The End of Laissez-faire?
Through Crisis and Recovery,
Enforce Competition and Safeguard Open Markets

Nineteenth Report of the C.D. Howe Institute Competition Policy Council

May 27, 2020 – While government intervention in certain economic sectors may be warranted in the near-term during the COVID-19 crisis, governments must be conscious of potential impacts on competition, and ensure competitors face the discipline and dynamism of market forces by outlining a clear exit plan for ramping-down support. A majority of Council members believe that the federal government should not legislate any ministerial “public interest” waiver for anti-competitive collaborations. This is the consensus view of the C.D. Howe Institute’s Competition Policy Council, which held its nineteenth meeting on May 8, 2020.

Council members commended governments for taking an active role in economic management and providing direct support to sectors and specific companies during the crisis. Council members agreed that in the near-term, governments should prioritize households’ well-being and intervene if required to backstop companies with strategic or systemic importance to the Canadian economy. Council members recognized that political decision-makers will face difficult decisions around the failure of major businesses and be forced to balance competing policy priorities going forward.

In particular, in the medium term as the global economy emerges from this crisis, Council members emphasized that vigorous competition will remain critical to the recovery and the long-run dynamism of Canada’s economy.

The Competition Policy Council comprises top-ranked academics and practitioners active in the field of competition policy. The Council provides analysis of emerging competition policy issues. Elisa Kearney, Partner, Competition and Foreign Investment Review and Litigation at Davies Ward Phillips & Vineberg LLP, acts as interim co-chair, along with Grant Bishop, Associate Director, Research, at the C.D. Howe Institute. Professor Edward Iacobucci, Dean at the University of Toronto Faculty of Law and Competition Policy Scholar at the Institute, advises the program. The Council, whose members participate in their personal capacities, convenes a neutral forum to test competing visions and to share views on competition policy with practitioners, policymakers and the public.
At Issue: What Are the Priorities for Competition Policy during the Present Crisis and Recovery?

At its May meeting, Council members discussed the policy priorities for Canadian competition law and policy through the current COVID-19 crisis and into recovery.

The Council made the following recommendations:

1. The Competition Bureau should increase advocacy efforts now and into recovery – particularly in respect of emerging proposals for crisis-driven interventions by governments that dampen competition, especially in the long run. For the long-term health of the Canadian economy, federal and provincial governments should expressly consider potential impacts on competition from interventions to support businesses and leverage perspective from the Bureau to this end.

2. Throughout the recovery, the Bureau should frequently participate in stakeholder forums to engage with the business and legal communities. This will equip the Bureau with on-the-ground perspective about evolving competition issues and concerns to inform its advocacy within the federal government and with provincial governments.

3. In order to imbed competition perspective in federal industrial policy, certain Council members strongly urge the Minister of Innovation, Science and Industry to consider including members with deep competition experience on the new Industry Strategy Council and engage the current Commissioner of Competition with this advisory body.

4. In the near-term, the Bureau has appropriately focused resources on intensified enforcement of prohibitions against deceptive marketing.

5. During the crisis, the Competition Bureau and Director of Public Prosecutions can and should – as announced – exercise appropriate discretion for competitor collaborations and “crisis cartels” that serve a public interest in responding to the COVID-19 crisis.

6. Certain Council members advocated putting in place a temporary authorization regime in order to provide certainty to business – potentially with a legislative amendment for foreclosing private actions if the Competition Commissioner issues such an authorization.

7. A majority of Council members believe that the federal government should not legislate any ministerial “public interest” waiver for anti-competitive collaborations. A discretionary ministerial waiver could politicize conduct and undermine the robustness of competition law enforcement in Canada and potentially the competitive process generally.

8. As Canadian businesses face a period of intense distress and restructuring, the Bureau must expedite its merger review process, triage its reviews and adopt more practical and flexible processes. To assess a wave of mergers that implicate the “failing firm” and the “efficiencies”...
defences, the Bureau must avoid unnecessarily rigid and lengthy procedures. The Bureau should not allow any short-term merits for competitor collaboration alone to justify mergers that consumers will have to live with after the pandemic subsides.

9. The recent ministerial statement indicating that “opportunistic investment behaviour” by foreign investors may be subject to “enhanced scrutiny” for national security review under the Investment Canada Act risks sending a protectionist signal. This is contrary to Canada’s advocacy for international economic integration and risks discouraging market-based foreign direct investment during a period when Canadian companies will require recapitalization. Canada stands to lose more from increased protectionism than it stands to gain.

