



Buy American: a matter of the heart ...and the pocket

by Jon Hansen

"This idea of international free trade is a fallacy. We don't need free trade. We need smart trade ... Even Canada is not truly a free trade partner. Their regulations require broadcasters use a specified percentage of Canadian-produced programming. That's protectionism, and to deny it is to be the patsy to foreign governments who think they can take advantage of the naiveté of the American voter." Stephen Cottle, Hartford, CT (LinkedIn Q&A Response)

The responses to my recent "Buy American" post on my blog, and the announcement that Minister Stockwell Day would join me on the September 28th guest panel discussion taking place on the *PI Window on Business Show*, were as interesting as they were diverse.

While a variety of intersecting interests connected to create a common theme of disapproval for the Buy America policy being discussed by Prime Minister Harper and President Obama, the comments by Stephen Cottle (above) stood out for a number of reasons. I recently learned that the CanCon legislation, which came into force on January 18, 1971, requires that at least 25 percent of all music played on AM radio stations will be dedicated to Canadian content. The CanCon regulation stipulated that at least part of the required content be "written, produced, presented, or otherwise contributed to by persons from Canada." Prior to its introduction, the Canadian music

industry "was regarded with indifference" by Canadian stations, thus it is safe to say that CanCon paved the way for an industry that has flourished both domestically and on the world stage.

While the Canadian content rule is not unique to Canada (France, Ireland, Israel and the United Kingdom are just a few examples of countries who have instituted similar regulations), it has been criticized by some as "cultural protectionism," a form of the protectionism for which the Buy American policy is being criticized.

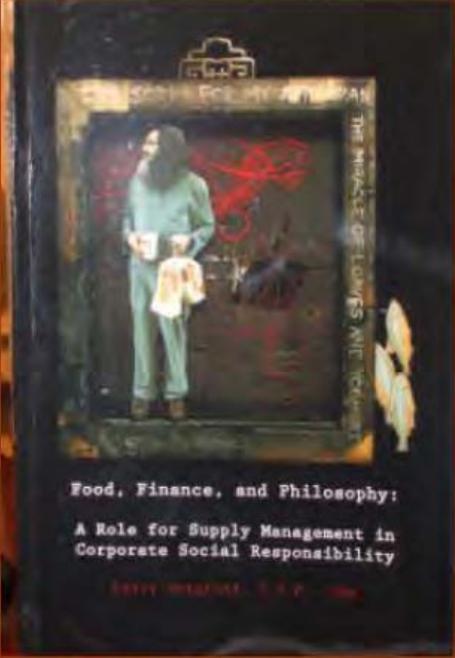
This example leads to some questions. Is a protectionist or self-serving domestic policy more conducive (or justifiable) for talent or knowledge-based industries than a more traditional sector such as manufacturing? And how does protectionism play out in cross border procurements by various public sector organizations? Our trade agreements

(i.e., NAFTA) with the United States specify that for federal procurements in specific categories and valued over established thresholds, Canada must publish the opportunity in a variety of ways and for a set period of time to encourage businesses from outside Canada to bid. This is a two-way street, as the trade agreements are also meant to provide Canadian companies the opportunity to bid on US government contracts. At this level of government Buy America provisions are not as big an issue for procurement.

However, Ottawa is seeking an exemption from new US stimulus package requirements to Buy American because **currently, provincial governments do not allow US companies to bid on their contracts**. If the provinces promise to open up to US companies, Ottawa may be able to win an exemption for Canada from Buy American provisions. The federal government hopes to have just such an agreement between the

provinces in the coming weeks. Then it can negotiate with Washington. Meanwhile, Ottawa waits for the provinces, and Canadian businesses may be losing deals today.

Government is a good customer in these days of economic stress. It is perfectly understandable that governments, both federal and provincial or state would want their own people to be working and that governments would strive to support local industry. Consequently much money has been flowing from senior governments to local governments and business to encourage just that... but the question is how far will governments go or should they go in their protectionist efforts in light of current and future trade agreements around procurement, and what might be the consequences?



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The questions are many including what the impact will be on the domestic supply base should the provinces agree to open bids to US suppliers. It has been suggested that some sectors such as the construction industry in Canada will suffer.

However, the implications have far greater reach, especially when you consider the growing importance of the tertiary and now quaternary sectors associated with Clark and Forasties' "three-sector hypothesis of industry" (which has been extended to four with the advent of knowledge-based industries). Developed by Colin Clark and Jean Fourastie, the hypothesis includes the extraction of raw materials (primary), manufacturing (secondary), services (tertiary) and knowledge-based (quaternary). The quaternary sector is generally viewed as being the engine driving both innovation and expansion. It consists of those industries providing information services such as "computing, information and communication technologies, consultancy, research and development." And quaternary definitions have even included the entertainment industry, thus the CanCon reference earlier.

