



***THE DRIVE FOR A MORE  
COMPETITIVE CANADA***

***ACHIEVEMENTS IN 2007 AND  
PRIORITIES FOR 2008***

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***REPORT TO THE NEW YEAR MEMBERS' MEETING  
BY THOMAS D'AQUINO  
CHIEF EXECUTIVE AND PRESIDENT  
CANADIAN COUNCIL OF CHIEF EXECUTIVES***

***JANUARY 10, 2008  
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The year 2007 was one of extraordinary activity for the *Canadian Council of Chief Executives* (CCCE). It was a year that saw both energy prices and the Canadian dollar march relentlessly higher while global capital markets lurched from spring's tsunami of takeovers to autumn's waves of worry over the collapse of the subprime mortgage market. In this context, our continuing drive to improve the competitiveness of the Canadian economy focused on three major topics: mergers, acquisitions and the potential "hollowing out" of Canadian head offices; the environment and climate change; and economic and security cooperation within North America. These priorities led to additional initiatives in areas such as tax policy and innovation at home, and to bilateral activities with key trade and investment partners around the world.

I would like to take this opportunity to summarize what we have achieved in each of these areas over the past year and what I see as the resulting priorities for our Council in 2008.

***ENVIRONMENT AND CLIMATE CHANGE***

Let me begin with the environment, which prompted our most daring and challenging initiative of 2007 and which remains our most daunting public policy issue moving forward. In March, we launched our *Environmental Leadership Initiative* to enhance the credibility and influence of Canadian business collectively on the



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issue of climate change. More than 30 members of the Council volunteered to join the *Task Force on Environmental Leadership* that was established to spearhead our work, with Suncor Energy CEO Rick George and Alcan CEO Dick Evans (now Rio Tinto Alcan) joining me as co-chairs.

The Task Force met for the first time in New York in early May and again later that month in Ottawa over dinner with key federal Cabinet ministers. Members then proceeded to hammer out a remarkable consensus across energy-producing and energy-consuming sectors, leading to a detailed *Policy Declaration* that we released publicly at the time of our Autumn Members' Meeting in Montreal in October. This Declaration won considerable and highly positive media attention and also broad political support, including an unexpected public endorsement by the Green Party of Canada.

The Task Force met again via conference call in early December to discuss next steps. We have agreed that our most important priority is the establishment of a coherent, Canada-wide approach to climate change policy, a goal that will require us to engage both federal and provincial governments in the months ahead. We will dig deeper into benefits and pitfalls of major policy instruments such as environmental taxation and emissions trading, and aim to develop a better understanding of how to stimulate greater investment in leading-edge technologies across the broadest



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possible range of energy options. Internationally, we will continue to support Canada's efforts to develop a global framework that defines actions by all major emitting countries, and to work with our private sector counterparts in other continents. A top priority will be to deepen cooperation with our business counterparts in the United States, most notably with the United States Climate Action Partnership.

*MERGERS, ACQUISITIONS AND "HOLLOWING OUT"*

Early 2007 saw an acceleration of the scale and pace of mergers and acquisitions worldwide with record deal volumes in the range of US\$4.5 trillion. This global trend included more foreign takeovers of major Canadian enterprises, which in turn triggered renewed concern about the potential "hollowing out" of Canadian head offices. This was the central topic of our board meeting and policy roundtable in New York in May. We also explored member views in some detail through a survey.

Responses to the survey showed mixed feelings about the degree of risk to Canada and about the idea of erecting new defensive barriers. There was, however, broad support for additional scrutiny of major takeovers by foreign state-owned entities and of transactions that could affect national security. The clearest consensus was that *the best defence is a strong offence*: that our focus as a Council should be on making Canada a better place from



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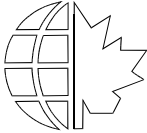
which to run an international business and therefore on helping Canadian communities compete for head-office jobs no matter where a company is owned.

The federal government expressed strong interest in our work on this issue and paid close attention to our findings in the lead-up to the autumn announcement by Industry Minister Jim Prentice of new guidelines for the review of acquisitions by state-owned entities. We also shared our findings at an early stage with the *Competition Policy Review Panel*, whose members are with us this morning, and with other organizations doing research in this area including the Conference Board of Canada and SECOR Consulting Ltd.

***TAX POLICY***

One of the central conclusions of the hollowing out survey was the critical importance of tax policy in competing both for investment and for head-office jobs. The spring 2007 federal budget offered some modest improvements on the corporate tax front, but also included an unexpected *International Tax Fairness Initiative* that reversed longstanding policy on the deductibility of interest on money borrowed in Canada for investment abroad.

We expressed immediate concern to Finance Minister Jim Flaherty and engaged in an urgent consultation with members to



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determine the scale of the problem. Our findings, which suggested a tax impact far greater than predicted by the Finance Department, led to the appointment of a Technical Roundtable of tax experts in June that had some impact in mitigating the effects. While the provisions of the legislation introduced in the autumn remain a serious concern, the Finance Minister also appointed in late autumn an *Advisory Panel on Canada's System of International Taxation*, chaired by former Council member Peter Godsoe, that we hope will yield a more comprehensive and positive approach to tax competitiveness in the year ahead.

