THE DESK OF C.D. HOWE:
Canada - Investment and Globalization

The Honourable Jim Prentice, PC, QC
Senior Executive Vice-President and Vice Chairman
Canadian Imperial Bank of Commerce
To the Canadian Club of Toronto
March 8, 2011

Check against delivery

Thank you for your kind introduction.

As you may know I have some family history with this great city. My father was briefly a Toronto Maple Leaf, in fact the youngest player in franchise history.

He played for the Leafs in a handful of games in the 1940s. He always said that he was there for a cup of coffee. In fact, as an enthusiastic 17 year old in the dressing room, he stepped on Babe Pratt's foot with his skate. That put Babe out of commission for a number of weeks and sent Dad to the minors for good.

This is the first chance I've had to share some thoughts publicly since assuming my new responsibilities at CIBC, where my role is to help grow our businesses and look for new domestic and global opportunities for our clients.

Canada's banks are exceedingly important national institutions with a deep history in our country and, perhaps for that reason, my transition to the private sector has been a smooth one. The learning curve has been steep and unrelenting, but I have benefited from the support and patience of many people.

My transition from public to private life has reinforced my longstanding belief in the importance of open dialogue between the private sector and governments. As a Minister I always maintained "You don't get excellence in public policy unless you talk to people." And to be clear, anything less than excellence will impair our ability to continue building this remarkable country.

Never has this been truer than today, when governments, businesses and financial institutions are making decisions that will shape Canada's global prospects and influence our access to global capital investment. The world is in the midst of the largest capital expansion in human history and Canada is well positioned to benefit from this growth.

We must play to win. And leaders in both business and governments will help shape the game plan. The question is, "what do we have to do to succeed?"

As you know, I loved my time in public life.

I was for a time Canada's Minister of Industry. I worked in an office on the top floor of a building named after C.D. Howe and I sat at his desk.

C.D. Howe was intelligent, driven and visionary. He was also an incurable gossip and known to be Ottawa's best retailers of Cabinet secrets. He had a big personality, and he worked from a big desk - more of a massive table really. It was from there, in the middle decades of the last century, that C.D. Howe, the man known as 'The Minister of Everything', helped build Canada's modern industrial framework.

It was from that very desk that he aggressively pursued an industrial strategy that was in equal parts Canadian and global. C.D. Howe knew that access to investment capital was key to the building of Canada. And he championed access to foreign direct investment to develop the modern Canadian economy: heavy industry and seaways; highways and pipelines, airports and universities. He helped back winners to create the Canada that we know.

As I sat at that desk, in the first decade of a new Canadian century, I often reflected on the ways in which the levers of economic growth had changed from C.D. Howe's time to our own.

In one critical respect, the Canada of C.D. Howe was similar to ours today. Canada, then as now, was a country small in population but huge in potential. A potential that we can only unlock if we are full participants in the global economy. A potential that demands access to international capital and requires us to be innovative, entrepreneurial and trade-oriented.

In Howe's day, being an international player for Canada meant simply opening our borders to foreign direct investment to supplement Canadian domestic capital.

Today, Canada is amongst the most international of countries and a significant importer and exporter of capital.

Just a couple of examples...

Canadian direct investment abroad has increased dramatically. In 1980, when I was finishing university, the value of Canadian direct investment abroad was equal to nine percent of our GDP.

We were minor players.

By 2000, it had risen to 33 percent. By 2009, Canadian direct investment abroad had risen to a level equal to 42 percent of our GDP.

Over that same time period, Canadian mergers and acquisitions went global. In 2000, by value, two-thirds of the M&A activity completed by Canadian companies was domestically focused, and the other third, foreign based. By 2008, the relationship had been reversed: one-third was domestic; two-thirds now involve foreign companies.

Globalization is accelerating. The demand for investment capital is about to expand beyond anything the world has seen. This investment boom involves the emerging markets of the world. In the fullness of time, it will bring significant competitive pressures upon capital availability and upon cost.

