PRIVATISATION IN CANADA

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Ladies and gentlemen, I would like to review with you some Canadian perspectives on privatisation, which from my side is really finding new forms of ownership for government owned assets. Privatisation in Canada is quite different from New Zealand corporatisation policies, which as I understand it, are at best partial privatisations in the sense that they leave the government with the equity ownership and on-going influence over the operation of the commercial entity.

The Creation of Commercial Crowns in Canada

In Canada, to understand its current federal program of privatisation, it is useful to know that generally speaking Canada's Crown Corporations were not created under a program of nationalisation. Canada's privatisation is not a process of de-nationalisation. Unlike England, Crown Corporations in Canada were established as part of a nation building effort and to address specific and perceived policy issues in specific areas when it was felt that the private sector could not do the job. In some cases commercial Crowns were formed from a desire to create Canadian-controlled corporations over a specific and sensitive industry in order to attempt to achieve a degree of national control through ownership.

Petro Canada, Canada's federally owned oil company, was an example of this objective. In several other cases Crown Corporations in Canada have their origin through commercial failures in the private sector and through the acquisition of bankrupt or insolvent commercial firms in order to meet national or regional economic policies. As you know, governments can achieve their policy objectives through a number of instrumentalities other than ownership, including legislation, subsidies, taxing, not taxing, and so on. In certain areas, and particularly under the past Liberal government, there was a distinct bias to achieving state policies through ownership.

The establishment of commercial Crowns in Canada has resulted, therefore, from a pragmatic ad hoc approach to specific situations and policy initiatives by various governments.

Overall, Canada's tradition is not one of resorting systematically to public or government ownership.

This is not to leave the impression, however, that commercial Crowns have had an insignificant impact on economic life in Canada. As you know we have a federal government and ten provincial governments, as well as a municipal government structure. Based on statistics available in 1984, there were 50 federal commercial Crowns with recorded assets of approximately $47 billion Canadian and 18 provincial commercial Crowns with recorded assets of approximately $78 billion Canadian, carrying on activities of an essentially commercial nature. (There are, of course, other federal and provincial Crowns which do not engage in commercial activities). In 1984 these 68 commercially orientated Crown Corporations controlled assets recorded at $125 billion Canadian and employed over 340,000 people. By comparison, Canada's 50 largest industrial corporations owned in the private sector controlled assets of approximately $165 billion Canadian and had approximately 1.1 million employees in 1984. In total, it has been estimated that in 1984 federal and provincial Crown Corporations operated as commercial enterprises accounted for as much as 10 to 12.5 percent of Canada's gross national product. This has reflected a major expansion of their collective influence since 1975, the latter years of Pierre Trudeau's Liberal government in Ottawa.

In 1987 it was estimated that the corporate portfolio of federal commercial Crowns had increased from approximately $47 billion Canadian to $60 billion Canadian. The federal government has also indicated that at the federal level the contribution of Canada's Crown Corporations to gross national product in 1987 was about 3 percent. This, of course, does not include the contribution of the provincial Crowns to Canada's gross national product, which in 1984 was approximately double that of the federal commercial Crowns. Accordingly, one might estimate that in 1987 federal and provincial commercial Crown Corporations in Canada contributed approximately 10 percent of Canada's gross national product. In comparison, in 1979, prior to the privatisation thrust in the United Kingdom, commercial Crowns contributed approximately 10.5 percent of Britain's gross national product.

Undoubtedly, the greatest degree of federal Canadian interventionist policy in the economy was during the Liberal Government of Pierre Trudeau, which adopted the use of government ownership as a principal instrument to effect government policy. In addition to establishing Petro Canada as part of the federal government's attempt through the public sector to increase Canadian ownership in the oil and gas industry, Trudeau's government prompted the acquisition of substantial businesses in the industrial area through the Canada Development Corporation (including acquisitions of previously foreign controlled mining, oil and gas assets) and took over the failing aerospace businesses of de Havilland in 1974 and Canadair in 1976. In the early 1980s, Trudeau's government acquired the failing east coast fishery business of Fishery Products International and initiated a restructuring of the company, and would also have acquired the fishing business of National Sea Products of Halifax, Nova Scotia, had not some prominent Nova Scotian families stepped in and purchased control of the company. The stated federal government policy in making these intrusions into the market place through the instrument of ownership was to salvage activity and jobs in sectors considered of importance to national or regional economies in Canada.

