

## Response to Questions from the Standing Senate Committee on Banking, Commerce and the Economy

### Senator Loffreda

Does Statistics Canada keep any data on competition? Although competition is very difficult to define, do we have any data on competition?

Not only that, do we have data on the mergers and acquisitions that have been permitted over the past years? We can probably look at that and improve policy going forward with respect to competition. Is there any role you can play or any data you can furnish in the future for us to be more concerned and insightful with respect to what is going on and informed with respect to competition in improving that for Canada?

Statistics Canada does not, as part of its economic statistics program, regularly release data on industrial concentration that could be used to monitor changes in the intensity of competition.

The agency does collect and publish data on competition within the context of special business surveys. For example, the *Survey of Innovation and Business Strategy* asks respondents about key changes in their competitive environment which can be used to examine differences in their strategic stance and innovation activities.

The Competition Bureau recently released a report that highlighted declines in competitive intensity in Canada over the past two decades. Statistics Canada has undertaken new research that examines how lower competition may be impacting Canada's productivity performance. It finds that weaker competition may be hindering productivity growth—basically through lower investment and innovation.

Statistics Canada also released a report in late 2023 that took a detailed look at the Canada/US productivity gap. It found that lower competition in information and cultural industries (which include telecommunications) has contributed to the gap. Less competition allows dominant firms to gain market power, set higher prices without the threat of being undercut by competitors, which leads to higher prices for consumers and businesses.

Selected information sources:

[The Daily — What contributed to the slowdown of investment in Canada after the mid-2000s? \(statcan.gc.ca\)](#)

[Competition Bureau report finds Canada's competitive intensity in decline - Canada.ca](#)

[The post-2001 productivity growth divergence between Canada and the United States: The role of the information and cultural services industry \(statcan.gc.ca\)](#)

## **Mergers and acquisitions**

Statistics Canada releases data on cross-border mergers and acquisitions transactions as a component of the direct investment statistics published in the Balance of International Payments. Aggregate data on the value of cross-border direct investment transactions—both Canadian Direct Investment Abroad (outward investment) and Foreign Direct Investment in Canada (inward investment)—are published on a quarterly basis and classify investment transactions into three groups: reinvested earnings, mergers and acquisitions, and other flows. Aggregate investment flows are also broken down for selected countries and industries.

Annual estimates of the stock of Foreign Direct Investment in Canada and Canadian Direct Investment Abroad are also released.

As a general trend, the value of Canadian acquisitions of foreign firms has consistently exceeded that of foreign acquisitions of Canadian firms since 2012. Canada is a net Foreign Direct Investment (FDI) lender nation, meaning that the stock of Canadian Direct Investment Abroad (CDIA) is higher than that the stock of Foreign Direct Investment in Canada (FDIC). The difference between the stock of CDIA and FDIC has been widening in recent years, notably due to mergers and acquisitions activity.

Selected information sources:

[Balance of international payments, flows of Canadian direct investment abroad and foreign direct investment in Canada, quarterly \(statcan.gc.ca\)](#)

[Balance of international payments, flows of Canadian direct investment abroad and foreign direct investment in Canada, by North American Industry Classification System \(NAICS\), quarterly \(statcan.gc.ca\)](#)

[The Daily — Foreign direct investment, 2022 \(statcan.gc.ca\)](#)

The agency's economic statistics program also publishes annual data on multinational activity, which differentiates between foreign-controlled and Canadian-controlled multinational enterprises. These data provide estimates of the share of different types of economic activity accounted for by multinationals, including gross domestic product, investment, jobs, research and development, merchandise exports and imports, and receipts and payments for cross-border technology flows.

Additional notes:

- Foreign-controlled multinationals operating in Canada account for over 60% of all Canadian merchandise trade.
- Foreign and Canadian multinational enterprises operating in Canada employ almost 5 million people, account for nearly two-thirds of all capital investment in the corporate sector and three-quarters of research and development spending, with aggregate spending by foreign-controlled firms exceeding that of Canadian multinationals.

Selected information sources:

[The Daily — Activities of multinational enterprises in Canada and abroad, 2021 \(actual\) and 2022 \(preliminary\) \(statcan.gc.ca\)](#)

**Senator Ringuette**

Why is it that Canadian businesses are investing less than their counterparts in the US in capital and human capital? Can you provide an interpretation of these facts and data? Can you send us those impediments?

**Statistics Canada research on the investment gap**

Real business investment levels in Canada have not fully recovered from the oil price shock in the mid-2010s when capital expenditures on energy pulled back sharply. Current business outlays on non-residential structures and machinery and equipment, measured on a volume basis, are still 18% below peak levels reported in 2014. Over time, the amount of investment per worker has declined in Canada, weighing on labour productivity.

New research at Statistics Canada has examined sources of the weakness in capital investment using firm-level data. It finds that Canada's investment slowdown is partly explained by declining competition and a shift toward intangibles that are not yet captured in the investment estimates. Investment per worker fell by 20% from 2006 to 2021, and the decline in investment per worker was more significant in large and medium-sized firms, as well as in foreign-controlled firms.

Canada's weakness in capital investment after 2006 also coincided with a change in the mix of investment toward intangible assets, and this shift toward intangibles was more pronounced among large and foreign-controlled firms.

Research at the agency has highlighted another factor that may be hampering investment in Canada: the steady increase in business regulation. Our productivity program, working with Transport Canada and KPMG, recently measured the slow rise of the regulatory burden on firms. It shows that requirements rose by 40% over the last 15 years, which had a negative impact on output and productivity growth.

Additional notes:

- Statistics Canada does not collect economy-wide information on the impediments to investment that could be used to support international comparisons.
- Data on investment in advanced technology are available from the Survey of Advanced Technology, but it would be difficult to make cross-border comparisons due to the lack of comparable data in other countries.
- Statistics Canada does measure research and development spending (a component of total investment) across the Canadian economy, covering expenditures by businesses, the higher education sector, governments, and the non-profit sector. On an economy-wide basis, Canada's research and development (R&D) intensity (R&D spending/GDP) in 2021 was 1.86% compared to the OECD average of 2.72% and 3.46% in the United States. Focusing on business sector activity, Canada's R&D intensity (R&D spending/business revenue) was 2.5% compared to 4.6% for the USA in 2021. Statistics Canada can further disaggregate business R&D intensity by industry (NAICS) for Canada and compare it to spending in the United States and provide R&D data by size of business, and by whether the business is Canadian controlled or foreign controlled.
- Statistics Canada does collect data on obstacles to innovating (introducing new processes into business operations or bringing new products to market) and spending on specified advanced technologies. The following data are from the Survey of Innovation and Business Strategy, for reference year 2019.

Enterprises (%) reporting obstacles to innovation	2019
	Percent
At least one obstacle to innovation	50.5
Lack of skills, obstacle to innovation	29.7
Uncertainty and risk, obstacle to innovation	29.3
Market size, obstacle to innovation	19.0
Internal financing, obstacle to innovation	15.6
External financing, obstacle to innovation	12.2
Regulatory or government competition policy, obstacle to innovation	11.5
Finding and reaching agreements with external collaborators, obstacle to innovation	7.2
Other obstacles to innovation	6.3
Intellectual property protection, obstacle to innovation	4.0

- The following data from the Survey of Advanced Technology (2022) enumerates obstacles to adopting advanced technologies. Advanced technologies include AI, robotics, geomatics, biotechnology, clean tech, and advanced manufacturing, processing, and fabrication technologies. Businesses in Canada invested \$6 billion dollars in advanced technologies between 2020 and 2022.

Obstacles to adopting advanced technologies reported by enterprises that have adopted at least one advanced technology and those that have not adopted an advanced technology		
	Adopters	Non-adopters
	%	%
Difficulty in recruiting qualified staff	51.5	36.7
Determining how new technologies will positively impact the business	39.8	29.5
Difficulty in integrating new advanced technologies with existing systems, standards and processes	39.7	34.7
Lack of employee training	39.5	30.0
Low return on investment or long payback period	39.4	40.6
Challenges in identifying appropriate technologies	36.8	30.3

Ensuring security and privacy of data	35.3	22.0
Employees' resistance to change	33.3	26.8
Difficulty in accessing financial support	30.2	32.8
Disruption of production for the integration of new technologies	27.8	27.2
Regulatory constraints or uncertainties	25.9	18.4
Difficulty in accessing non-financial support	24.5	28.0
Decisions made elsewhere in the organization and not in the enterprise itself	21.8	15.5
Customer resistance	18.6	20.2