

4. Competition in Canada under Free Trade

The most important link between competition policy and other policies is that with trade. This is also not a recent discovery. Adam Smith believed that:

merchants and manufacturers ... being collected into towns and accustomed to that exclusive corporation spirit which prevails in them, naturally endeavour to obtain against all their countrymen, the same exclusive privilege which they generally possess against the inhabitants of their respective towns. *They accordingly seem to have been the original inventors of those restraints upon the importation of foreign goods, which secure to them the monopoly of the home market.*¹⁸

In the XIXth century, it was observed that "the tariff is the mother of the trusts". Indeed, commentators have speculated that the original Canadian anti-combines legislation was calculated to fend off criticism that the National Policy, a policy of high tariffs designed to nurture the growth of a manufacturing industry in central Canada, facilitated the creation of combines.¹⁹ These same commentators have pointed out that the history of competition in Canada is fraught with examples of substantial tariff and non-tariff barriers to trade facilitating monopoly, merger, and collusion.

The traditional view of the Canadian economy is that it is characterized by small and geographically-segmented markets that often lead to high levels of market concentration. Studies prepared before the implementation of the Canada-US Free Trade Agreement showed that most markets in Canada tended to be oligopolies. For example, in 1986 Khemani found that:

92% of the five-digit standard classification commodities in manufacturing (e.g., four-door passenger sedans, canned soup... etc.) are produced in industries where four or fewer firms account for 60% or more of total sales. 82% of these commodities are produced by four or fewer firms with 80% of total industry sales.²⁰

¹⁸ Adam Smith, op cit, Volume I, p. 462. My italics.

¹⁹ Michael J. Trebilcock, "Competition Policy, Trade Policy, and the Problem of the Second Best", in Khemani and Stanbury, supra, note 4, p. 30.

²⁰ R.S. Khemani, "Merger Policies in Small vs. Large Economies, in Khemani and Stanbury, supra, note 4, p. 206.