Many of you may have traveled through the Asia-Pacific, and you may have had the same reaction I had when on my first trip to Beijing. It changed the way I thought about cities, about economies, and about what it means to be a human being on this planet. And it confirmed what I believe Canada must do to compete.

Beijing is a city of 30 million people – almost the size of Canada. Beijing illustrates not just the emergence of China – but rather its re-emergence as the dominant force in world commerce.

Beijing also illustrates how our planet is urbanizing. Almost half a billion more people live in cities today compared to 8 years ago. In ten years, China alone will have 44 cities larger than Toronto; India will have another 11. Together China and India will have 200 cities larger than my home town of Calgary.

Now, take the transformation of Beijing and of China over the last decade, and imagine if even just half of that change is replicated throughout the developing world. Consider the investment required to meet the demand in the rest of China, in India, in Indonesia, in Mexico, and in Brazil. Demand for new homes, for transportation systems, for water systems, for factories, for offices, for shopping centers, for hospitals and government buildings.

Imagine the rate of investment entailed by all of this as it continues, not just for years … but for decades.

All this will take investment on a scale never seen before. When I was a young man, finishing university in the early 1980s, the world was coming out of an enormous building boom. Thirty years ago, global investment in infrastructure and production was estimated at 4.5 trillion dollars per year. It seemed huge.

But by 2008 that investment had more than doubled to 10.7 trillion dollars per year.

Now look forward. Estimates for 2030, are 24 trillion dollars. In other words, the world will be investing 5 to 6 times more in infrastructure than it did at the beginning of the 1980s … year after year after year.

In a world such as this, Canada cannot hang back.

We need to be ambitious. We need to be entrepreneurial. And we need to be practical-minded in positioning ourselves in order to compete to win.

There is no doubt that our commodities will be in demand. You name it: energy, food, metals, timber….

But just as in C.D. Howe's day, we must think of ourselves as more than hewers of wood and drawers of water.

- We must diversify Canada beyond our safe North American market;
- We must move up the commodity value chain by doing more with our natural resources;
- We must showcase our values to the world – our capacity for global leadership, and succeed in fields where we demonstrate excellence and we are admired, including clean water, education and health;
- We must ensure that we enable our global champions to compete and win, whether it is aviation or mining - energy or manufacturing – financial services or information technology;
- And, most importantly for Toronto we must ensure that we are in a leadership position within the world's capital markets.

I don't suggest that any of this will be simple. No one else will be standing still and this will all happen in an era of rapacious global competition, including significant competition for capital.

On an asset basis, we are the wealthiest people in the world. We are barely 35 million people and we occupy more than our fair share of the world’s landmass and resources. But absent capital, we will be assigned a future of hewing wood and drawing water.

I've done more than my own share of hewing of wood and drawing of water. I put myself through university working 'under the bins' in Alberta's coal mines. There is no shame in hard labour.

But we lead the world today in so many ways.

I was struck, in my time as a Canadian Cabinet Minister, how everywhere I went in the world, people would approach me and say, Canada is the country we want to be like.

And so, while we should never get over confident, hubris and disaster are traveling companions. Our country's brand is strong and we are admired everywhere.

In truth, our demand for capital has never been higher. The world’s demand for capital is growing. And so is Canada’s.

Cumulative capital investment in the oil sands will reach 93 billion dollars by 2015.

Our manufacturing sector is poised for growth once more as it invests in productivity enhancements as a result of our strong dollar. And there is now over 40 billion dollars of hydro projects on the drawing board.

For a country of our size, these are startling capital requirements.

Which brings us to the consideration of the proposed merger of the London Stock Exchange and the TMX.

The Toronto Stock Exchange, established in 1861, served Canadians well by raising Canadian capital for Canadian projects in a simpler time.

We are now at the edge of the next phase in the globalization of financial markets, namely the interconnected ownership of a small number of dominant international exchanges.

So what will the future look like? In light of our startling capital needs, how will Canada tap into a deeper and broader pool of capital and liquidity? How will we stay ahead of the capital curve in order to meet our need for capital?

