



the gandalf group

# C-Suite Survey On Foreign Ownership and the Canadian Economy

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## Methodology

- ❑ Survey conducted in August and September, 2006
- ❑ Final data based on 150 interviews with CEOs and CFOs from Canada's Top 1000 Corporations
- ❑ Margin of error for whole sample is +/- 7.72%

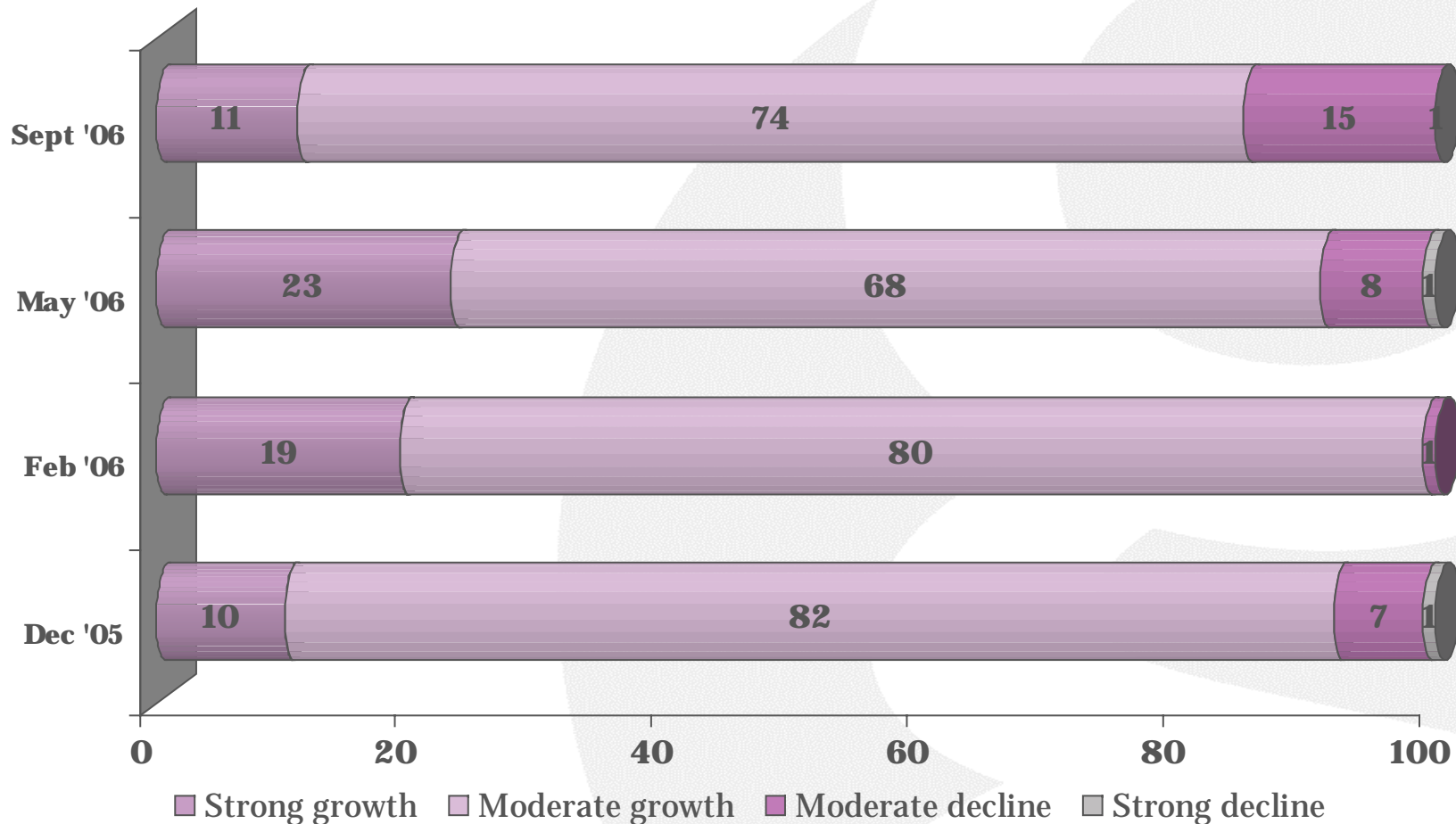


- ❑ A cloud of concern is starting to cover the optimism of last quarter
- ❑ The percentage of C Suite Executives who are expecting a decline in the Canadian economy has doubled from last quarter (still only 15%) and the percentage expecting strong growth has been halved
  - Negative expectations for the Canadian economy are concentrated in the Ontario manufacturing sector
  - Virtually all executives surveyed remain optimistic about their own firms prospects
- ❑ At the same time, concern about the US economy is rising dramatically – two thirds of Canadian executives expect a decline in the US economy this year
  - A moderate, not severe, downturn is expected



# Expectations: Canadian Economy

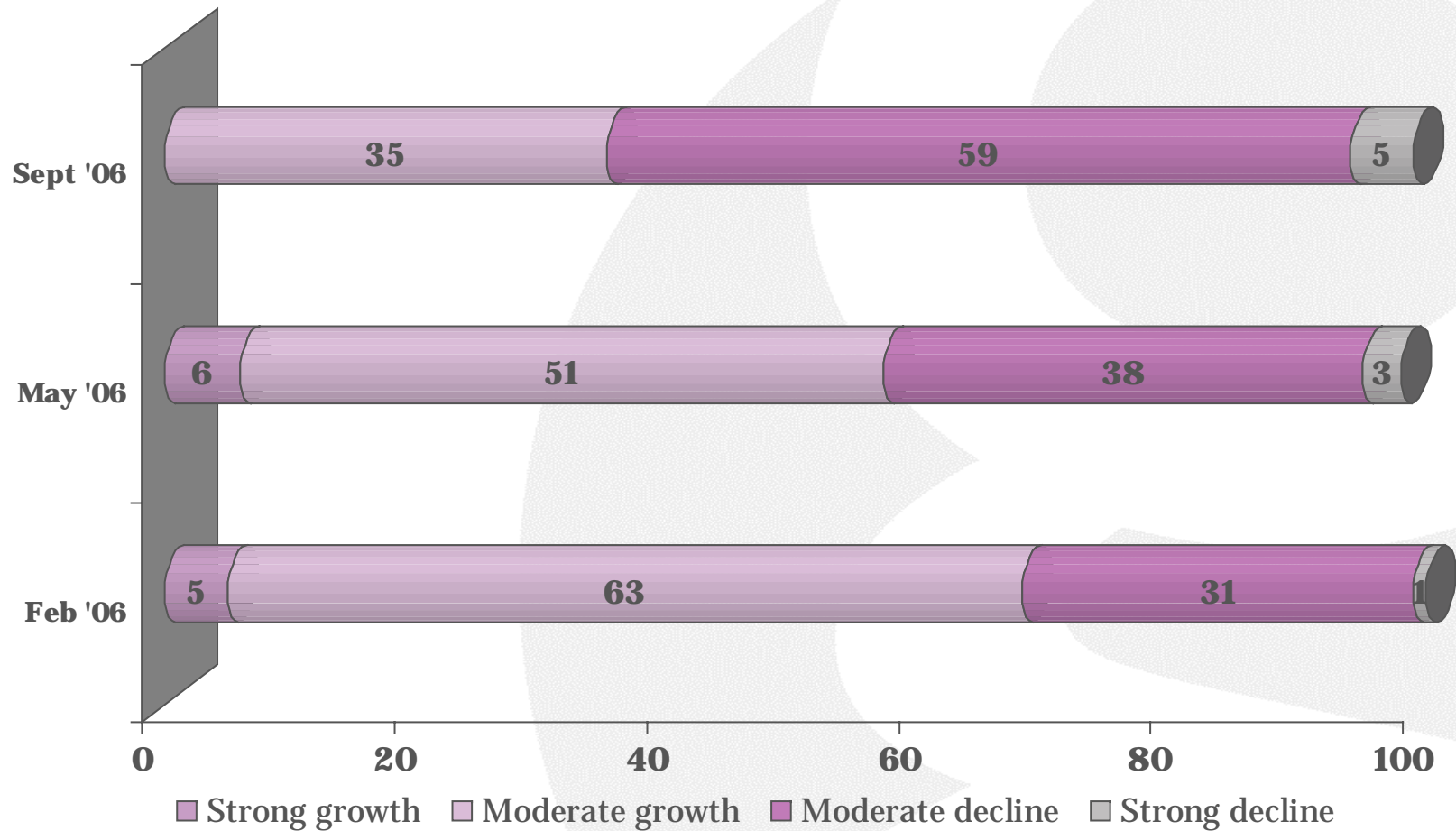
What are your expectations for the Canadian economy over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?





