They are Canadian icons, their history woven into the fabric of this country's economy, labour law and environmental legacy, and now they are for sale. Inco, the mining giant that grew out of a nickel-rich hole in the ground in Sudbury, is being courted by two suitors — one Canadian, the other American. Falconbridge, Inco's rival, seems all but certain to fall into foreign hands, with a tempting offer by Switzerland's Xstrata on the table.

Whenever a Canadian company is "in play," the debate resurfaces: How important is it for our country to keep Canadian companies in Canadian hands? In the case of Inco and Falconbridge, it's not just about preserving Canadian ownership of one or two companies, but also about preserving an entire industry. Some argue such "protectionism" is crucial for Canadian business and industry; for others, it's not.

"There's a time to be a hard-nosed business person who wants to be financially successful today," says Ken Wong, marketing professor at Queen's School of Business. "But that isn't (necessarily) good for the long-term ... Sometimes business has to be subservient to the public interest." Canada's natural resource and telecommunications sectors are core assets that should be protected, argues Wong. Corporations, he adds, do not outsource core competencies because they don't want to tie their future to someone else's hand.

In Canada, one in five companies has a foreign owner, according to the latest Statistics Canada data. Among the benefits of protecting certain industries from foreign ownership are efficiency of operations, national security and preservation of national culture. The argument for having a head office in Canada is also familiar: If CEOs are located in head offices in Canada, they will be more likely to make decisions that will help the Canadian economy. Job cuts will be in other countries, research and development will remain, profits will stay in the country.

But are these perceived benefits real? Companies, after all, don't merge to harm another country's economy. Among the reasons for the current flurry of mining sector mergers are that deep pockets fuelled by high commodity prices make acquisitions more affordable. In order to quickly increase production capacity, big players snap up smaller ones. This allows companies to bolster market share, create economies of scale and gain a competitive edge.

When Advanced Micro Devices Inc. bought Markham's ATI Technologies last month, it wasn't to hurt Canada's economy. Rather it was that AMD wanted to be more competitive against rival Intel Corp. According to Theo Peridis, finance professor at York University's Schulich School of Business, companies behave in a way to maximize their interests, irrespective of where the company's headquarters are.

Foreign takeovers don't necessarily spell doom and gloom for national economies. A study released by Statistics Canada last month found that, between 1999 and 2005, foreign firms that took over domestic ones created just as many jobs as they eliminated. The study also found that foreign-controlled firms created more head office jobs — defined as the number of people employed at Canadian corporate headquarters — than Canadian-based ones during the same period. In fact, foreign firms created about 6,000 more jobs in Canadian head offices than did Canadian firms, despite the fact that head office employment in Canadian-based firms was more than double that of foreign firms.
What the study didn't do, however, was define whether these head office jobs were more managerial and strategic in nature, or merely administrative.

Another argument against protectionism is that protected companies are usually less efficient, with a lack of competition prompting little or no innovation. When the Competition Bureau reviews proposed mergers and acquisitions in Canada, the issue of whether the acquirer is Canadian isn't usually a major criterion. Instead reviewers consider whether a proposed merger could limit or end competition in an industry. They look at the merged company's market share, the number of companies that will be left in the industry after the merger and how competition will change. The Investment Canada Act requires the minister of industry to review proposed foreign takeovers of companies valued at more than $265 million.

But Canadian ownership is protected in some industries, such as banking, telecommunications and culture. Agencies like the Canadian Radio-television and Telecommunications Commission and legislation like the Bank Act prevent foreign takeovers. If media companies, for instance, were owned by foreigners, it would be hard to ensure Canadian stories were told, says Andrew Jackson, chief economist at the Canadian Labour Congress.

Peridis says if foreign takeovers were allowed in the banking industry, there's no question that more branches would be closed in small towns. But protectionist policies are hardly unique to Canada. Last year, for example, the U.S. Congress opposed a proposed takeover of California oil company Unocal by a Chinese state company, saying it wasn't in U.S. strategic interests. The Chinese company dropped the bid because of the strong political opposition. And earlier this year, the U.S. Congress threatened to stop a Dubai company's proposed takeover of London's Peninsular & Oriental Steam Navigation Co. and its operations at six major U.S. ports. The merger had been approved by P&O shareholders and President George W. Bush, but amid a rash of publicly expressed fears about U.S. national security, the Dubai firm announced it would sell off P&O's U.S. operations to an American company.

The airline industry has also been the subject of debate about efficiencies. Those against protecting the industry argue if U.S. airlines were allowed to swallow domestic airlines, there would be a more efficient industry with more options than Air Canada and regional carriers. But those opposed argue that service to less profitable corners of the country would inevitably be cut. The inability of Canadian companies to compete when markets are opened up has been illustrated in Canada's largely unprotected retail sector, where icons such as Eatons and the Hudson's Bay Co. have recently folded up shop and fallen into foreign hands, respectively.

When a potential merger is being considered in an unprotected industry, before it goes to federal regulators for ultimate approval, shareholders vote to accept or reject the offer. And, so far, there is yet to be a case of shareholders turning down a foreign offer solely to keep a company in Canadian hands. In the case of Dofasco Inc.'s sale to Luxembourg's Arcelor SA earlier this year, stakeholders were offered a 60 per cent premium on their shares. Although no shareholder owned more than 10 per cent of Dofasco's shares before the bid, 98.5 per cent agreed to sell to Arcelor. The remaining 1.5 per cent had to hand over their stakes.

"Canadian ownership is not necessarily better than American ownership," says CLC's Jackson. He points out that, despite being American owned, aeronautics giant Pratt & Whitney provides high-quality jobs and conducts research and development in Canada. But not every foreign takeover is a success. Jackson says that since companies have a tendency to deal with suppliers with whom they have an established relationship, Sudbury machine and equipment manufacturers are already panicked about what they
will do if Inco and Falconbridge are sold to foreign companies. That's why, says Jackson, it's important for Canada to review a proposed merger, consider what impact it will have on the economy and, if necessary, impose conditions before granting approval.

Earlier this month, the CLC sent a letter to Prime Minister Stephen Harper strongly opposing the foreign takeover of Inco and Falconbridge and asking for a review of the potential impact on the mining industry, the economy, employment and capital investment. "The impact of allowing the U.S. ownership and control of two of Canada's major and historic companies," stated the letter, "is too important to leave solely in the hands of corporate executives."