In my view, this isn't about ideology or about "ism's". It's now about positioning ourselves to compete and to win. It's about advancing Canadian interests.

In contemplating the merger of the London Stock Exchange and the TMX, Canadians need to be assured of a number of things, three of which are as follows:

First, we need continued access to both domestic and global capital to fuel Canadian growth. We are a small country with a large appetite for capital and our needs, while not unique, are distinctive. No other country in the world is leading energy projects on Canada's pace and scale. Just three examples include:

- The oil sands
- Pipelines to the south and to the west, and
- Hydro projects.

Secondly, this proposed merger is less about ownership than it is about regulatory control. Canada must retain the capacity to regulate in order to advance our national interests. Canadian regulations that served us so very well through the financial crisis cannot be watered down.

As Canadians, I believe we have a preference to adopt global solutions for global challenges. That certainly works in the worlds of law and trade. But in the world of financial services, in my view Canada has been better served by promoting Canadian rules. We've run a tighter ship. And that has been to the benefit of Canadian consumers, Canadian businesses and ultimately Canadian taxpayers.

Critically, how Canadian regulatory standards will integrate with those applicable in London is not yet clear. And in fact, the “uniquely Canadian” debate about national securities regulation has now been superseded by a more complex debate about how our provincial and national regulation will integrate into a global framework.

Thirdly, the role of Montreal, of Calgary, of Vancouver and especially of Toronto as participants in global finance must be enhanced, not diminished. We must ensure that the so called “mind and management” of Canadian finance not migrate to London, or for that matter to New York or to Hong Kong.

Let’s be clear when we speak about the TMX and the LSE. The real issue is not about who owns the pipes and the wires. The real issue is that the TMX, as the clearing house for capital, is far more than a strategic asset. It is one of the fundamental building blocks of capital formation in Canada and one of the fundamental building blocks of the Canadian economy.

There are a few, however limited, studies on the merger of stock exchanges. And those studies point to the fact that mergers can affect liquidity and therefore the cost of capital. Mergers affect different sized firms in different ways. Firm size, industrial sector and the location of an exchange will affect those seeking capital in asymmetrical ways.

And so, our consideration of any proposed merger has to ensure that it is in the interests of all firms that are seeking capital, whether global businesses accessing global markets or junior mining ventures accessing capital markets for the first time.

Current events therefore require Canadians to weigh the practical merits, rather than the ideology of stock exchange mergers.

We should focus our efforts on determining what specific conditions this transaction or any future transaction must meet to ensure that Canadian capital markets continue to succeed and prosper. The question to be answered is “on what national terms does a merger make sense?” Absent such specific conditions, permanently applied, decisions made over time by future owners could diminish the strength and vitality of Canadian capital markets and we can not allow that to happen.

We have done much to get things right in Canada.

We are a nation that has emerged proudly on the international stage as a respected and affluent democracy, envied everywhere for what we have achieved. Our society is cohesive. We respect the rule of law. We are open and inclusive. We have built extraordinary infrastructure for transportation, for education and for health care. We are well governed and our public finances and banking systems are among the best in the world.

It needs to be said that Canada and our national governments have done a good job on the fiscal front for more than 15 years. To remain competitive we need to continue this commitment to smart fiscal policy.

But solid public finances are a necessary, but not sufficient condition.

In order to remain competitive we need a continued focus on:

- Assuring international investors that Canada remains open for business;
- Pushing forward on more, new free trade agreements;
- Streamlining regulations on major infrastructure projects;
- A system of innovative, competitive post-secondary institutions; and, paramount,
- We must ensure Canadian firms have the right access to capital.

This is about competing in the international markets and it is about winning. It's about being ready to capitalize on the international investments that will transform our country and the planet.

I began this speech reminding you of my family's connection to hockey. As Canadians, we have always competed to win. In hockey and in business.

The truth is Canada can successfully meet the challenges of the new domestic and global investment boom if we have the right fiscal foundation, the right policy direction and the necessary access to capital.

It's also a question of attitude – of daring – of a desire to compete and to win. And I'm convinced we have all of that.

Thank you.