# Expectations: U.S. Economy

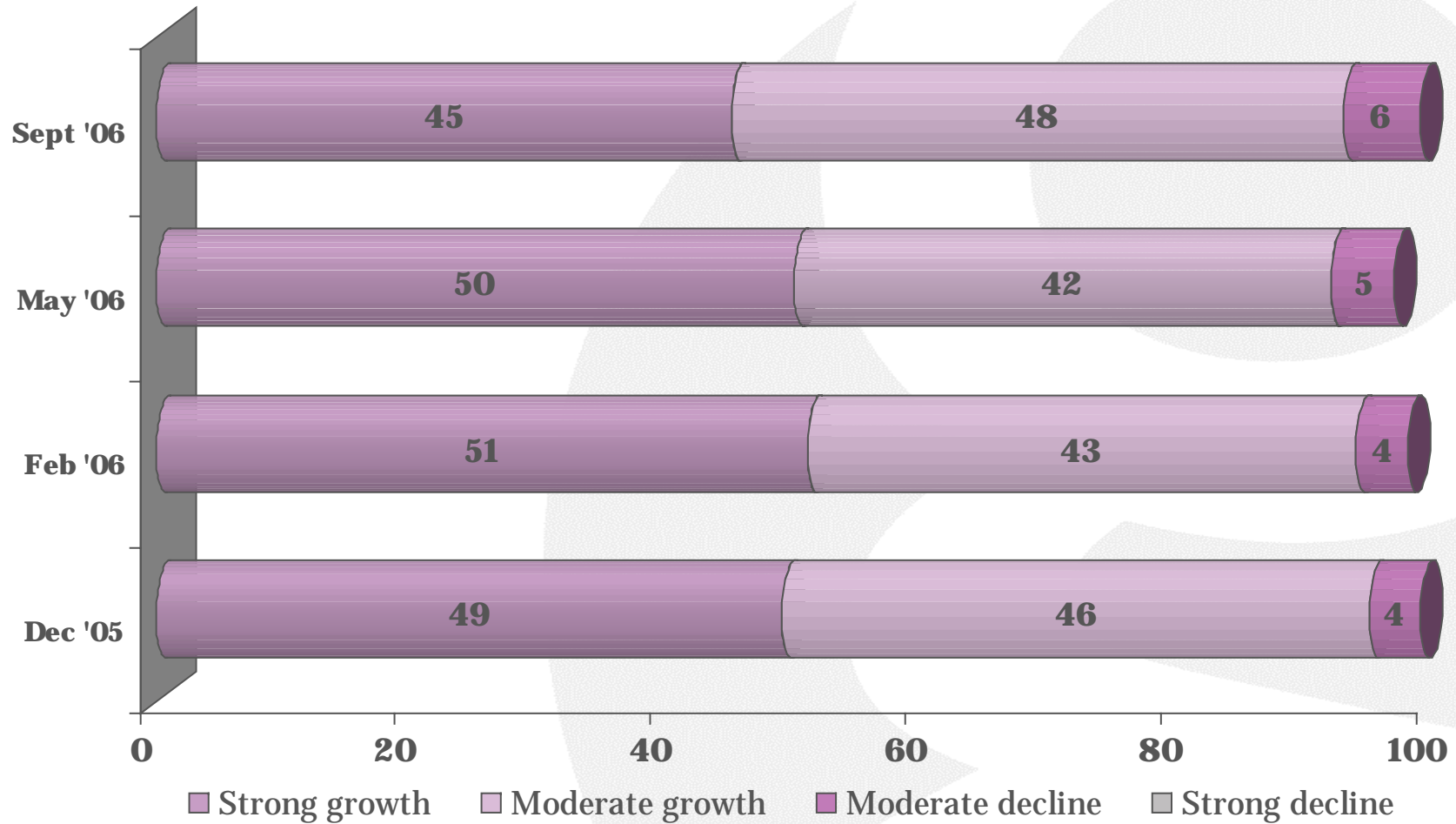
What are your expectations for the U.S. over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?





# Expectations: Company

What are your expectations for your company over the next 12 months, strong growth, moderate growth, moderate decline, strong decline?