The current administration of Brian Mulroney, on the other hand, has moved in several significant areas to improve market efficiency at the expense of the State. These larger market-orientated policy changes in Canada include, firstly, the dismantling of the National Energy Program, which was one of Canada's most pervasive intrusions into the private sector formulated under Trudeau and of which the formation of Petro Canada played a part. Secondly, the initiation of bilateral free trade negotiations with the United States and the subsequent treaty entered into between Canada and the United States to introduce free trade over time between the two countries will have enormous consequences for Canada, including consequences in terms of improving market efficiency. Thirdly, the Foreign Investment Review Act, a statute created by Trudeau in 1974, has been removed from federal legislation, and which was a principal barrier to capital and portfolio flows and investments into Canada, and another clog in the operation of Canada's markets, both domestically and internationally. And fourthly, the commencement in Canada of a process of deregulation of various industries including transportation, financial services and energy, as well as the ancillary improvement of domestic and foreign competition in these and other industries, has begun.

Seen in the context of the Mulroney government's broader economic policy of restoring and strengthening the market at the expense of the State, privatisation in Canada at the federal level remains, at this point in time, a relatively minor policy sub-component of a much larger economic policy set. This, of course, is in distinct contrast to the thrust of especially the second term of the Thatcher government in the United Kingdom. The Conservative government of Thatcher has presented its privatisation policies as an important element of its economic policy. The objective in the UK through privatisation has been to open up nationalised industries to competition and thereby to improve their performance and the quality of their services. The Thatcher government believes that government control over the nationalised industries was unnecessary and inefficient and should be replaced by market forces combined with regulation where necessary. The Mulroney government in Canada has no such coherent, published or expressed policy of privatisation.

The Mulroney government has, however, begun the process of privatisation, but not as an ideological crusade. Officially, privatisation is expressed at the federal level as a means of achieving public policy objectives and that these objectives can (in the historic Canadian tradition of trying to strike a balance between private ownership and state ownership) in some cases can be achieved through continued ownership of certain commercial Crowns. For instance, the Federal government has announced its intention to privatise initially up to 45 percent of Air Canada, Canada's nationally owned airline. A firm decision on the structure of the privatisation, however, has yet to be made and is subject to many factors, including market conditions. Officially the federal civil servants have stated that the issue to be decided is whether a privatised Air Canada will be in an improved position to provide all Canadians with better transportation services. Based on this kind of an analysis, there does not seem to be much of an incentive at this time for the federal Canadian government, even a Conservative one, to act quickly, and it has not yet done so.

The Process of Privatisation in Canada

The Mulroney government has, as I have mentioned, begun the process of privatisation. Elected in September 1984, the Prime Minister appointed a Ministerial Task Force on Privatisation in 1985 which was mandated to carry out a review of the government's corporate interests. By June of 1986 the structure was reinforced by the appointment of a specific Minister of State for Privatisation who also acts as the chairman of a full-fledged Cabinet Committee on Privatisation, Regulatory Affairs and Operations. A Deputy Minister was appointed and later a separate department - the Office of Privatisation and Regulatory Affairs - was established. The federal process of privatisation in Canada has been fully centralised and management is in the hands of one responsible government minister.

In January, 1987 a privatisation strategy was adopted to cover the entire review process from initial assessment through final sale. This process, as expressed by the government, has basically three stages. The first is the analysis of policy and financial considerations. At this stage, the government raises the questions whether the corporation still has a policy role as a government owned entity, whether it is commercially viable and whether privatisation is in fact feasible, and if so, how.

At the second stage, if the federal government believes that the corporation will perform better under private ownership, there is an in-depth review. At this stage, issues canvassed include national and regional policy objectives, competition policy matters, concerns of the employees of the enterprise, and the appropriate method of sale, including related issues such as foreign ownership and corporate concentration in Canada.

The third and final stage is the preparation and implementation of the sale. This stage includes the preparation of divestiture legislation and the management of the bidding process for sale by tender or for the public share offering. In this regard, Canada has a company called the Canada Development Investment Corporation, which plays an important role in the sale process. CDIC is a Crown Corporation, but it is managed by experienced private sector staff and its board of directors is composed solely of outside senior business men and women who are appointed by the government.

