Canadian business decries wave of foreign takeovers

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1999 was a banner year for both Canada's stock markets and corporate profits. Yet the din emanating from the country's corporate boardrooms is not that of clinking champagne glasses and boisterous merrymaking. Rather what one hears are cries of anguish over the marginalization of Canada's corporate elite in the new global economy and shrill calls for a drastic intensification of the assault on the working class.

Canadian companies are falling into the hands of foreign-based competitors at an alarming rate, complained the country's most powerful business lobby group, the Business Council on National Issues (BCNI), in a recent memorandum to the federal Liberal government. “Our central message is one of urgency. Canada has very little time to act and the costs of inaction are likely to be severe within a remarkably short period of time.”

A veritable who's who of Canadian business has taken up the BCNI's refrain. Peter Lougheed, a former Tory premier of Alberta and the director of more than a dozen major companies, has characterized the recent wave of foreign acquisitions of Canadian companies a “fire sale.” According to David O'Brien, chairman of the conglomerate Canadian Pacific, “Canadian icons are falling like tenpins.... Because of the low Canadian dollar, corporate Canada is easy pickings for countries with stronger currencies.” Says Bank of Nova Scotia Chairman Peter Godsoe, “We're losing a large part of our country.” Unless public policy is redesigned to “encourage [Canada's large companies] to compete externally ... they might not be here in 10 years.”

The past year saw an unprecedented wave of US takeovers of high-profile Canadian companies, including the purchase of the British Columbia-based forest products firm Macmillan-Bloedel by Weyerhauser. In the first nine months of 1999, US-based companies spent US$24.1 billion completing 181 acquisitions of Canadian companies. This is up dramatically from the same period in 1998, when US firms acquired 138 Canadian companies for $11.9 billion.

Traditionally Canada has been among the principal recipients of US foreign investment. Recent decades have seen a parallel growth of Canadian investment in the US. In fact, for much of the 1990s the annual value of Canadian corporate acquisitions in the US significantly exceeded that of US acquisitions in Canada. The most powerful Canadian companies were compelled to quickly acquire US affiliates, so as to achieve the economies of scale needed to compete in the continental market created by the Canada-US Free Trade pact and then NAFTA.

But as the decade progressed, Canadian-based companies became increasingly vulnerable to foreign takeover. There were several reasons for this. The value of Canadian-based companies fell in lock-step with the steady depreciation of the Canadian dollar. Then in 1998 the dollar lost a further 10 percent of its value vis à vis the US dollar.

Meanwhile, the surge in US stock valuations since 1995 has made it increasingly prohibitive for Canadian companies to grow by acquiring their US rivals. US companies, by contrast, are able to use their swollen stock valuations to borrow the capital needed to finance foreign acquisitions.

Those in Canada's business and political elite who are decrying the wave of foreign takeovers are not advocating a return to the protectionist policies of the past. They fully recognize that given Canada's size and dependence on the US economy such a policy could only embroil them in an unwinnable trade war.

Rather their demand is that the federal Liberal government institute what BCNI head Thomas D'Aquino terms a “radical” new agenda aimed at boosting the value of the dollar. Specifically, they want the government to dramatically cut personal and corporate tax rates, further reduce government expenditure, facilitate corporate consolidation in banking and other key sectors, and slash regulations designed to protect consumers, workers and the environment. Such “pro-investor” (or more aptly anti-working class) polices, will, they argue, cause capital to flow into Canada, thus boosting the value of the dollar and strengthening Canada's corporate elite in the global struggle for markets and profits.