Canada needs to find the right balance between a free-trade mentality and national industrial interests

By Aziz Guergachi
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German railway manufacturer Siemens is said to be close to winning a tender of Via Rail for the renewal of its fleet of 32 trains in a deal worth $1-billion – beating out Canada's Bombardier in the process. Siemens Mobility has no manufacturing plants in Canada and would fulfill the contract at its Sacramento, Calif.-based facility.

It is true that the new Comprehensive Economic and Trade Agreement with Europe prohibits a federal Crown corporation such as Via Rail from requiring local content in public tenders. And within the European market, the law does not allow any local content to be required in public tenders. Yet, direct cross-border purchasing in public procurement in Europe remains very low compared with what we may see in Canada. According to a study published recently by the European Union, the vast majority of contracts awarded across the EU member states went to local companies or foreign companies with local facilities and labour. How is it, then, that Europe and Canada follow the same rules in their respective public procurement, but end up with different cross-border supply levels?

The EU member states are not the only places where the local content is high. South of the border, the "Buy America Act" – which applies to purchases related to rail or road infrastructure – states that the cost of components manufactured in the United States must be greater than 65 per cent of the total cost, and that the final assembly must take place in the United States. This percentage will go up to 70 per cent in 2020.

While it's true that Europe has no explicit local content requirement rules similar to the Buy America Act, various demands eventually lead to the same outcome. Here are some examples of these other conditions:

- Additional assessment criteria such as environmental performance, social compatibility, total cost of purchase and product life cycle.
- Exemptions that allow European states to award sole-sourced contracts under the Competitive Dialogue procedure and the Innovation Partnership procedure. For instance, under the Innovation Partnership, France in 2016 mandated Alstom to develop next-generation VHS trains for SNCF Mobilités, a contract worth €3.5-billion.
- Combination of qualification criteria, product specifications and award criteria recognizing a bidder's local manufacturing footprint.

Competitive considerations are also behind the merger announced in September, 2017, between Germany's Siemens and France's Alstom: The two countries want to counter the arrival of the Chinese giant CRRC on the European market. The merger is strongly supported by French President Emmanuel Macron and German Chancellor Angela Merkel. The new group will be a "mobility giant," promised French Finance Minister Bruno Le Maire. This merger would create an "Airbus for rail," the French government claims, with annual revenue of more than $22-billion, double that of Bombardier Transportation.

In this context, it is hard to understand why Canadian public entities are awarding major and strategic contracts to direct challengers of our local champions, reinforcing the

competitive advantage of these rivals and adding no noticeable value to the economy and industrial structure of our country.

Global competition in the rail industry is intense. Governments are using increasingly strong economic and local policies to support their domestic manufacturing giants, creating technology in their respective countries and generating local economic benefits. Leveraging public procurement or investments in infrastructure projects to drive local manufacturing, job creation and innovation, as well as export opportunities is part of this. Canadian firms such as Bombardier need to be competitive in their national market and abroad, but local investments by these firms in Canada should be recognized and valued in the same way they are in international markets.

This is a matter of a level playing field and reciprocity. For Canadian companies to succeed abroad, they must first succeed here. Otherwise, their credibility in international markets will be weakened. Canadian projects serve as reference points for international markets and as platforms for export.

Canada must not give up its free-trade mentality, but at the same time, it must pursue a national industrial policy that will enable it to cope with new international competition trends, and promote its economy as well as the development of new products and new strategic technologies.

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