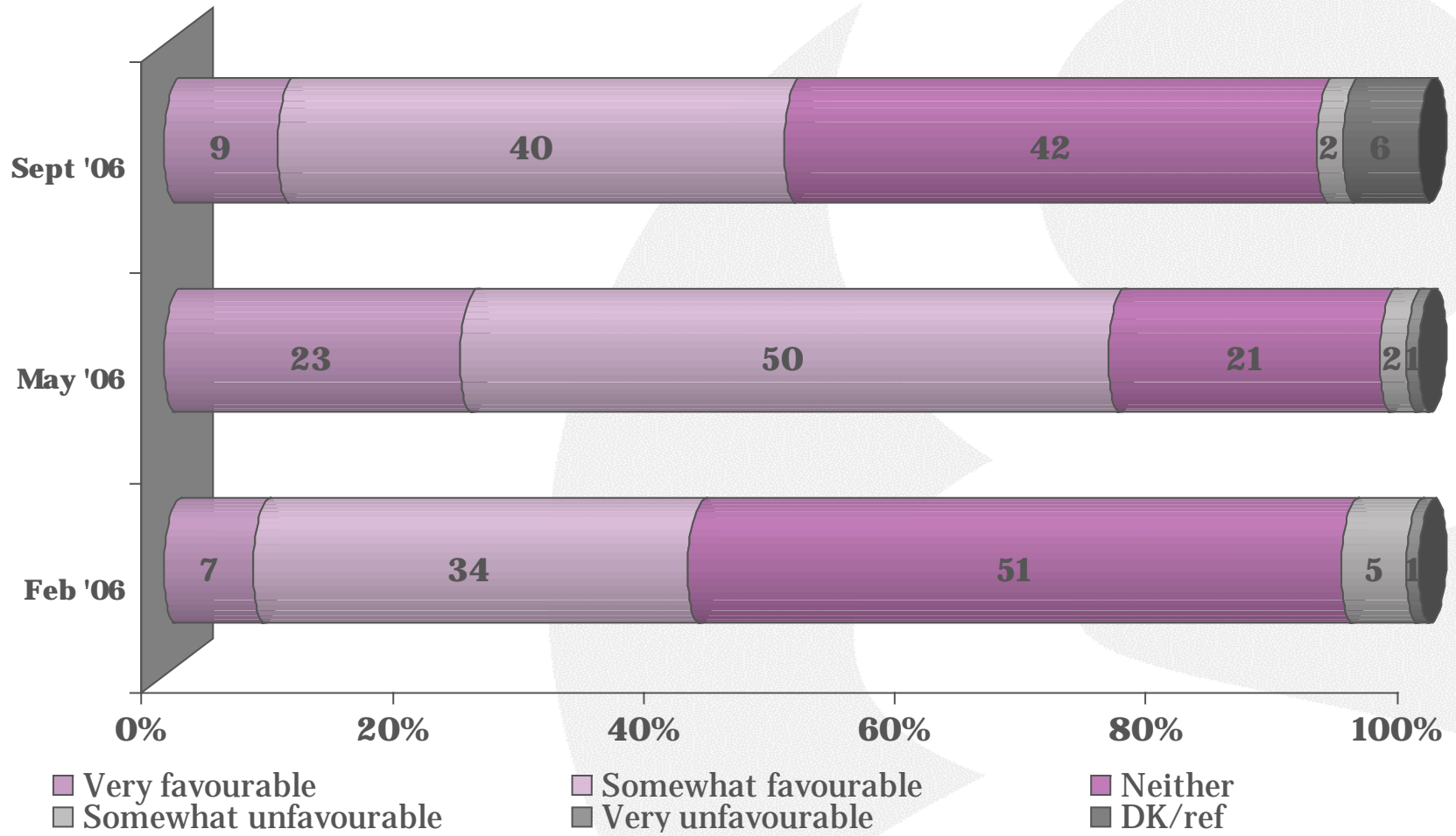


- ❑ Finance Minister Jim Flaherty continues to enjoy a strong approval rating from C Suite Executives
- ❑ As the federal Budget receded from memory over the summer months, those with no opinion of the Minister rose, but few executives have a negative impression of him
- ❑ Only ¼ lack confidence in his management of the economy



# Impression of Jim Flaherty

How favourable or unfavourable is your impression of Jim Flaherty in his role as Minister of Finance?

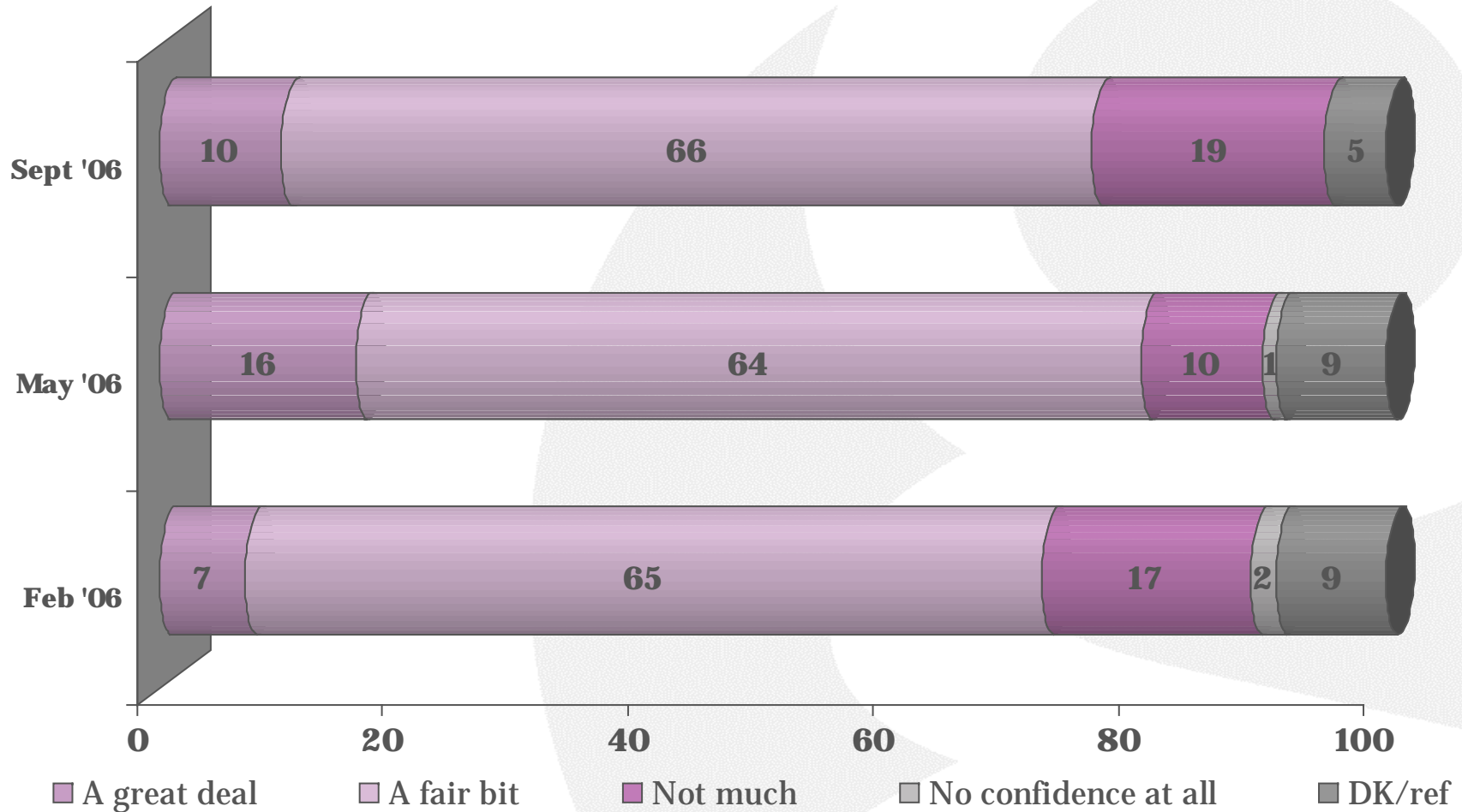






# Confidence Jim Flaherty

How much confidence do you have in Finance Minister Flaherty's management of the economy?





