

***Foreign Acquisitions of Canadian Corporations:  
Protect Energy and Natural Resources, Little Else***

**BDO Dunwoody Weekly CEO/Business Leader Poll  
by COMPAS in the *Financial Post*  
for Publication August 21, 2006**



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## **1.0 Introduction**

CEOs and business leaders see many disadvantages arising from the loss of Canadian-owned corporations but generally favour free markets, even freer than today, because of a belief that free markets are essential for economic growth. In broadcasting, financial institutions, food, and airlines, they want looser restrictions on foreign ownership. But they want tighter restrictions in natural resources, especially in hydro and oil and gas.

These are the principal findings from the weekly business web-survey conducted by COMPAS for the *Financial Post* under sponsorship of BDO Dunwoody LLP.

## **2.0 Tighten Ownership Restrictions on Energy, Loosen Restrictions in a Swath of other Sectors**

Strong pluralities favour tighter ownership restrictions in natural resources generally and especially in oil and gas as well as in hydro, as shown in table 2. They see these sectors as sensitive and vital for security considerations. CEOs and business leaders on the COMPAS panel are also favourable to tighter controls on ownership of land.

By contrast, panelists are inclined to looser ownership controls in many other sectors—financial institutions, broadcasting, food, airline companies, and other sectors.

Panelists single out energy and natural resources for protection for two reasons. One reason is related to the headlines—energy security in a time of global turbulence. Another reason is to protect Canada’s ability to take resources and deliver profitable, value-added products and services. As the CEO of a Western manufacturing company put it, “Canada could fall victim to that of sub-contractor...it's adding value to natural resources that will make and keep Canada strong and prosperous. Selling off our natural resources to other



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nations will do nothing but make Canada a weaker nation. Adding value creates jobs!”

*Table 2: (Q1) Restrictions on Foreign Ownership Should Be...<sup>1</sup>  
(By Sector)*

	Tightened	Unchanged	Loosened	DNK
<b>Oil and gas</b>				
August 2006	48	32	17	3
<b>Hydro</b>				
August 2006	43	33	22	3
<b>Natural resources in general</b>				
August 2006	43	40	13	4
December 2005	53	35	9	3
<b>Farmland</b>				
August 2006	43	38	16	3
December 2005	39	39	18	5
December 2004	32	45	21	3

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<sup>1</sup> August 2006 question wording, “(Q1) As you know, there’s been a lot of talk about Canadian companies being bought up by foreign enterprises. In each of the following sectors, please indicate if restrictions on foreign ownership should be loosened, tightened, or left unchanged. [ROTATE] CHECK ONE FOR EACH.

December 2005 question wording read, “(Q1) As you may know, there have been several hostile takeover bids involving foreign investment in Canadian companies over the last year including bids for Hudson’s Bay Company, Dofasco Inc., and Vincor International Inc. A prominent corporate leader in the resources sector warned against foreign ownership of mining companies this week. In each of the following sectors, please indicate if restrictions on foreign ownership should be loosened, tightened, or left unchanged. “[ROTATE, CHECK ONE FOR EACH]

Question wording in December 2004 read, “There’s been some talk in the media about foreign companies and governments purchasing or expressing interest in purchasing some Canadian companies. In each of the following sectors, please indicate if restrictions on foreign ownership should be loosened, tightened, or left unchanged.”

Question wording in October 2002 read, “As you may know, there are legal restrictions against foreign ownership in many sectors. In each of the following sectors, please indicate if restrictions should be loosened, tightened, or left unchanged.”



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	Tightened	Unchanged	Loosened	DNK
October 2002	30	27	29	14
<b>Mining</b>				
August 2006	35	42	19	3
December 2005	45	39	13	3
<b>Newspapers</b>				
August 2006	24	43	32	2
December 2005	19	52	25	4
December 2004	17	47	35	1
October 2002	18	38	35	10
<b>Radio</b>				
August 2006	21	42	34	3
December 2005	16	48	34	3
December 2004	10	49	40	1
October 2002	13	36	42	10
<b>Television</b>				
August 2006	21	32	45	3
December 2005	15	50	33	3
December 2004	11	47	41	1
October 2002	15	36	43	6
<b>Print media</b>				
August 2006	20	46	32	2
<b>Steel</b>				
August 2006	19	50	28	3
December 2005	27	47	22	4
<b>Banks and financial institutions</b>				
August 2006	15	34	50	2
December 2005	21	39	38	2
December 2004	13	37	50	1
October 2002	15	31	48	6
<b>Food company</b>				
August 2006	13	49	33	6
<b>Information technology and software</b>				
August 2006	13	48	35	4



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	Tightened	Unchanged	Loosened	DNK
<b>Airlines</b>				
August 2006	12	29	56	3
December 2005	12	26	61	2
December 2004	3	24	72	1
October 2002	10	15	68	6

### 3.0. Reasons Pro and Con Ownership Protection

Panelists favour open markets and few ownership rules, except in energy. The main reasons to protect ownership are, in their view, to retain profits from strong companies before they go global and to keep career opportunities at home, as shown in table 3A. The main reasons not to protect ownership are that governments rarely micro-manage economies well, and such rules risk hurting productivity, as shown in table 3B.

*Table 3A: (Q2) Please use a 7-point scale where 7 means very valid and 1, the opposite, to score the validity of each of the following reasons for being concerned about foreign takeovers of Canadian firms. [ROTATE]*

	Mean	7	6	5	4	3	2	1	DNK
<b>Losing strong companies before they reach global scale</b>									
August 2006	4.9	17	19	26	18	9	5	3	3
December 2005	4.8	19	23	22	12	11	7	7	1
December 2004	4.6	14	21	20	22	8	12	5	0
October 2002	4.8	24	20	17	12	13	7	6	3
May 2002	5.0	13	27	28	11	8	5	3	5
<b>Losing the career opportunities that accompany the presence of head offices</b>									
August 2006	4.7	15	19	26	20	7	8	5	2
December 2005	5.1	19	30	25	11	9	1	6	0
December 2004	4.8	17	26	20	11	14	8	3	1
October 2002	4.7	23	15	19	13	16	7	6	2



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	Mean	7	6	5	4	3	2	1	DNK
TMay 2002	5.2	21	30	22	7	5	6	4	6
<b>Losing executive talent that departs with the head office</b>									
August 2006	4.5	16	15	18	22	10	9	8	2
December 2005	4.9	16	30	21	12	9	3	7	1
December 2004	4.5	16	18	20	17	14	11	5	1
October 2002	4.6	20	17	19	13	13	8	8	2
May 2002	5.2	19	30	21	8	8	5	3	6
<b>Weakening the legal, financial, and other professional services that are regularly used by head offices</b>									
August 2006	4.3	10	16	19	22	13	12	6	2
December 2005	4.8	14	25	24	16	7	5	7	2
December 2004	4.2	10	14	21	18	16	12	8	2
October 2002	4.3	13	15	19	18	14	10	9	3
May 2002	4.8	12	26	21	15	10	7	5	6
<b>Weakening Canada's sovereignty as an independent political system</b>									
August 2006	4.1	10	21	18	9	8	17	15	2
December 2005	4.5	19	20	18	14	7	5	17	0
December 2004	4.1	17	17	12	14	12	15	14	0
October 2002	3.9	19	9	13	12	13	17	15	3
<b>Weakening the cultural and charitable organizations that depend on head office support</b>									
August 2006	4.1	5	17	21	23	12	10	9	3
December 2005	4.6	17	21	21	12	10	10	9	1
December 2004	4.2	9	16	18	20	18	10	7	2
October 2002	4.1	17	13	14	13	12	13	14	4
May 2002	4.4	7	24	19	15	13	12	5	6
<b>Weakening Canada's attractiveness to business</b>									
August 2006	3.7	5	12	17	14	21	18	11	2
December 2005	3.6	4	14	15	19	18	13	16	1
December 2004	3.8	14	7	16	15	18	16	13	1
October 2002	3.7	12	10	14	11	16	15	19	4
May 2002	4.1	7	18	16	17	18	11	7	6



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*Table 3B: (Q3) Please rate the validity of each of the following reasons for a lack of concern about foreign takeovers where 7 means the reason is very valid and 1, the opposite. [ROTATE]*

	Mean	7	6	5	4	3	2	1	DNK
<b>It's good for the economy when Canadian entrepreneurs profit from their successes and plough back their profits in ever more dynamic new enterprises</b>									
August 2006	5.3	25	26	24	10	8	4	2	2
December 2005	5.3	22	32	18	12	7	3	4	3
December 2004	5.4	30	26	19	12	5	5	1	1
May 2002	5.1	19	27	21	13	6	7	2	5
<b>Government interference in free markets rarely works well so we should not pay too much attention to the issue of foreign takeovers</b>									
August 2006	4.6	16	23	20	14	10	10	7	1
December 2005	4.4	16	20	15	15	12	13	7	3
December 2004	4.6	17	18	20	15	16	7	5	1
May 2002	4.1	11	13	16	18	13	11	12	7
<b>Takeovers give Canadian executives more global career opportunities</b>									
August 2006	4.4	13	16	21	25	5	12	7	1
December 2005	4.5	12	22	20	17	10	10	7	3
December 2004	4.4	18	12	22	18	11	10	9	1
May 2002	4.1	6	18	16	20	13	13	8	6
<b>The companies that are truly crucial to Canada's economy are already protected from takeover by laws and regulations</b>									
August 2006	4.2	9	12	25	19	10	6	11	8
December 2005	4.0	7	13	20	17	16	11	11	7
December 2004	4.2	10	13	17	24	14	7	7	9
May 2002	3.5	3	8	13	20	16	15	12	12

## 4.0. Keep Corporations Canadian by Slashing Taxes

The main ways to protect ownership of Canadian companies without risky ownership rules are to cut taxes, as shown in table 4. Keeping tax rates low is a



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powerful incentive for companies not to sell to foreigners. Canadian governments should slash rates not just to protect Canadian ownership but also to forestall the risk of losing tax revenue when companies are acquired by foreign interests. As one CEO put it, "It is [vital] to ensure that Canadian based corporations pay taxes as they would have if owned by Canadians. Moving profits to tax friendly locations would undermine the obligations those corporations have towards Canadian tax legislation." Careful auditing by CCRA would help prevent leaking of tax revenue. But the single most effective way would be "to ensure Canada does have a competitive tax structure."

*Table 4: (Q4) Those who are concerned about the rate of foreign takeovers have made various recommendations. Whatever you think of the takeover issue, please indicate whether you support or oppose the following options, using a 7 point scale where 7 means support a lot and 1, oppose a lot. [ROTATE]*

	Mean	7	6	5	4	3	2	1	DNK
<b>Accelerate the reduction in income taxes</b>									
August 2006	6.0	41	30	15	8	4	1	0	2
December 2005	5.5	35	22	21	7	8	3	3	1
December 2004	6.0	45	30	10	7	5	1	1	1
May 2002	5.6	37	22	13	13	2	3	3	6
<b>Reduce capital gains taxes</b>									
August 2006	5.8	43	25	15	7	4	2	2	2
December 2005	5.8	39	25	21	7	3	2	2	1
December 2004	6.0	43	29	14	10	2	0	1	1
May 2002	5.6	35	22	15	9	7	3	2	7
<b>Accelerate the reduction in corporate income taxes</b>									
August 2006	5.8	42	25	18	7	4	4	0	1
December 2005	5.9	53	14	15	12	1	2	3	2
December 2004	5.7	36	28	14	12	5	2	2	1
May 2002	5.5	29	24	17	13	5	2	3	7
<b>Make it more difficult by law and regulation to sell companies to non-Canadians</b>									
August 2006	3.4	7	8	15	18	15	14	21	2
December 2005	3.6	10	7	16	18	14	12	21	1



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	Mean	7	6	5	4	3	2	1	DNK
December 2004	3.6	9	10	18	14	16	20	15	0
May 2002	3.2	6	7	10	20	9	20	23	6

### **3.0 Methodology**

The COMPAS web-survey of CEOs and leaders of small, medium, and large corporations and among executives of a few local and national business/sector associations was conducted August 16 – 18, 2006. Respondents constitute an essentially hand-picked panel with a higher numerical representation of small and medium-sized firms.

Because of the small population of CEOs and business leaders from which the sample was drawn, the study can be considered more accurate than comparably sized general public studies. In studies of the general public, surveys of 119 are deemed accurate to within approximately 9.0 percentage points 19 times out of 20. The principal and co-investigator on this study are Conrad Winn, Ph.D and Tamara Gottlieb.