Canada's federal privatisation program during the initial term of the Mulroney government has been auspicious (for those who favour the benefits that flow from privatisation) but not overwhelming. By mid-1987 there had been 11 divestitures for total cash proceeds of only $1.3 billion Canadian. De Havilland, an aerospace manufacturer, was sold by a private bidding process to Boeing Aircraft of Seattle, Washington, USA. Canadair, another aeroplane manufacturer, was sold again through a tender bidding process to Bombardier of Montreal, a Canadian-controlled manufacturing company. Teleglobe, the Canadian Crown Corporation which operates Canada's international communication links, was sold again by a tender bidding process to Memotech, a small entrepreneurial company based in Montreal, which was subsequently invested in by Bell Canada.

In each of these cases, the government opened a private bidding process, received bids for the purchase of the asset, from interested third parties, selected those bids which it determined met most of its criteria and then entered into subsequent negotiation with certain of the bidders in order to come to a final resolution of the private sale.

In addition to these private sales, the government has sold Fishery Products International in an underwritten public offering made in Canada and in Europe, but not in the United States in order to avoid SEC registration requirements. The underwritten public offering of Fishery Products International reflects some of the common traits which have developed as a result of the UK offerings. Some of these include the fact that prior to the offering employees are offered special share ownership positions through employee share ownership and profit sharing programs. As was referred to earlier, there often is concern of foreign ownership of some of these sensitive industries. In this case a 15 percent limit on ownership by any one person was put in the company's articles prior to the offering to prevent the company from being taken over. Basically, the 15 percent limitation on ownership was regarded as a sufficient level to prevent the company from being taken over, but not low enough to insulate management from the threat of a takeover in the sense that a 15 percent shareholder together with other shareholders could influence management if it did not perform well. One of the problems here, of course, is that if you protect management from a takeover then the economic benefits that flow from increased competition in private ownership will not be achieved. With respect to investors, the Newfoundland investors were given a first option to acquire shares in the public offering so that they would be able to participate in an essentially indigenous and local enterprise. And as has been the case in most of the UK offerings, the initial public offering price was set at a level below what might have otherwise been the case in order to ensure that the offering was successful.

While this record is tantalising only, the federal government in Canada has reminded those who are interested that the Thatcher government itself did not move quickly in the privatisation process. Elected in 1979, it was only in 1984, the Thatcher government's second term, that privatisation moved into high gear.

Provincial Initiatives in Privatisation

I would just like to take a moment to comment on privatisation at the provincial levels in Canada because it would be misleading to leave you with the impression that privatisation in Canada is alive only at the federal level. As noted earlier, provincial Crown Corporations are in the aggregate engaged in commercial activities to a greater degree than the federal commercial Crowns. Indeed, the best examples of successful large privatisations in Canada have been at the provincial level.

One cannot discuss privatisations in Canada or, in a historical perspective, internationally, without reviewing the 1979 privatisation in British Columbia of the British Columbia Resources Investment Corporation or BRIC. In 1975 the Social Credit government in British Columbia inherited a portfolio of nationalised businesses from the socialist government which had preceded it and which the new government thought should be in the private sector. The BC government created BRIC and transferred various nationalised businesses to it forming, in effect, a mutual fund. It then offered this-government owned mutual fund company to the public of British Columbia only. It gifted, or gave away, five shares of BRIC to all residents of British Columbia who had resided in the province for at least one year. Eighty-six percent of eligible BC residents took up their free shares. In addition, there was a concurrent public offering of BRIC shares at $6 dollars Canadian per share. The results were astounding. Approximately 170,000 BC residents bought shares - and I emphasise bought - at an average size order of approximately $2,500 Canadian. The total value of the new issue to BC residents was $488 million in 1979 Canadian dollars. At that time it was the third largest common share offering in North American history, surpassed only by the Ford Motor Company and TWA sales and was twice the previous record in Canada for a common stock issue. An equivalent result on a Canadian national scale would have involved over $5 billion Canadian in 1979 funds.

The privatisation lesson of BRIC in 1979 was not lost on the newly elected Thatcher government. British government representatives visited BC in early 1980 and 1981 to study the BRIC experiment. Subsequent conversations with Sir John Moore, a senior Minister in the Thatcher government responsible for the early UK privatisations, revealed that the lesson learned from the BRIC offering was that the extent of public shareholder interest in purchasing assets was much higher than was commonly thought. This was also clearly established and reinforced in subsequent large privatisation public offerings in the United Kingdom.

There have been subsequent successful privatisations in Canada but none to equal the BRIC transaction. Perhaps the Mulroney government is waiting for a second term to launch the privatisations not only of Air Canada but also of Petro Canada and Canadian National Railways. We will have to wait and see. Thank you.