- ❑ Executives were asked to rate the extent to which a number of different issues were problems for the Canadian economy
- ❑ Considered most problematic overall was the lack of skilled workers
  - It is also the biggest problem facing the largest number of Canadian companies
  - This problem is heavily concentrated in the west, and in the resource sector. It is not nearly as serious an issue in the central Canadian manufacturing sector
- ❑ The second most serious problem facing the economy, according to these executives, is the performance of the US economy – not surprising given that 2/3 of Canadian C Suite executives think the US is going into recession
- ❑ The cost of energy emerges as a significant problem
- ❑ A continuing concern for many executives in the manufacturing sector is the level of the Canadian dollar
- ❑ The level of corporate taxes is NOT seen to be a significant problem for the economy
- ❑ Most C Suite executives do not see foreign takeovers being a significant problem for the economy
  - Only 13% see it as a major problem



# Problematic for Economy

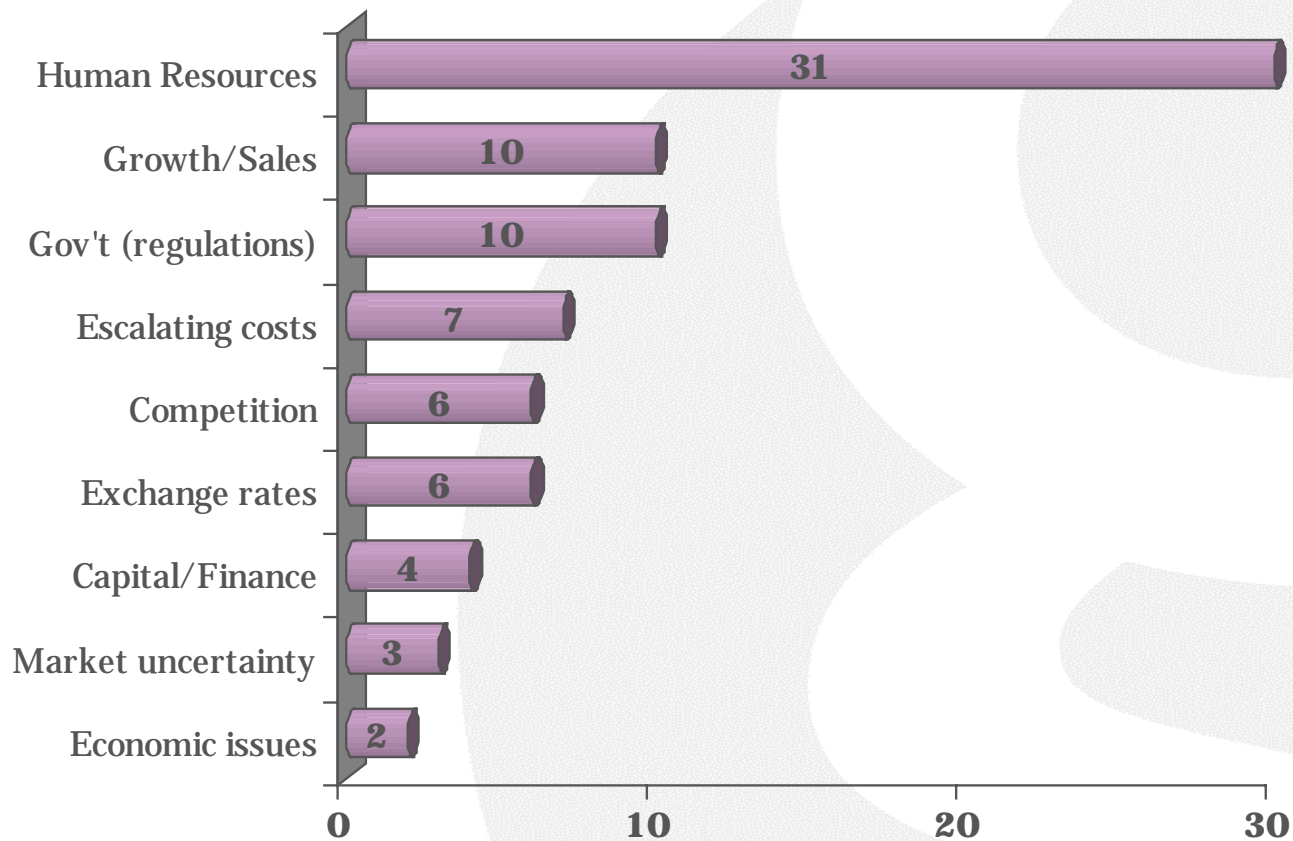
Thinking of the Canadian economy overall, how much of a problem do you think each of the following issues is – would you say it is a major problem for the economy, a moderate problem for the economy, a slight problem for the economy, or not at all problematic for the economy?





# Challenges facing Company

What is the biggest challenge facing your company right now? (open end)





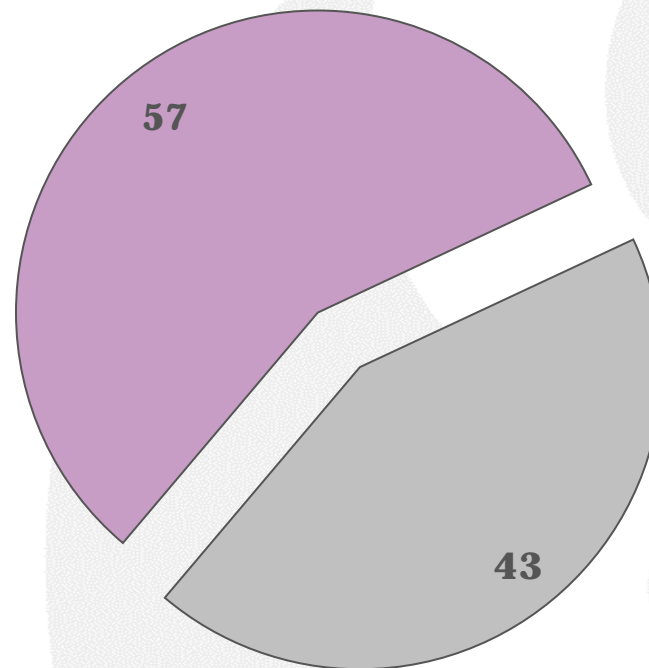
## Baseline Attitudes Regarding Foreign Ownership