Under a "general pattern of development," a wealthy nation progresses through each phase. Effectively managing this progression is critical to what Fourastie referenced in his 1949 publication, *The Great Hope of the Twentieth Century*, as "the increase in quality of life, social security, blossoming of education and culture, higher level of qualifications, humanization of work, and avoidance of unemployment."

Therefore, and accepting the conclusion that small and medium-sized enterprises (SMEs) are the driving force behind the innovation associated with the tertiary and quaternary sectors, is the potentially negative impact on the Canadian SME market as a result of opening up contracts to US-based vendors tantamount with sacrificing our future in an

effort to preserve access for what are the still influential but struggling and in some cases disappearing primary and secondary sectors?

From a broader perspective, and taking into account the fact that knowledge-based industries are becoming a critical cornerstone of a sound domestic economy, does the potential threat of a Buy American policy provide countries such as Canada with incentive to accelerate their focus on developing quaternary sectors while simultaneously (and gradually) ceding, at least in part, manufacturing to low cost countries?

Let's look at the automotive industry as an example. Even though manufacturing has always been second to our primary sectors of logging and oil (both of which are suffering in today's economy), it has been an important economic engine. Central Canada is home to "branch plants" for major American and Japanese automobile manufacturers. This region of our country has produced more vehicles each year than the neighbouring State of Michigan, considered to be the heart of the American automobile industry.

Canada has in the past attracted manufacturers as a result of its highly educated population, lower labour costs and funded health care system, but competing with shifting global manufacturing capabilities and lower cost models may be an impossible task, perhaps made more daunting if you take into account the sentiments expressed by some senior auto manufacturing executives.

GM's former VP of Procurement and Supply Chain, Bo Andersson's speech at the 1st China International Auto Parts Expo in 2007 stated that the "best market to sell cars and trucks in is North America, assuming you don't produce them there." He also lamented the fact that GM is paying a "big number, a large number" for health care

coverage for 1.1 million North American-based retirees... a direct result of demographic changes.

Ontario is very much dependent on the automotive industry and has been hard hit by global changes in manufacturing and the world economic crisis. Factory closures are having a real impact on families. This undoubtedly weighs heavy on the shoulders of the current government of Ontario and also the Canadian federal government. These governments are responsible to ensure that industry will thrive and citizens can work. On the political front, the Ontario government must look after its own provincial economy to continue to be elected to office and, as Ontario has the most electoral seats of any province in Canada, the support of Ontario voters is considered crucial to winning a federal election. Political imperatives are pressing.

With the potential for another federal election in the near future, ceding any manufacturing capacity, even if it means fighting for what amounts to being a lost battle, may be the only viable option for the current governments to stay in power – an effort made more acceptable given the risk of further layoffs and the results to families and the local and national economy.

Have governments, past and present, done enough to stimulate development and growth (including re-training) in quaternary sectors to counteract or counterbalance changing global realities and unemployment? I do not know. However, present governments still have responsibilities relative to at least pointing our country in the right direction, beginning with assessing where Canada is in terms of the progression from primary through to the quaternary sectors. It seems to me that a logical step would be to develop a strategy in which the

cost of the progressive series of transitions is calculated both in the short-term as well as the mid to long-term, keeping in mind that Canada's rich, indigenous resources means that we will always be somewhat reliant on a model where the primary sector will play an important role. Properly leveraging these indigenous resources to their maximum potential will serve as a catalyst for the economic progression of the country into and through the other sectors.

The quaternary sectors are part of a natural and necessary progression. While similarities with the tertiary sector are often made as they are both either service-based or oriented, knowledge-based industries are incredibly important. Their future place in our economy leads back to earlier questions. Specifically ... are the companies (and the industry sectors within which they operate) that will benefit the most from the trade promises being made by the Canadian government significant contributors to the overall health of our domestic economy? Are these industry sectors part of the mid- to long-term economic picture? Upon which domestic sectors is guaranteed access to "the provinces' public purchases" likely to have the greatest negative impact? Are these sectors part of the mid to long-term Canadian economic picture?

Again, I do not have the answers. Perhaps more in depth discussions of the issues will enable us all to move from the realms of sound bite reactions to a more tangible and holistic understanding of the Buy American challenge facing us. 

ECONOMY, PROCUREMENT AND BUY AMERICA

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