title *Compete to Win* and full of the clichéd boosterism of Don Cherry, called for the Government of Canada to make it even easier for Canadian companies to be taken over.

It was the kind of recommendation that was reported only as business news because otherwise it risked being read by the unwashed and laughed out of court. It was so mindless, bordering on the embarrassing, that even the Harper government let the report be issued at the end of a week when Parliament was not sitting. The Minister of Industry received it without comment, and the likelihood of a minority Harper government taking it seriously — it also advocated that Canadian banks be allowed to merge and be available for takeover by foreign banks — is slight.

The press did, however, quote an anonymous source within the government as saying it would be a blueprint in the event Harper got a majority, which is a way of reminding us that a majority Conservative government would quickly rediscover the fullness and foulness of the ideological roots that it has been compelled to hide as a minority government.

It seems improbable that Canada, decent country though it is thought to be, should, late in the dying days of neoliberalism, with its poster boys George W. Bush, Tony Blair and John Howard thoroughly discredited, have a neoliberal leader. Likewise, it seems odd and badly behind the times to have an official panel, funded by taxpayers, advocate an intensification of globalization, foreign ownership as practised by the multinational corporation being at its very core, at a time of global financial chaos and global warming that have come in the wake of existing globalization.

The panelists are honest enough to say that Canadian business is insufficiently innovative. As business representatives, they share that deficiency. We have good reason in this country to know that foreign ownership is not without its costs. Historically, it created an inefficient branch-plant economy protected by the tariff. We went the free trade route — under the last Conservative government, it might be noted — and eliminated the tariff, our leaders confident that our firms would become efficient. They haven't, which raises the distinct possibility that foreign ownership is itself the problem.

Today, that problem takes the form of the hollowing-out of corporate Canada, its head offices, and the myriad of jobs associated therewith. A Conference Board of Canada study released in early 2008, timed to be useful to the panel, was duly reported in the media as showing there was no problem. In fact, the conclusions of its study are much more nuanced than that and show that real costs inhere in foreign ownership.

Let me cite the Executive Summary, with my translation in the square brackets: "Overall, CTEs [Corporate Takeover Effects] on acquired companies are positive for shareholders [a.k.a. as windfall gains], mildly positive or neutral for operations, capital, people and community involvement [little or no benefit on a long list of things that matter and it is "benefit" that the *Investment Canada Act* is supposedly looking for], and negative for governance [which means for decision-making, power and control, which are the guts of the matter]." Furthermore, at the conference at which these results were released, on a panel on "Insights from the Boardroom," of five panelists two said unambiguously from their experience at the top of the pyramid that in foreign-owned companies in Canada the real action was in the head-office outside Canada and that letting our companies be taken over was sending the bad message to young people interested in business careers in Canada that they should settle for the second-rate.

The Competition Policy Review Panel shrugged the whole matter off with the facile comment, already worn out by frequent use by Harper, that whatever hollowing-out was done to us we get back by our foreign investment abroad. In fact, Canadian investment abroad has risen significantly in the decades since the foreign ownership debate began in the 1950s and '60s of the last century, but there is no automatic offset. Between the centre of an empire and its margins there is no symmetry, and none should be expected.

When a Canadian company successfully penetrates the much larger American market, there will be a tendency for head-office functions, like marketing and advertising and record keeping, to be pulled to that larger market. So it is that Thomson enterprises, which is often cited as an example of a Canadian-based company that has gone abroad successfully, has most of its head office functions in Stamford, Connecticut. *Globe and Mail* columnist Margaret Wente, whom I rarely have reason to cite, describes Thomson as "Canadian in name only." In its heyday, Nortel had its head-office in Brampton, Ontario, but its executive office was in Dallas, Texas. Its retreat back to Canada was a sign of its failure.

On the matter of foreign ownership, as well as the overall rules of Investment Canada, which can be carved in large letters on the head of a pin with space left over, there are restrictions on foreign ownership in certain designated sectors, like banking, telecommunications, transportation, culture, uranium. The ideologues at home and abroad gnaw away at these, but governments tend to know, unless hopelessly neoliberal (which Harper is at heart), that these are sectors designated in the first place because of public interest and therefore must be meddled with cautiously. Canadians distrust banks too much to let them be merged, but like them too much to let them fall into foreign hands. Telecommunications co-exists with culture and the latter is already beleaguered.

The Canadian need is not to deregulate these sectors, but to add to them — like resources in general, oil and gas in particular, and specially the tar sands. The world is in the midst of a great commodities boom that, albeit with ups and downs, may go on indefinitely. Most commodity-rich countries have state-owned enterprises, which automatically excludes being bought out by foreign companies, to assure that gains stay inside its borders. The issue is not national vs. foreign ownership, but public ownership vs. private, but in Canada, in spite of a historic tradition of public enterprise which has served us well, we are unable to come to terms even with the first.

There is something just plain bizarre about every other oil-rich country having a state-owned petroleum company while we spend our time worried about whether their state-owned companies can be counted on to develop our resources in our interest. If that isn't bad enough, there's the overriding matter of the global interest in producing energy with minimal impact on global warming. Oil-rich countries, it might be thought, have a special obligation of stewardship.

We must be frank and recognize that it is rare for a provincial government to "interfere" with the exploitation of its resources for export, or for the federal government to assert its rights and duties. The likelihood of a Harper government with its head office in Alberta coming to terms with these issues is nil. We may find ourselves in the odd position with respect to oil from the tar sands of being compelled by the Americans to clean up our act environmentally.

Once Bush is gone and, let us pray, Obama takes his place, Harper will have no one to appeal to, or imitate. President Obama will hardly be opposed to globalization, but his administration may want to "manage" the American connection more in the public interest of Americans. To so manage the Canadian connection is utterly alien to Harper.

Should McCain triumph, bet on continuing catastrophe and lament for Canada, America, and the world.