- ❑ A major purpose of this study was to examine executive attitudes regarding foreign ownership and foreign takeovers in Canada
- ❑ We have already seen that few executives think that it is a major problem
- ❑ Given a choice between a policy that says that “Canada is best served by being completely open to investment and ownership” on the one hand and on the other a policy that says “there are some industries that are of such strategic importance that it is important to retain some level of Canadian ownership”, a majority of executives agree with the former, comfortable with no restrictions on foreign ownership
  - There is a regional difference that is not related to sector or industry and likely has more to do with ideology – executives in Quebec and Atlantic Canada tend to think there should be some restrictions, executives in western Canada are decidedly against any restrictions, and Ontarians are somewhere between the two
- ❑ In fact, a large majority of executives think that restrictions on foreign ownership is an outdated economic idea and has no place in a modern economy
- ❑ The overwhelming majority do not think that the government or regulator should have done anything to steer Inco and Falconbridge toward a Canadian owned solution
- ❑ Executives are evenly divided as to whether Canadian Boards are too cautious, resulting in foreign takeovers
  - Manufacturing executives tend to agree, those from the service and resource sector tend to disagree



## Foreign Investment or Canadian Ownership

Some people say that the Canadian economy is best served by being completely open to foreign investment and ownership. Other people say that there are some industries that are of such strategic importance that it is important to retain some level of Canadian ownership. Which of these views is closer to your own?

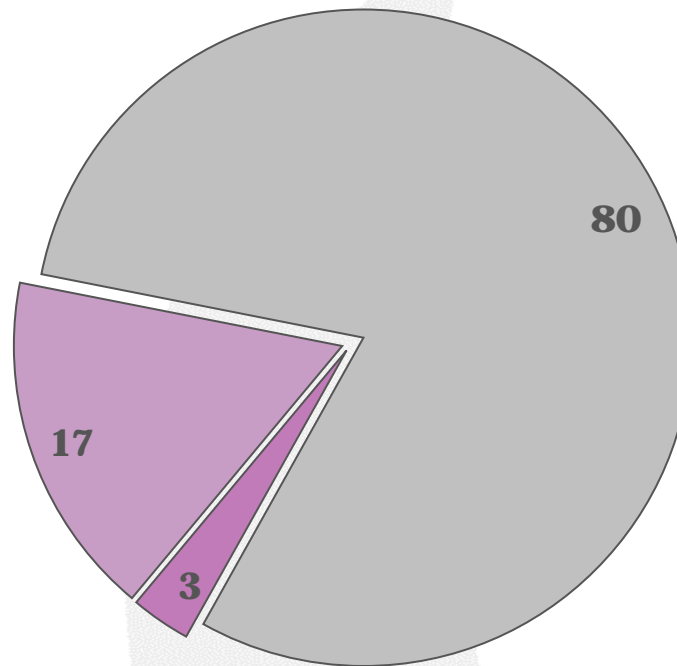


- Economy best served by being open to foreign investment and ownership
- Important to retain some level of Canadian ownership



## Government Action in Inco/Falconbridge Issue

Thinking about the events involving Inco and Falconbridge over the past year, do you think the government regulators should have steered the result toward a merger between Falconbridge and Inco or do you think the government should have been entirely neutral and let market forces decide?

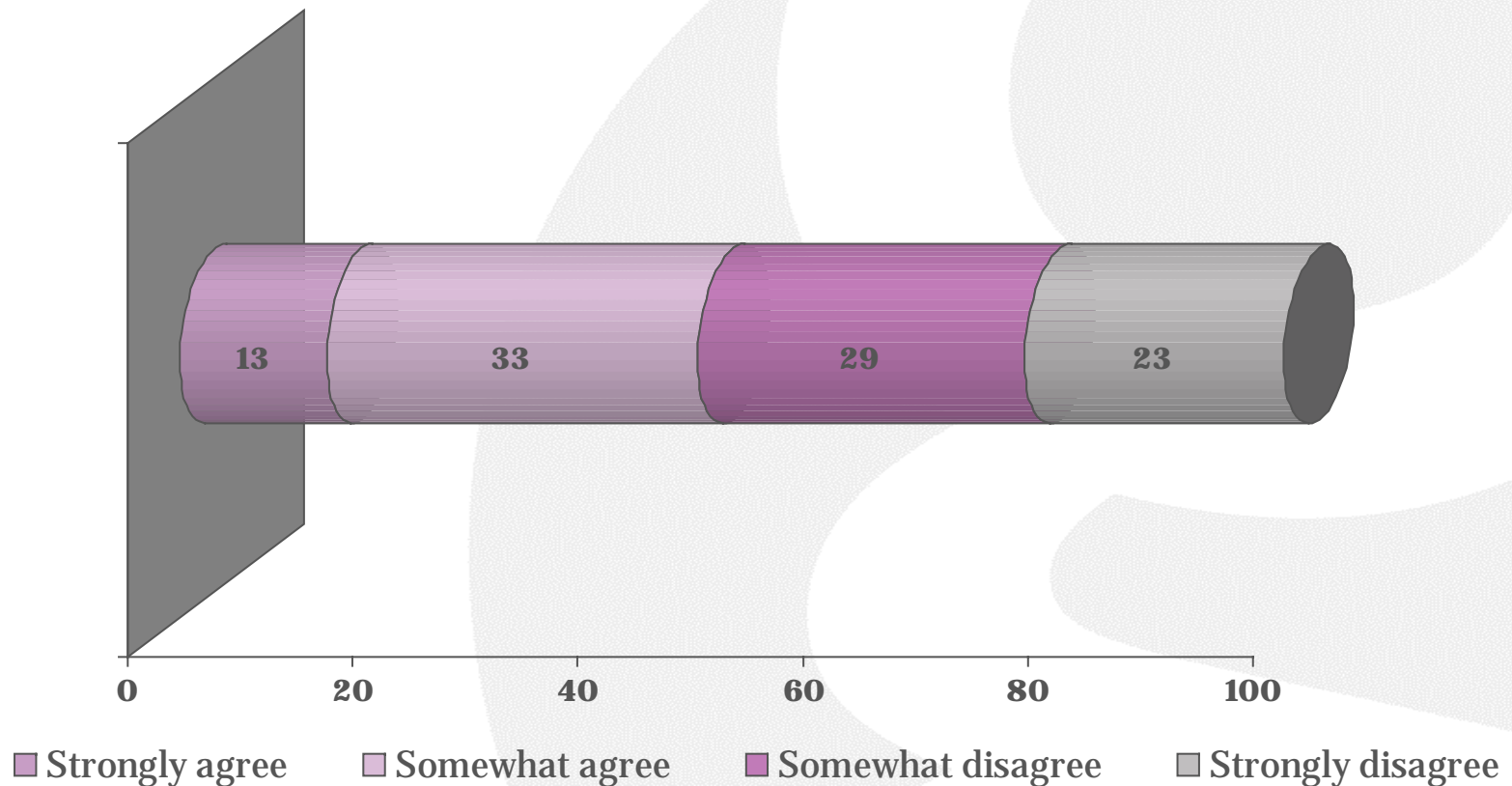


- Steered towards a merger
- Been neutral and let market forces decide
- DK/ref



## Boards of Directors Too Cautious and Conservative?

In the aftermath of the collapse of the Inco/Falconbridge merger, some people have suggested that the boards of directors for Canadian corporations are too cautious and conservative in their decisions, leading to takeovers like we are now seeing with Falconbridge and Inco. Do you strongly agree, somewhat agree, somewhat disagree or strongly disagree with that point of view?