Extraordinary Government Intervention Needed in Near-term – But Crisis Measures Must “Sunset” and Minimally Impair Competitive Intensity

In the current crisis, Council members recognized that certain market outcomes may be distributionally undesirable and politically unacceptable. Public health measures in Canada and internationally have inflicted an unprecedented contraction across the Canadian economy. Canadian businesses face rapidly evolving and far-reaching disruptions. Canadian policymakers are understandably concerned about the loss or “scarring” of Canadian production capacity, including the failure of major firms that play lynchpin roles in supply chains.¹ With such volatile conditions and an uncertain outlook, the challenges of asymmetric information may be amplified, particularly impacting the availability of debt and trade credit to many companies.

Nonetheless, any near-term, emergency-driven measures should be temporary and narrowly calibrated to address a particular market imperfection or distributional impact. The exigencies of the current crisis should not license either a sweeping and sustained displacement of market forces nor central management of the economy for the long term. As governments shift to focus on the recovery, interventions should be based on identifiable market failures, aim to minimally impair competitive intensity and “sunset” on an appropriate horizon. The OECD has emphasized that support measures will be most effective when these are transparent, time-limited, proportionate, and non-discriminatory.²

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For example, credit support to distressed companies may disadvantage competitors that built stronger balance sheets and that paid market rates for debt ahead of the crisis. The results might be an un-level playing field, dampened innovation and competition, and rewarding of mismanagement. Forestalling consolidation in certain sectors – for example, petroleum or agrifood – may inhibit the realization of scale economies that ensure Canadian companies can compete in the long run. On the other hand, government support – and potentially a temporary ownership interest through a restructuring period – might play a role in preserving competition if widespread failure would produce a high degree of concentration and market power.

Members believe that the Bureau’s advocacy mandate will be particularly important into recovery and the “new normal” in the aftermath of this crisis. Certain Council members emphasize that sectoral consolidation and acceleration of trends – particularly in the “digital economy” – may potentially impair the competitiveness of Canada’s economy, as well as raise novel questions for the economics of industrial organization and competition law.

The Bureau has invested significant efforts in ramping up its understanding and analytical capabilities concerning anti-competitive conduct in the digital economy. Certain Council members stress that the Bureau should maintain a strong enforcement focus on e-commerce through recovery. As well, since the digital economy operates across borders, relationships around enforcement with foreign agencies will be increasingly important.

Nonetheless, certain Council members believe the Bureau should also prepare to operate in an international setting with potentially nationalistic industrial policies. Others expect that the competition community will need to fight an uphill battle for sound economic analysis, free trade and emphasis on market forces in the face of “Me First” movements against globalization.3 Many Council members believe the Bureau’s enforcement and advocacy for competition should be integral to Canada’s efforts to champion open borders and free trade in the face of intensifying protectionism.

The Council regards vigorous competition in Canada’s marketplace as an imperative for ensuring the long-term dynamism of the Canadian economy. Therefore, in the context of structuring interventions during crisis and recovery, this Council recommends that policymakers in federal and provincial governments draw upon the expertise of the Competition Bureau to identify market failures, assess market power and evaluate competitive effects from regulatory interventions. A recent OECD policy brief concerning

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competition policy responses to COVID-19 made a similar recommendation. The Bureau should seek to be “at the table” to provide perspective on potential competitive consequences of government intervention – particularly to highlight potential impacts on market forces and competitive intensity.

In particular, various Council members believe that the Minister of Innovation, Science and Economic Development should be sure to include perspective on competition in the newly announced Industry Strategy Council, chaired by Monique Leroux. Since the Council’s mandate is to inform government actions to promote innovation, economic inclusion and growth, the Minister should consider including members with deep competition experience. As well, the Minister could include the Commissioner of Competition on the Minister’s and senior public servants’ meetings with this Council.

Council members also recommended that the Bureau undertake regular engagement with stakeholders, including the legal community through the Competition Law Section of the Canadian Bar Association and other members with deep competition law experience, but also through convening forums for input from business groups – such as the Canadian Chamber of Commerce, the Business Council of Canada, the Canadian Federation of Independent Business, and Canadian Manufacturers & Exporters. These Council members believe that having wide sectoral intelligence and relationships throughout the private sector will bolster the Bureau’s credibility and effectiveness when engaging with governments.