In the meantime, there was more good news in the Finance Minister's October *Economic Statement*, which included further significant cuts to the corporate income tax rate by 2012. These cuts will lead to a federal rate of just 15 percent and make Canada's average combined federal-provincial tax rate 12 percentage points lower than the current equivalent in the United States. We expressed strong approval of this move as a bold reduction of the federal rate had been a centerpiece of CCCE advocacy for a number of years. The federal government also is encouraging provincial governments to cut their corporate income and capital taxes and to convert remaining provincial sales taxes to a value-added base.

To encourage further corporate tax reductions at both the federal and provincial levels, the Council launched a joint project with



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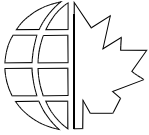
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*PricewaterhouseCoopers* to build a comprehensive picture of all the taxes that large companies are paying directly or collecting on behalf of all levels of government. The *Total Tax Contribution* methodology was pioneered in the United Kingdom and Australia and is now being applied in Canada and other countries. A significant number of CCCE member companies stepped up to the plate as part of the initial sample, and their responses are now being analyzed. A preliminary report is included in your kits and a final report should be ready for public release in February. There is still time for additional companies to be included in the initial study, and I would encourage you to consider participation if you have not already done so. The more robust the sample, the more credible the findings will be with federal and provincial governments.

***RESEARCH AND INNOVATION***

Another critical aspect of Canadian competitiveness is research and innovation. Here too the Council took a collaborative approach to digging deeper into critical questions of public policy, and launched a joint study with *Industry Canada* on private-sector investment in research and innovation. Again, we turned initially to a member survey that asked for your views on what encourages and limits investments in innovation by your enterprises. We also probed views on Canada's strengths and weaknesses when it comes to deciding whether to carry out



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research in this country or elsewhere. Some initial observations are included in the discussion paper that was circulated last week to provide a framework for our session later this morning with the *Competition Policy Review Panel*. Industry Canada will publish its analysis of the data early in 2008, and we will consider jointly what further research is warranted in this area.

A second area of joint activity related to innovation has been the treatment of intellectual property. Last year saw detailed reports from two Parliamentary committees with rare and welcome all-party support on measures to strengthen the protection of intellectual property rights and to combat counterfeiting and piracy. The Council has been working as part of a broad business coalition to encourage vigorous and early action on these recommendations.

*NORTH AMERICAN INTEGRATION*

Canada's competitiveness globally depends in great measure on how effectively our economy meshes with those of our North American neighbours. Managing relations with the United States and Mexico has been a perennial priority of our Council, one that gained much urgency after the terrorist attacks of September 11, 2001, and the resulting focus on security by the United States. We at the CCCE launched our own *North American Security and Prosperity Initiative* in 2003 which served as a catalyst for the





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establishment by the Prime Minister and the Presidents of the United States and Mexico of the *Security and Prosperity Partnership of North America* in 2005. In 2006, the CCCE was appointed as the Secretariat to the newly formed *North American Competitiveness Council* (NACC), an advisory body made up of business leaders from all three countries. This body, which reports directly to Prime Minister Harper and Presidents Bush and Calderón, has proven to be a very effective way for us to work both with our private-sector counterparts and with governments in all three countries. The Canadian CEOs who Prime Minister Harper appointed to the NACC are all members of the CCCE and the Canadian co-chair is Linamar CEO Linda Hasenfratz.

At this time last year, the NACC had forged a consensus on a detailed report to security and prosperity ministers. Its report, which included 51 recommendations in the areas of border management, regulatory cooperation and energy security, was presented to senior ministers from all three countries at a meeting in Ottawa in February. This led to further work with governments in all three countries and a Report to Leaders at the 2007 *North American Summit* in Montebello in August. The NACC is now in its second year and preparing for the next ministerial meeting, which is scheduled to take place in Mexico at the end of February.



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The dominant concern in the business community in all three countries is the relentless spread of new measures by the United States that add to delays and costs for both goods and people entering that country from Canada and Mexico. In its Report to Leaders, the NACC highlighted two such issues: new agricultural fees and inspections and the collapse of negotiations for the pilot project on land preclearance. This project would have reduced congestion on the Peace Bridge at the Buffalo-Fort Erie crossing by setting up a plaza on Canadian soil for clearing traffic heading for the United States. Since the Montebello summit, there has been a series of well-publicized incidents in which even fire trucks and ambulances have been held up at the border, and the business community across North America is worried that protectionist sentiments driven by a slowing United States economy and the presidential election cycle could lead to further difficulties. Both the Council and its members serving on the NACC will continue to focus on border management in the lead-up to the next *North American Summit* which will be hosted this year by the United States.