## The Strategic Importance Of Different Sectors Of The Economy

- ❑ When asked to rate the strategic importance of various sectors to the Canadian economy, a clear hierarchy of responses emerged
- ❑ Considered by far of greatest strategic importance (with around 70% of respondents saying they are of high strategic importance to Canada) are those industries that relate to energy production – oil and gas, the oil sands, and power and energy
- ❑ Of secondary strategic importance are (with around 35-40% of respondents saying they are of high strategic importance to Canada) are health care services, banking and financial services, and mining
- ❑ It is notable that natural resource industries are still considered to be those of greatest strategic importance
- ❑ The third level of the hierarchy (with around 25-30% of respondents saying they are of high strategic importance to Canada) is composed of transportation, agriculture and agrifood, forestry and telecommunications
- ❑ The lowest tier of the hierarchy (with around 15% or fewer of respondents saying they are of high strategic importance to Canada) consists of Aerospace, media, broadcasting, and retail



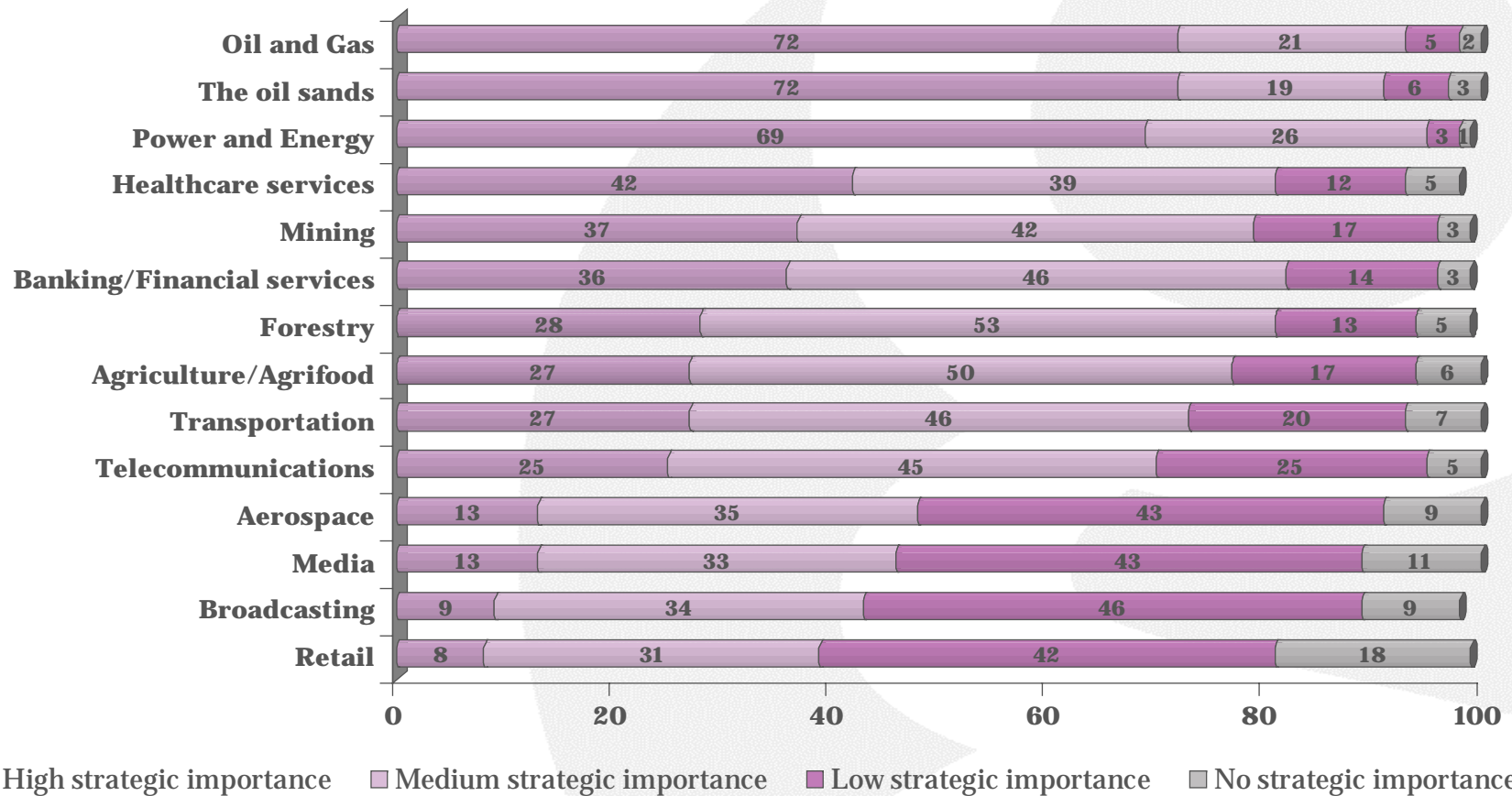
## The Strategic Importance Of Different Sectors Of The Economy

- ❑ Western resource executives are least likely to describe the oil and gas sector as being of high strategic importance to the economy – perhaps those who remember the NEP are leery of the implications of being strategically important
- ❑ Mining is considered particularly important by Ontario manufacturing executives
- ❑ Western executives see much less strategic value in the broadcasting sector than do executives in the other parts of Canada
- ❑ Executives in Quebec are three times as likely as those in western Canada to describe the aerospace sector as being of high strategic value
- ❑ The manufacturing sector is most inclined to see power and energy as being of high strategic importance



# Strategic Importance to Economy

Are each of the following Canadian industries of high strategic importance to the Canadian economy, medium strategic importance, low strategic importance or of no strategic importance to the Canadian economy?