**During Crisis, Prioritize Enforcement for Deceptive Marketing and Cartels**

Council members believe that the Bureau has appropriately focused resources in the immediate crisis environment on deceptive marketing.

During a period of intense disruption, certain market participants may take advantage of imperfect information on the inability of buyers to shop effectively in a time of crisis.

Alongside unjust distributional consequences, deceptive marketing at best undermines confidence in information about product performance generally and hinders efficient decision-making by consumers, and at worst endangers the health and safety of Canadians. In particular, the Bureau has rightly signalled that it will take rapid action against misleading health claims.

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Council members also believe the Bureau has sent appropriate signals concerning cartel enforcement while emphasizing that existing law does not confer on the Bureau the authority to prevent high prices in and of themselves, whether or not such prices might be considered “gouging.” Certain Council members noted that, even during this crisis, the Bureau’s immunity and leniency programs will likely be the source of any reporting regarding collusive agreements. Nonetheless, in this crisis setting, vigilance and expedient investigation of cartels and big-rigging by the Bureau will be essential for ongoing public confidence in the integrity of the marketplace. As the OECD has highlighted, emergency purchases may expose public procurement entities to risks from collusive behaviour and recommended that competition authorities monitor suspicious selling patterns in emergency procurements.⁷

**Ministerial “Public interest” Override Would Undermine Competition Enforcement, But Could Empower Commissioner to Authorize Competitor Agreements**

Most Council members contended that the Competition Commissioner and the Director of Public Prosecution possess appropriate, politically independent discretion to refrain from enforcement in respect of any “crisis cartel” agreement designed to address exigent and temporary market realities for public interest purposes, such as avoiding shortages of essential goods and services. Members observed that section 90.1 of the *Competition Act* provides a scheme for efficiency-enhancing, pro-competitive collaborations and that the Bureau has indicated its willingness to review and provide guidance on proposed agreements between competitors.

In a statement on April 8th, the Bureau signalled the intention to refrain from scrutinizing competitor collaborations “in circumstances where there is a clear imperative for companies to be collaborating in the short-term to respond to the crisis, where those collaborations are undertaken and executed in good faith and do not go further than what is needed.”⁸

Council members noted the Bureau’s statement is consistent with guidance from the International Competition Network (ICN), which noted the crisis “may trigger the need for competitors to cooperate

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temporarily in order to ensure the supply and distribution of scarce products and services that protect the health and safety of all consumers” and competition agencies may “accommodate collaboration between competitors necessary to address the circumstances of the crisis.” Council members emphasized that, while circumstances may merit agreements between competitors concerning quantities or geography, price-fixing cartels would not be justified under any conceivable circumstances.

Nonetheless, certain members expressed concern that businesses may be unwilling to approach the Bureau for informal guidance as envisioned in the Bureau’s April 8th statement where the guidance provided would not insulate conduct from the possibility of private action.

A majority of Council members opposed a ministerial “public interest” exemption, as advanced in a recent letter by the Competition Law Section of the Canadian Bar Association (CBA) to address these concerns. However, some members of the Council supported a ministerial “public interest” exemption. Other Council members proposed that it might be appropriate to legislatively empower the Competition Commissioner for a time-limited period to authorize specific agreements between competitors, shielding these from prosecution and private actions in appropriate circumstances.

Various members agreed that an authorization regime would be more effective than the underutilized section 124.1 of the Competition Act, under which the Competition Bureau can issue written opinions concerning the applicability of the Competition Act. Such a written opinion is then binding on the Commissioner if all the material facts have been submitted, are accurate, and remain substantially unchanged. However, although such an opinion would arguably be highly persuasive in any civil action, the Commissioner’s opinion does not bar private plaintiffs from seeking damages.

Other Council members were highly skeptical that an authorization regime would be more expeditious or effective than the present regime for written opinions, and noted that a bar to private actions from such an opinion would require legislative amendment.

Moreover, certain Council members contended that a written opinion under Section 124.1 (even with legislative amendment to make such an opinion a bar to private action) would not be comparable to a

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public interest exemption. They observed that a written opinion only provides parties with a view on whether conduct contravenes the *Competition Act*. In contrast, they argued that the crisis situation may give rise to conduct that *does* contravene the *Act* but that is nonetheless “in the public interest” and should not be prosecuted. These Council members contended that an exemption from prosecution or liability under the *Competition Act* would be appropriate for conduct that met “public interest” criteria.

For example, certain Council members presented the hypothetical situation of several competitors facing a nationwide increase in demand for essential products (e.g., PPE, cleaning supplies, or meat) that exceeds the currently available supply from any of them. These Council members proposed that this might be a situation where it could be in the public interest for these competitors to agree to allocate supply regionally or among customers. The purpose, however, would not be to increase profits to the parties to the agreement, but to ensure an equitable distribution of supplies. However, such agreements could provide grounds for prosecution, as well as actions by private plaintiffs, under the cartel provisions of the *Competition Act*.

Other members who supported a ministerial exemption hypothesized that co-ordination in the public interest might ensure a higher volume of essential products are delivered to consumers but involve higher prices relative to a counterfactual. Those consumers that received products in the counterfactual at lower prices could then claim harm from the price increase. These members argued that a public interest exemption would allow conduct by which some consumers may be harmed, but which advances “the greater good.”

Some members agreed that any “public interest” discretion is most appropriately exercised by a decision-maker who is institutionally capable of considering a broader set of policy objectives and considerations, beyond only competition. In certain members’ opinions, such an amendment would expand on exemptions already available from ministers for conduct or mergers by federally regulated financial institutions or airlines, for example. Some members also observed that other jurisdictions empower a political decision-maker to exempt specified conduct from competition laws.

In contrast with these arguments for a ministerial exemption, a majority of Council members strongly cautioned against expanding the existing “public interest” beachheads for conduct and mergers of

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11 Sub-sections 49(2)(h), 90.1(b) and 94(b) of the *Competition Act* provide for exemptions for “purposes of financial policy” or “public interest” grounds from the Minister of Finance for agreements between federal financial institutions, competitor collaborations or mergers involving federally regulated financial institutions. Similarly, sub-sections 45(6)(c), 47(3)(b), 90.1(9)(c)-(d) and 94(c)-(d) empower the Minister of Transport to authorize conduct by airlines that would otherwise contravene cartel, competitor collaboration and merger provisions of the *Competition Act*.

12 For example, the UK *Competition Act 1998* permits the Secretary of State to exclude “a particular agreement” or “any agreement of a particular description” where he or she “is satisfied that there are exceptional and compelling reasons of public policy.”
financial institutions and airlines. In the majority’s opinion, to do so would be fraught with unintended consequences. The majority believed a “public interest” exemption would create an unpredictable, politically driven override that would undermine competition enforcement generally, supplanting the institutional machinery of competition law and undermining the focus on competitive intensity and market efficiency.

Additionally, some Council members believed that the alleged chill was more hypothetical than practical, questioning whether the *Competition Act* has actually inhibited any desirable “crisis cartel.” Certain Council members also pointed out that well-advised parties that are contemplating such collaborations can already actively engage the Bureau for guidance, as well as carefully create a record to evidence their intentions and show the benefit to consumers. One Council member suggested that if coordination truly benefits consumers, plaintiffs could have difficulty establishing loss or damages in any private action under section 36 of the *Competition Act*.

**For Recovery, Expedite Merger Review with Practical, Flexible Processes**

Into recovery, the Bureau must prepare to devote personnel to merger review and rapidly ramp up their capacity for triaging. With the likelihood of a wave of financial distress facing Canadian businesses and an acceleration in acquisitions, the Bureau must adapt its decision-making on merger reviews to be less formalistic, faster and more flexible. Merger review must enable, rather than inhibit, the efficient restructuring of many industrial sectors that will be financially challenged as the crisis continues and a “new normal” begins to emerge.

In particular, the Bureau should revisit its process for assessing efficiencies in merger reviews – particularly the extended timelines it has required for establishing efficiencies. The Bureau’s recently announced timing agreement for mergers that implicate efficiencies envisions a period of several additional months for review, and recent transactions have exhibited a lengthy sequential approach to approval for mergers that implicate efficiencies (i.e., efficiencies will only be considered after the impact on competition has been assessed).

For example, in the recent acquisition of H&R Transport Limited by Canadian National Railway Company, having determined after several months a likelihood of substantial lessening of competition in certain markets, the Bureau entered into a timing agreement with the parties to conclude the Bureau’s evaluation of efficiencies. The Bureau concluded its evaluation more than four months later, after extensive

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evidence from the parties and market participants, ultimately determining that the efficiencies from the acquisition would offset and exceed any prevention or lessening of competition that are likely to result from the merger.\\footnote{14}{Competition Bureau. 2020. \textit{Statement regarding Canadian National Railway Company’s proposed acquisition of H&R Transport Limited}. April 22. Available online: \url{https://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/04527.html}}

Such a protracted period for review will not be desirable during the crisis and in its aftermath, as many Canadian industrial sectors will face the need for consolidation to realize scale efficiencies. More mergers will be driven by the necessity of adapting to survive in a highly disrupted and rapidly evolving global marketplace – particularly for export-focused industries and enabling network sectors. Canadian merger review must emphasize expedient decision-making.

Prompt decision-making will also be essential for the timely application of the “failing firm” defence. The likely extent and depth of financial distress facing many Canadian firms will mean the Bureau will need to be practical and triage its evaluation – particularly in respect of the competitive alternatives to the proposed acquisition. The recent acquisition of Total Metal Recovery (TMR) Inc. by American Iron & Metal Company Inc. involved a three-month review process and extensive information-gathering from market participants.\\footnote{15}{Competition Bureau. 2020. \textit{Statement regarding the acquisition of Total Metal Recovery (TMR) Inc. by American Iron & Metal Company Inc.} April 29. Available online: \url{https://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/04528.html}}

Amid the likely upcoming wave of restructurings, the Bureau will need to assess failing firm arguments and evidence expeditiously. Rapid decision-making will be essential to facilitate restructuring and post-merger reorganization. Drawn-out reviews risk a drag on the rebound of economic activity in industrial sectors with distressed competitors. Involvement of Mergers Branch management earlier in the process in urgent cases could, for example, assist in this regard.

In advance of the expected acceleration of merger review filings, Council members urged the Bureau to outline its approach to merger review in this context. Specifically, certain Council members proposed the Bureau should clearly express:

- Its intention to expeditiously evaluate failing firm defences to assist with recovery and the restructuring required in certain sectors;
- Its intention to evaluate efficiencies concurrently with its assessment of likelihood of a substantial lessening or prevention of competition;
- Its willingness to use qualified No-Action Letters and/or Consent Asset Preservation Orders in appropriate circumstances in order to allow a transaction to close while retaining the ability
within a one-year, post-closing period to subsequently challenge if the merger does lessen competition; and

- Its willingness to consider “changed circumstances” in respect of the state of competition in a given market, requiring appropriate evidence of a long-term structural shift while applying flexible, “common sense” reasoning and evidentiary requirements.

**Scrutiny of “Opportunistic Investment Behaviour” is Protectionist and Sends Wrong Signal to Foreign Investors**

On April 18th, the Investment Review Division of Innovation, Science and Economic Development issued a policy statement, indicating that, under the extraordinary circumstances resulting from the COVID-19 pandemic, the Division will subject certain foreign investments into Canada to enhanced scrutiny under the *Investment Canada Act (ICA)*.16

Council members were of the view that the many aspects of this statement reinforced an appropriate intention for scrutiny of transactions that might impact national security. For example, Council members believed the Division would appropriately more closely scrutinize foreign direct investments in Canadian businesses that involve public health or the supply of critical products to Canadian consumers or governments. Council members also viewed the focus on state-owned enterprises (SOEs) with non-commercial objectives as appropriate in the circumstances.

However, Council members also believed that the Division’s note that “sudden declines in valuations could lead to opportunistic investment behaviour” sends the wrong signal to foreign investors. While the Division’s policy statement does not alter the threshold for net benefit review or expressly indicate an intention to generally apply a higher standard to net benefit review under the *ICA*, intensified scrutiny of all acquisitions by non-SOE investors under the grounds of national security – simply because they represent good investment opportunities – would risk deterring foreign capital at a time when many Canadian businesses will require recapitalization. Council members suggested the Division clarify whether the statement is merely intended as background colour for the scrutiny of transactions that might impact national security or for reviewable transactions by SOEs.

Investor behaviour is inherently “opportunistic.” Barriers to foreign investment diminish the rigour of the market for corporate control, reduce discipline for corporate managers, and inhibit a key channel for entry

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of foreign competitors. Publications by the C.D. Howe Institute have long highlighted the asymmetric presumption against foreign acquirers under the ICA (i.e., versus domestic acquirers, which face no “net benefit” review). In practice, even while retaining the legislation, the current government has appropriately eased the degree of scrutiny for net benefit review in recent years.

Council members believe that the current crisis should not be an excuse to resurrect a protectionist stance against foreign acquisitions.

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Members of the Council participate in their personal capacities, and the views collectively expressed do not represent those of any individual, institution or client.

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