***INTERNATIONAL TRADE AND INVESTMENT***

Multilateral progress on trade and investment liberalization through the *World Trade Organization* all but ground to a halt during 2007. Our work therefore focused on key regional and bilateral relationships. Our activities included:



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- **India.** We took a *CEO Mission to India* in March that included high-level discussions with both government and our private-sector counterparts. An initial roundtable discussion in India led to a second gathering at the *Conférence de Montréal* in June and to an agreement to conduct a joint study on deeper Canada-India cooperation with the Confederation of Indian Industry. This work is now underway.
- **European Union.** We worked with our counterparts at *BusinessEurope* to issue a joint letter to the Canadian and EU leaders in advance of their bilateral summit in Berlin in June. It urged closer economic cooperation on a wide number of fronts. The leaders accepted much of this advice and launched a joint study on ways to strengthen the economic relationship. I am serving as a member of the steering committee for the study, which is now underway. We plan further bilateral activities during 2008, either through a mission to Europe or during the planned October visit to Canada by the President of France, Nicolas Sarkozy.
- **China.** We remain concerned by the tone of the relationship between the Canadian and Chinese governments, a point reinforced publicly throughout the year. As I put it when speaking to the *Canadian Chamber of Commerce in Hong Kong* in December: "There is room for improvement and a need to



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maintain the policy of friendship, mutual respect, and constructive engagement that has been the hallmark of Sino-Canadian cooperation for decades.” Building on our *CEO Mission to China* in 2005 and bilateral initiatives over the past 24 months, we will continue to reinforce our relationship with both government and business in China during 2008.

- **Asia-Pacific Economic Cooperation (APEC).** I attended the 2007 *APEC Business Summit* in Australia in September at the invitation of Prime Minister Howard. This was the tenth such business summit the origin of which was the first *APEC CEO Summit* hosted by our Council in Vancouver in 1997. As I said in my address to the *Canadian Australian Chamber of Commerce* in Sydney, the profound shift in economic and political power towards the Pacific and Asia must reshape both public policy and business strategies in Canada. In addition to participating in the APEC event, I joined Prime Minister Harper’s official visit to Australia and discussed bilateral priorities such as climate change, and trade and investment with business and government officials.
- **Other bilateral activities.** The Council participated actively in consultations on bilateral trade negotiations, notably those involving *Singapore* and *South Korea*. We also hosted a roundtable in Ottawa with His Majesty King Abdullah II of *Jordan*. In April, 2008, we will renew our longstanding



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relationship with the Nippon Keidanren during a mission to *Japan* for the *G8 Business Summit* led by Manulife Financial CEO Dominic D'Alessandro.

***GOVERNANCE AND ACCOUNTABILITY***

At the end of 2006, the federal government proclaimed its new *Accountability Act*, which includes significant new rules governing the process of lobbying. In particular, it requires monthly public reporting of contacts between registered lobbyists and senior-level public office holders. The Council participated in consultations during the spring of 2007 to identify issues that would have to be addressed through regulation. We expressed concern in particular that business leaders might face onerous reporting requirements even if they were only participating in consultation exercises or advisory bodies such as the NACC at the government's request.

The draft regulations were finally published on January 4, 2008. They clearly have heeded the concerns that we raised last year, by keeping the reporting requirement relatively simple, limiting the contacts covered to "oral and arranged" communications, and excluding communications on policy issues or legislation that are initiated by government except where they concern contracts. There is a 30-day period for public comment, and the regulations are scheduled to take effect on July 1, 2008. An analysis and



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assessment currently being prepared at Council headquarters will be shared with all members next week.

***CORE PRIORITIES FOR 2008***

Our major focus for the year ahead will remain the competitiveness of the Canadian economy. Canada's fundamentals remain strong, but the discussions at our Autumn Members' Meeting in Montreal showed clearly that our strong currency, high energy prices, relentless overseas competition and a weakening United States economy already are putting severe pressure on many companies, especially in the manufacturing sector. We face real risks to our economic future that require significant and early action.

Our session today with the *Competition Policy Review Panel*, together with any written comments you may wish to provide on the discussion paper distributed last week, will guide our formal submission to the Panel. The issues we address with the Panel, including tax competitiveness, regulatory issues, foreign investment, competition policy and internal and external trade, will guide our work with federal and provincial governments throughout the year.

We also will press forward with our *Environmental Leadership Initiative* and in particular our efforts to forge a coherent Canada-



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wide national strategy on climate change. We will continue to demonstrate Canadian leadership in attacking costs and delays at the Canada-United States border through our role in the work of the *North American Competitiveness Council*. And we will build on our record in strengthening relations with key overseas trading partners including China, India, Japan and the European Union.

As always, our impact and effectiveness as an organization depends directly on the insights and energy that you bring to our work. Together with the very able and hardworking headquarters team, I would like to thank you for your support over the past year, and I look forward to working closely with each of you as we press forward in 2008 with our relentless efforts to make Canada "*the best place in the world in which to live, to work, to invest and to grow*".