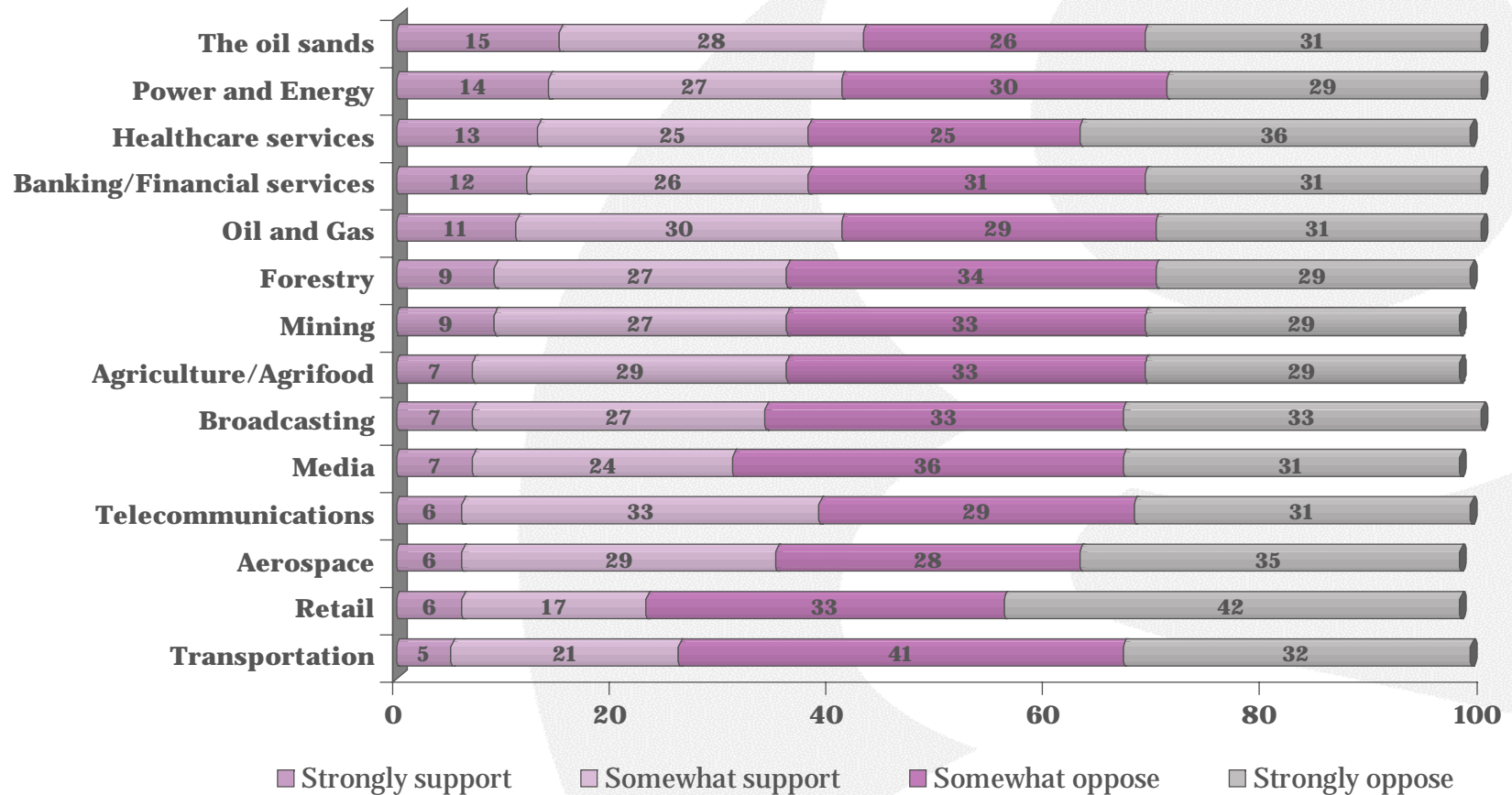
## Restricting Foreign Ownership In Key Sectors

- ❑ Executives were presented with the same list of sectors and asked whether they would support or oppose foreign ownership restrictions in them
- ❑ There was no sector in which a majority of executives would support restrictions on foreign ownership
- ❑ There is a major regional divide over the treatment of the oil and gas sector. Executives Ontario and east tend to favour some foreign ownership restrictions, while western executives are vehemently against that idea
- ❑ Ontario executives narrowly support restrictions on foreign ownership in banking and financial services. Executives elsewhere disagree.
- ❑ A significant majority of C Suite executives in every part of Canada oppose restrictions on foreign ownership in the media



# Foreign Ownership of Industries

Do you strongly support, somewhat support, somewhat oppose or strongly oppose restrictions on foreign ownership in the following industries?



