

FINANCIAL POST

Compete report ignores small firms

'Half The Equation'

Jamie Sturgeon, Financial Post

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The pace of globalization is quickening, according to the widely anticipated Compete to Win report released by the federal government last week. The report says if Canada is to remain competitive, the national business investment rules must broaden.

A strange irony then, that the scope of the report is so narrow, according to the Canadian Federation of Independent Business (CFIB), the country's largest trade association for small-and medium-sized companies.

"Half of the competitiveness equation is missing," says Garth Whyte, CFIB's executive vice-president. "And even some of the recommendations would undermine it."

In total, the 134-page report, which calls for broad liberalization of foreign investment restrictions in key sectors such as air transport, mining, telecom and not least financial services, chiefly addresses the place small-and mid-size companies hold in the panel's vision in just less than two pages, Mr. Whyte says.

"These seven paragraphs highlight the lens they're looking through," Mr. Whyte says. "This is seen through a big business, stock market lens. And it's the non-stock market entrepreneurial sector that's made Canada a competitive nation."

The report was released by the Competition Policy Review Panel after a year-long look at ways to improve Canadian competitiveness. In total, 65 recommendations were made on how to reverse more than two decades of sluggish productivity that have seen Canada slide toward the bottom of the G8.

"We support competitiveness. Our message is that the most competitive portion of the economy has been small-and medium-sized enterprises," Mr. Whyte says.

The CFIB, which represents more than 105,000 business owners across the country, took issue with two of the recommendations in particular.

The first is that merger restrictions be lifted on domestic banks, which would stamp out competitive financing options, Mr. Whyte says. "If one bank is the only game in town, you can't get financing or they tighten down on financing."

Some argue, though, that the landscape would not change all that much even with a merger among any of the big banks.

"To me, Canadian banks work as a pack, anyway," says Brad Cherniak, a partner at Sapient Capital, which specializes in securing financing for private businesses.

"Typically, their offerings are very similar. Making them stronger, I don't see how that would hurt the [lending] environment. The key for me is allowing more foreign competition. Canada should open the capital gates as much as possible."

But that is an unlikely scenario, since the report maintains the long-standing "widely held" shareholder rule, which buffers banks from takeovers, foreign or otherwise. The result, some say, will lead to a consolidated domestic market, with less financing choices.

"Where there's less bank competition, it's a tougher scenario for small business," Mr. Whyte says. "My question is, would RIM have gotten a bank loan if there were fewer banks?" Waterloo, Ont.-based Research In Motion was a member of CFIB before it went public in early 1998.

The report's suggestion local governments should be empowered with the right to levy a 1% value-added tax on businesses is another thorny issue.

"The goal is right," Mr. Whyte says. "We have to help municipalities have more revenue to help with infrastructure, but this is saying to give them more tax powers."

The rule, if made law, would add another layer of taxes not to mention compliance headaches --impeding productivity --for local businesses, he says.

"This risk of letting another wolf into the henhouse is not a good thing," Mr. Cherniak adds.

Yet, the report's focus on linking Canada's largest sectors to a world economy where large business go where they will is an imperative, Mr. Whyte says. "The whole premise is, if we're not competitive, these guys are going to move. They're right, we have to be more competitive to ensure we have a strong large company base," he says.

However, he is quick to point out: "The other side of it is to ensure we allow people to grow their own businesses, because you never know where the next RIM is going to come from."