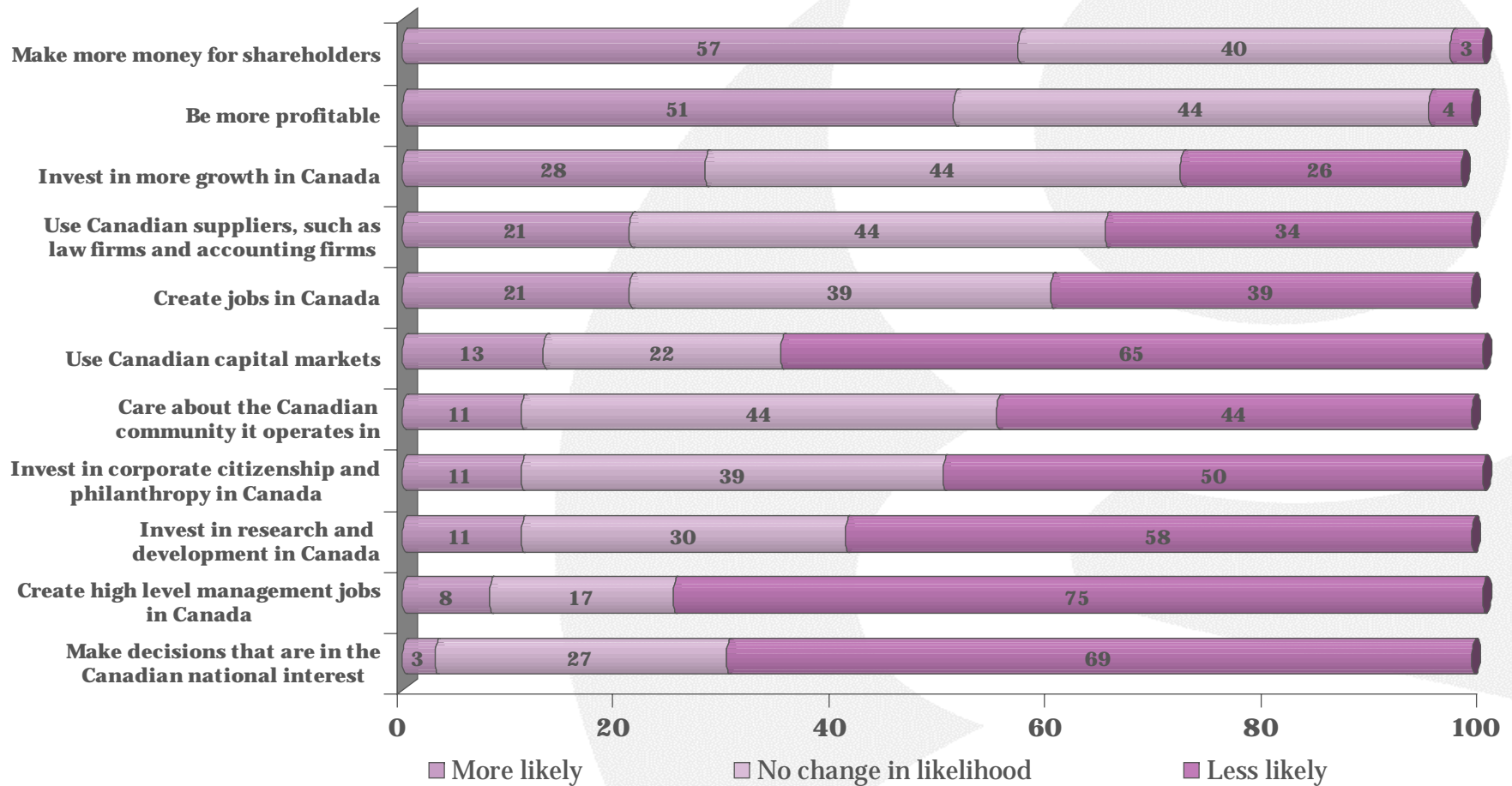


- ❑ C Suite executives have very clear ideas on what changes when a Canadian company is subject to foreign takeover
- ❑ Most think that the company will change in the following ways
- ❑ LESS LIKELY TO
  - Create high level management jobs in Canada
  - Use Canadian capital markets
  - Make decisions that are in the Canadian national interest
  - Invest in research and development in Canada
  - Invest in corporate citizenship and philanthropy in Canada
- ❑ MORE LIKELY TO
  - Be more profitable
  - Offer greater returns to shareholders



# Changes Due to Foreign Ownership

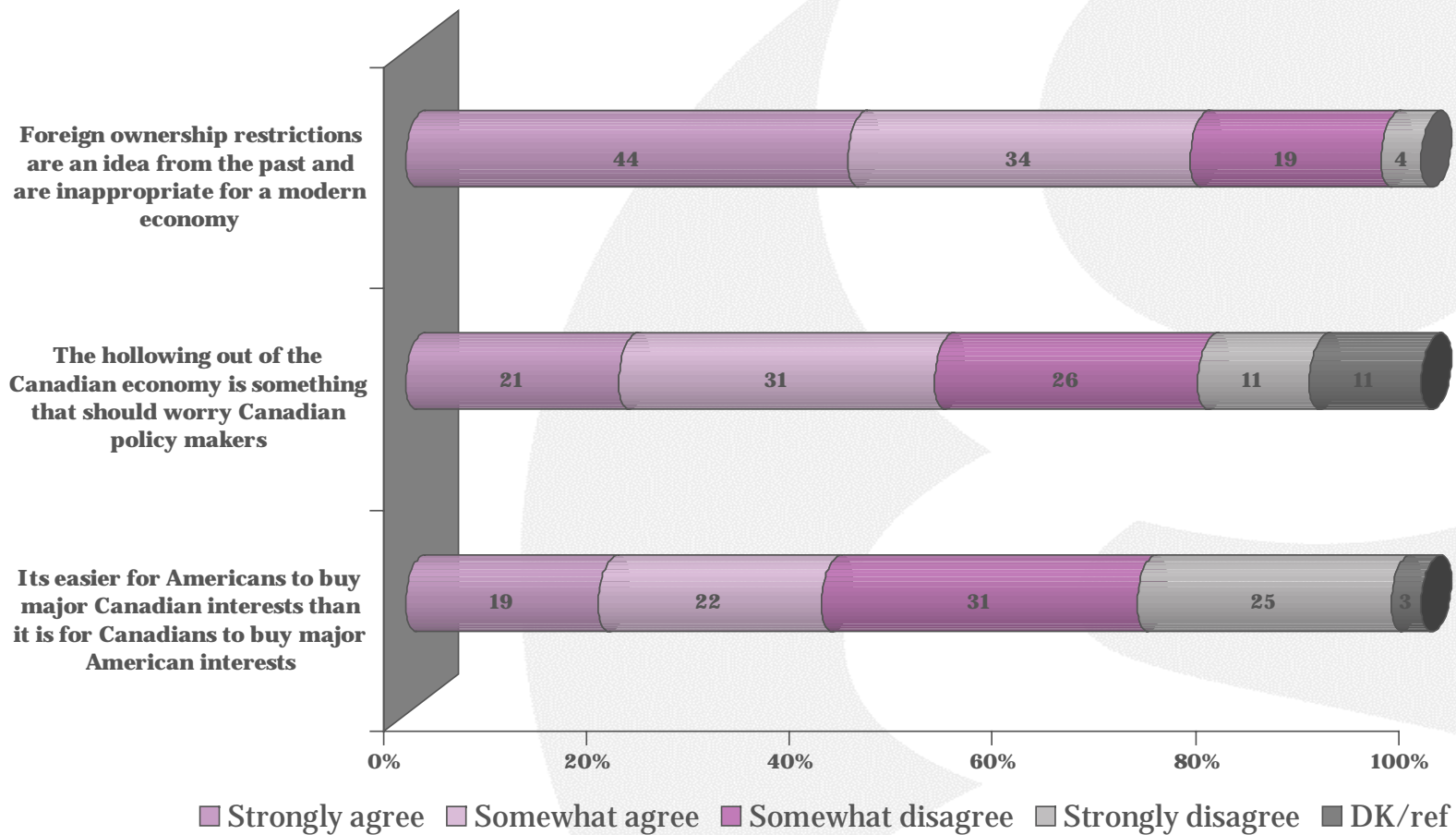
When a major Canadian company is taken over by a foreign company, do you think that company becomes more likely, less likely or there is no change in its likelihood to \_\_\_\_\_ ?





## Agree/Disagree: Foreign Ownership

Do you strongly agree, somewhat agree, somewhat disagree or strongly disagree with each of the following statements:







- ❑ Quebec executives are evenly divided, but overall executives are opposed to Canada beginning to withdraw from Afghanistan
- ❑ Ontario and western executives support, in large numbers, the Canadian government's controversial support of Israel in the recent conflict with Hezbollah. Quebec executives strongly oppose the Government's position.
- ❑ Very few executives, in any region or sector, think that the collapse of the WTO negotiations will have any impact on their business
- ❑ Executives are evenly divided about whether interest rates will continue to rise
- ❑ The business community is operating on the assumption the Conservatives will govern for at least the next four years, whether there is an election or not



Do you strongly agree, somewhat agree, somewhat disagree or strongly disagree with each of the following statements:

