Mixed ownership companies in Canada

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A consequence of the privatization process adopted by Russia in the mid-1990s is the persistence of a large number of enterprises with mixed public and private ownership. Questions of performance, governance, accountability, and improper conversion of assets and control have arisen in the Russian context. The purpose of this note is to examine Canadian instances of mixed ownership to see whether they might suggest fruitful avenues for reform of corporate governance.

Canadian corporate structures

In Canada, organizations may be chartered under federal or provincial law. Provincial law for the most part follows the principles established under federal law, the main features of which are as follows:

- Ordinary joint stock companies are registered under the *Canada Corporations Act*, Part 1, or the *Canada Business Corporations Act*. They may have one or more classes of stock with different economic and governance rights. Their legal personality rests in a board of directors, who carry ultimate responsibility for running the company and are elected by the shareholders. Directors' fiduciary obligation is to the best interests of the company. There is an extensive set of behavioural norms and obligations laid out in such statutes as the *Canada Business Corporations Act*, the *Income Tax Act*, the *Canadian Environmental Protection Act*, employment law, the *Bankruptcy and Insolvency Act*, and many others. Provincial securities commissions regulate their issuance of equity and debt, and their obligations to disclose material information. The principal provincial statute, and a model for other provinces, is the *Ontario Securities Act*.

- Non-profit companies can be chartered under Part 2 of the *Canada Corporations Act*. They may operate in a commercial manner but must devote any surplus of revenues to the typically charitable interests they are organized to serve. In these cases the members of the society elect a board of directors who "are" the corporation in the usual way. These directors have the same kinds of duties and liabilities as do

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directors of ordinary profit-oriented joint stock companies. These companies are sometimes called "non-share corporations" as they do not issue equity to investors. If such an organization has some directors named by the government and some of its assets provided by appropriations, it may be an example of shared governance, if not ownership.

- From time to time, though infrequently in recent years, Parliament may by statute establish a corporation. Such "special act" companies normally have all the powers of an ordinary company except for certain specific constraints, which typically relate to corporate objectives – in effect, the allowed fields of endeavour – or to obligations to perform certain functions as a matter of public policy. Official language requirements, limits on borrowing powers and the issuance of securities or the location of offices are common examples of such obligations. When all the shares of such a corporation are owned by the government the company is referred to as a Crown corporation. If any shares are owned by a private party it is a mixed enterprise. If shares are held by a province it is referred to as a joint enterprise.

Mixed-ownership corporations

Stephen Brooks, writing in 1987, remarked that the literature on mixed-ownership corporations was scanty.[2] His brief historical and analytical overview remains the best in the literature almost two decades later. Drawing on French and British as well as Canadian experience, he makes the point that such companies, in the crunch, are often disobedient. Elf and BP both disobeyed their national government shareholders to look after national customers first during the 1973-74 oil embargo, and the Canada Development Corporation refused to invest in the failing Massey-Ferguson company in 1981. All were highly public confrontations. The directors of mixed enterprises are well within their statutory rights to decline to take actions that are not in the best interests of the company, and with the possible exception of France, Western publics will generally not support the government in such an affray.

Boardman and Davis, canvassing a large number of mixed, private, and state-owned enterprises in western Europe, North America and Japan, assessed their performance on a wide range of measures, concluding that "large industrial state-owned enterprises and mixed enterprises perform substantially worse than

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[2] Stephen Brooks, "The mixed ownership corporation as an instrument of public policy," *Comparative Politics* 19 (January 1987): 173-91

private corporations."[3] Their quantitative conclusion seems sound; less convincing, since the evidence is fragmented and anecdotal, is why this should be. They nonetheless describe the more compelling theories in an introduction to the empirical analysis.

The Canadian situation

Of the small number of mixed-ownership commercial companies in Canada, many tend to be temporary: they were acknowledged at the outset as way stations on the route to complete privatization. Nonetheless, the period of mixed ownership can be lengthy – long enough to expose the peculiarities and difficulties inherent in the model.

Private investment in public corporations in Canada comes through debt as well as equity. Debt is seen as safe, given the existence of formal or assumed guarantees and the priority of debtors over equity holders in the case of a wind-up. On the other hand, most private investors prefer to avoid taking shares in companies whose motives include public policy or political objectives. Such purposes are seen as reducing the potential for profit and unfit objects for private investment.

The Canadian government classifies its corporate holdings into wholly-owned Crown corporations and "other" holdings. This category includes mixed-ownership corporations as defined above; corporations jointly owned with a province; shares in international organizations such as the development banks; "shared-governance" organizations;[4] and the securities of organizations under the *Bankruptcy and Insolvency Act* which have fallen into federal hands pending liquidation.

As may be seen, mixed enterprises have not been popular in recent years, and the last one, Petro Canada, was fully privatized in 2004.

[3] Anthony E. Boardman and Aidan R. Vining, "Ownership and performance in competitive environments: a comparison of the performance of private, mixed, and state-owned enterprises," *Journal of Law and Economics* 32 (April 1989): 1-33

[4] These are typically industrial promotion boards or minor management or regulatory agencies organized under the non-profit provisions of the *Canada Corporations Act* or provincial Societies acts to whose finances the government may have made a contribution and in return is awarded a seat or two on the governing body for accountability and transparency purposes.

Table 1: "Other" corporate holdings of the government of Canada, fiscal year-ends 1999-2005

	2005	2004	2003	2002	2001	2000	1999
Mixed enterprises	0	1	1	1	1	1	1
Joint enterprises	3	3	3	3	3	3	3
International organizations	18	18	18	18	18	17	17
Shared-governance corporations	144	141	139	139	133	133	112
Corporations in bankruptcy	40	35	29	25	20	20	17

This was not always the case. As recently as 1985 there were about ten such corporations. Some were incidents in a larger restructuring: the numbered companies in Table 2 were used to acquire the assets of failing fishery companies in the perennially troubled Atlantic region. The federal government negotiated an arrangement in which it invested new money, the owners of failing companies were given some shares to recognize the value of their assets, and a substantial new company, Fishery Products International, was created to carry on the fishery. The federal government sold its shares in FPI as soon as it was able to, but for a time, virtually the entire Atlantic fishery was under mixed ownership. Such were the obvious requirements of an emergency situation, as well as the daily public visibility of the restructuring of the region's principal primary industry, that improprieties, even conflicts, in governance were avoided. After all, the alternative to partial federal ownership during restructuring was bankruptcy, a fact which had the virtue of simplifying negotiations.

Other companies were set up with specific local development purposes, often in situations where access to capital in the ordinary way was difficult because of risk, lack of collateral, or the inability of banks to price and manage risks appropriately. This would account for Canadian Arctic Producers, which virtually created the market for Iniut art, today a principal source of income for far Northern communities; or for Mohawk St. Régis Lacrosse, where a native Indian community faced difficulty raising capital. The Mirabel industrial park was a shared ownership company set up to develop part of the vast acreage expropriated for the eventually unsuccessful Mirabel Airport, 50 km north of Montreal. Likewise, the Cooperative Energy Corporation was an offshoot of a doomed federal policy initiative, the National Energy Policy of 1980. Eager to create some Western approval for its confiscatory and only dubiously constitutional energy strategy, the federal government created a subsidized vehicle with which (principally agricultural) cooperatives could buy into the oil and gas industry. An election in 1984 reversed the policy and incidentally sealed the fate of Cooperative Energy as a mixed-ownership corporation. In contrast, the federal 18 percent share in a rich but remote lead-zinc mine, Nanisivik, was earned in a normal commercial manner through the provision of shipping services. The government, through a Crown corporation, CanArctic Shipping, had a monopoly on ice-strengthened freighters. The mine has since played out and the property was sold to a junior mining company, Breakwater Resources.

This leaves four large companies on the 1985 list. PanArctic Oils was created as a mixed enterprise in 1967 to explore for oil in the Arctic Archipelago, an area of great prospectivity but also great expense, where conventional oil companies would not venture alone under the prices prevailing at the time. PanArctic was later rolled under the umbrella of Petro Canada, but has kept its corporate identity and mandate as a subsidiary of that now large corporation. Telesat was also a child of the 1960s, founded as one of a string of federal attempts to conquer Canada's challenging geography,[5] in this case by making data and broadcasting services available across the country by means of geostationary satellites. Founded in partnership with Bell Canada, the principal telephone company in Canada, the federal equity has since been sold to Bell. As regulated utilities, both companies are legally required to operate as "common carriers '' that is, their monopoly ownership cannot interfere with access to the signal relay capacity of Telesat. A public regulatory body, the Canadian Radio-television and Telecommunications Commission, polices their business practices in a highly public fashion.

A few years later, in 1971, the Trudeau government created the Canada Development Corporation to invest government money, and later the savings of eventually 31,000 ordinary citizens, in a portfolio of private companies, principally in industrial and resource development. The officials who ran the company were some of the brightest, most aggressive, and most committed Liberals of their day. While the company enjoyed a number of investment successes, they also sustained losses. The appeal of supposedly strategic sectors where Canada might not otherwise have a "player" or might forfeit early-mover advantages was strong, and hard-eyed risk assessment and management was not a principal recruitment criterion. One of the later uses of the company was as a restructurer and seller of failing industrial enterprises, such as Canadair or de Havilland, companies in the aerospace business. Either way, CDC's portfolio too often called to mind the comment of a distinguished Canadian public servant of the time, Sylvia Ostry, who observed that civil servants were no worse than anyone else at picking winners, but that "losers were pretty good at picking governments."

That leaves Petro Canada, the principal focus of the rest of this report.

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[5] Canada has, after all, fully half as many time zones as Russia.

Table 2: Canadian Mixed Enterprises, 1985

125457 Canada Limited, later NSHOLDCO Limited; with 125459 Canada Limited, sold to Fishery Products International as part of the restructuring of the Atlantic fishery in 1982-84

125459 Canada Limited

Canada Development Corporation

Chartered 1971 as holding company with investments in Canadian manufacturing and resource companies; initial public offering (IPO) 1975; by 1985 government owned 47 percent of voting shares; later sold 23 of 30.7 million remaining shares to the public by installment receipts, taking voting power to 11 percent; remainder privatized in 1986.

Canadian Arctic Producers Limited

1965; set up to market art and carvings of Inuit and Dene communities; shares transferred to corporation in 1982, now a division of Arctic Co-operatives Limited.

Cooperative Energy Corporation

Chartered 1982 as means for co-operatives to invest in oil and gas; wholly privatized in 1995

La Société du parc industriel et commercial aéroportuaire de Mirabel

Set up to manage airport lands inside the perimeter of Mirabel airport, Montreal. Sold 1982-83

Mohawk St. Régis Lacrosse Ltd.

Inactive by 1985

Nanisivik Mines Ltd.

Canada earned 18 percent of equity through infrastructural investment and related services. Mine played out and property sold to Breakwater Resources Inc. about 1996.

Panarctic Oils Ltd.

Chartered 1966 to explore for and develop oil and gas in the Arctic Archipelago; became a subsidiary of Petro Canada in 1976

Petro Canada

Chartered as a Crown corporation in 1976; partially privatized 1991 and 1995; remaining shares sold 2004

Telesat Canada

Chartered 1969. Provides satellite broadcasting and related services for Canada and other countries in the Americas. Bell Canada, its long-time private shareholder and a principal telephone company in Canada, became sole owner in 1998.

Sources: Canada, Auditor General, *Report*, 1985, chapter 5, "Mixed and Joint Enterprises," Ottawa and company reports.

Petro Canada

The most recent example of straightforward mixed ownership is Petro Canada, founded as a Crown corporation in 1975, in the wake of the Arab oil embargo, as "a window on the industry." This richly endowed company was intended to make sure that there was a Canadian corporation of scale in the rapidly consolidating international oil industry of the day. In February 1990, the government announced its intention to privatize the company, and in 1991, sold about 30 percent of the common stock in an initial public offering (IPO). In 1995, another 50 percent was sold, leaving the federal government with approximately 19 percent. The remainder was sold in 2004. There is thus a period of 16 years in which the federal government was sole owner of one of the largest integrated oil and gas firms in the country, 4 during which it was the majority owner but pledged to proceed at some point to complete divestiture, and 9 during which it was a minority shareholder. The company continues to thrive in private ownership and has lately been discussing a large liquefied natural gas (LNG) deal with Gazprom.

Table 3: Petro Canada 2005: a snapshot
(Billions of C$ except where indicated)

Assets	20.7
Long-term debt	2.9
Shareholders' equity	9.8
Cash flow	3.8
Net profit	1.7
Return on capital employed	16%
Proven reserves	1,232 MMboe

Source: Petro Canada Annual Report, 2005

The principal questions are how the federal government exercised its rights as owner during three distinct periods and whether corporate behaviour changed as ownership changed.

When Parliament created Petro Canada in 1975, its initial endowment was the government's share of PanArctic Oils and its holding in Syncrude, the pioneering Tar Sands developer, then still in pre-production mode. The initial board of directors, all directly appointed by the government, was chaired by Maurice Strong, a businessman with strong public policy interests who was well acquainted with senior ministers in Ottawa. Strong was also President. The Executive Vice President and Strong's successor as President, Wilbert Hopper, was a former senior government official. The two started business on January 1, 1976 in Calgary. They were soon joined as vice president of corporate planning by Joel Bell, an ambitious young man from the Prime minister's Office.[6]

Petro Canada had a mandate to grow big, and to do it quickly. At the same time they had a mandate to invest in those national resources which were just beyond the fringe of what the private industry of the time would contemplate. So their first investments were farm-ins – shares of projects owned and operated by other companies – on expensive and risky exploration plays on the Scotia Shelf and on the Grand Banks of Newfoundland, and the acquisition of the less risky Canadian assets of Atlantic Richfield, which was then under financial stress from the development of the Prudhoe Bay field in Alaska. Investment in Syncrude was stepped up. In this case the risk was not with exploration results but with technology.

Then came a mistake. In 1978 Petro Canada tried to buy Husky Oil, a major Western Basin producer, but execution of the deal fell apart, largely because of errors by the relatively inexperienced Petro Canada team.[7] On the rebound, Hopper and Bell (Strong had left in 1978) bought Pacific Petroleums in 1979 through a purchase of the 48 percent holding of Phillips Petroleum and a subsequent public offer for the rest of the float. For the first time Petro Canada had moved away from being a pure upstream play, as Pacific Pete had some small refining and marketing assets.

At this point Petro Canada's existence was threatened. A Progressive Conservative government under Joe Clark was elected in May 1979 which was philosophically opposed to direct government investment in the sector and which had promised to privatize the company. Even exploration success off the east coast in both oil (Hibernia) and gas (Scotia Shelf) was not going to deter the new government. Fortunately – from the point of view of company management – the government fell in November, before it could pass privatization legislation, and the more interventionist Liberals were re-elected. In the wake of further disruptions in the international oil economy, the Liberals were bent on expanding Petro Canada and, incidentally, expropriating the rents from high prices hitherto accruing principally to the province of Alberta.[8] Expansion came

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[6] Peter Foster, *The Blue-Eyed Sheiks: The Canadian Oil Establishment*, Collins, Toronto, 1979, pp. 139-64

[7] *Op. cit*., p. 157

[8] This may have been the single most wrong-headed policy decision by any Canadian government. Regional anger was enormous, set the stage for a Conservative landslide in 1984, and persists to the present. The seizure, moreover, was predicated on oil and gas prices continuing to escalate from their 1979 highs, hardly something to be predicted from an unstable cartel faced with resource and technological alternatives. The story of the NEP is told in another volume by Peter Foster, *The Sorcerer's Apprentices: Canada's Super-Bureaucrats and the Energy Mess*, Collins, 1982

in the form of the purchase of the large Canadian assets of the Belgian Fina corporation, which added greatly to Petro Canada's retail marketing and refining base. In 1982 Petro Canada discovered a large new oilfield, Valhalla, in its home province and in 1983 bought the refining and marketing assets of BP Canada. By now it was by several measures the second biggest integrated oil and gas company in the country and nearing its goal of being "too big to privatize."[9]

With the election of Brian Mulroney's Progressive Conservative government in 1984, the priority was unwinding the Liberals' unfortunate National Energy Policy. Petro Canada, whose acquisition and frontier drilling budgets had been underwritten by the federal government, was unhitched from that source and instructed thenceforth to behave in a purely commercial manner. The next acquisition, Gulf Canada Limited, was financed from ordinary cash flow and borrowings. Not until Mr. Mulroney's second term did the government get around to passing privatization legislation, and in July 1991, the first shares were sold to the public. From then until 2004, Petro Canada was a classic mixed enterprise.

Petro Canada as a Crown corporation

It will be apparent that the company's first 15 years were a period of exceptional expansion, driven by a public policy (and a public purse) that wanted to see a major Canadian presence in an industry which had been overwhelmingly – over 90 percent – in foreign hands, and which in the globally highly politicized markets of the day did not put Canadian consumer interests first. It is fair to say that the board and senior management were initially not as experienced as their competitors. This showed itself in risk- and quality-adjusted prices for farm-ins with those competitors which were somewhat more expensive than they should have been, rather than in the prices paid for major acquisitions. Here, management was prepared to be opportunistic. With deep pockets and an ability to pay cash for the assets of competitors experiencing squeezes of their own, they were able to be skilful buyers, the Husky fiasco aside. Very quickly, the best brains in the investment banking and legal businesses came onside.

Foster relates an incident from the 1979 purchase of Pacific Pete which illustrates the sometimes delicate problems of governance and propriety that can arise even in these relatively simple circumstances.[10] The board of directors, consisting principally of experienced businesspeople who were not unfriendly to the government of the day, also included the Deputy Minister of Finance, Tommy Shoyama. The financial instrument used to make the purchase was so-called

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[9] A phrase used by the CEO, W. Hopper, to the author that summer. Petro Canada would have been by far the biggest IPO on the Canadian market at the time, had it been sold all at once.

[10] Foster, *Blue-Eyed Sheiks*, p. 161

"term-preferred" shares, an after-tax device that allowed the payment of significantly lower dividends. The federal government, concerned about the loss of tax revenues through what was seen as a loophole, ended their use in the November 1978 Budget – just days after Petro Canada had arranged its financing. Mr. Shoyama, a man of unimpeachable reputation, knew what both the company and the government were doing, but said nothing to the company.

Mr. Shoyama was in a difficult spot.[11] He had to respect his oath of office in respect of Cabinet secrets, and he had a legal obligation as a board member to act always in the best interests of the corporation. He resolved it by keeping secret the intention of the government, even though there were subsequent accusations of improper behaviour. There had been much speculation in the press about the possibility of closing the loophole, however, and any prudent management would have hastened to make its financing activity a *fait accompli* before the date of the Budget.

During its period as a Crown corporation, Petro Canada acted as an instrument of national policy. It is clear that no other company was willing to take on its portfolio of frontier (Arctic and offshore) exploration, technology development (Tar Sands), and conventional exploration and development while at the same time striving to grow a presence in every facet of the business – exploration, production, refining, distribution, and retail marketing – in a single country. No private company attempted anything of the sort, even within the extraordinarily generous fiscal climate of the times.

Petro Canada as a mixed-ownership corporation

In July 1991 the first shares were sold to the public. There had already been changes in senior management and the board. Strong, Hopper and Bell had left years before, and the board and senior management were oil industry professionals. The federal government still appointed a director, a senior lawyer from a prominent Calgary firm with a large energy practice, J.F. Cordeau. A modest program of investment abroad began with an oil discovery at Tamadanet, Algeria. Rebranding and marketing in Canada got a boost, along with refining capacity that allowed the production of a full line of lubricants as well as gasoline and diesel fuel. In 1996 the Canadian upstream activities of Amerada Hess were acquired, and an alliance was formed with Norsk Hydro in respect of North Sea oil and gas. Offshore (Hibernia) oil and Tar Sands production reached 250,000 barrels per day (b/d) by the turn of the century, and

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[11] The conflicts faced by senior officials when they are appointed to corporate boards, even those of Crown corporations, can be severe and may be best avoided altogether. H. Swain, "Eyes on governance: governing our Crown corporations," *Globe & Mail*, 21 October 2004 p. B6

in 2002 international operations were greatly expanded through the acquisition of the exploration and production assets of Germany’s Veba Oil and Gas Gmbh. In 2004 a plan for a liquefied natural gas plant, using LNG from Gazprom, was announced for a site in the Gulf of St. Lawrence. The same year saw the sale of the remaining 19 percent government holding. The next year some of the Veba assets in Syria were divested to a joint venture of Chinese and Indian companies.

The story from the announcement of privatization in 1990 forwards, in other words, is that of a normal large company in this sector. It spread risk by acquiring an exploration and production portfolio abroad, both by acquisition and by direct investment. It diversified its domestic upstream investment among offshore, Tar Sands and conventional production, and built a portfolio of natural gas assets to complement oil. It sought to make its marketing activities reliably profitable by investing in brand development and by building or acquiring refining capacity to serve a wide range of petroleum, oil and lubricant markets in its home territory. All of this was financed from internally generated cash flow and normal market operations, and with the rewards of a conservative balance sheet in mind (see Table 3). No extraordinary attention was paid to public policy objectives, although like all large companies striving to be seen as good corporate citizens, it began to pay attention to its environmental footprint and its community relations, and since 2001 to report on these good deeds. It is today a well-regarded senior integrated oil company whose stock price has rewarded investors well in recent years and whose dividend has grown steadily since its inception in 1994. In other words, there has been no difference in corporate strategy and behaviour, in terms of prudent risk management, between the periods of mixed ownership and wholly private ownership.

Finally, it should be noted that mixed or wholly private enterprises operate by exactly the same rules and the same oversight by securities commissions, occupational health and safety regimes, employment and environmental laws and so on. Directors have the same duty of loyalty to the best interests of the corporation and liabilities with respect to third parties. An alert legal profession, public regulators, and an apparently incorruptible judiciary enforce the law.

P3s: Mixed ownership?

In recent years, following on the success of the British Private Finance Initiative, there have been a number of “public-private partnerships” (P3s) in Canada. The federal government somewhat inadvertently pioneered the form more than twenty years ago with its innovative approach to financing the Confederation Bridge, a 13-km bridge across the Northumberland Strait connecting Nova Scotia with Prince Edward Island. Since then two provinces, British Columbia and Ontario, have established Crown corporations to arrange P3s. But these are less true partnerships or mixed-ownership enterprises than they are a sophisticated way of acquiring infrastructural services. There is a large literature on the topic; suffice to say that in their fullest flowering, P3s involve a transfer of risk and related financial responsibilities to the private sector providers of necessary infrastructure, in which the (usually) higher cost of private capital is offset by innovation in design and economies in operation. A hospital, for instance, may be commissioned by a public authority under a "design-build-finance-operate" model, under which (a) the authority specifies the outputs or performance required, (b) transfers substantial financial, completion and operating risk to the private sector, (c) seeks innovative design and operating efficiencies through an open bidding process, (d) requires the builder to be the operator and capital maintenance provider for a period measured in decades, while (e) the public authority provides all clinical services. This model has been applied as well to roads, bridges, airports, prisons, schools and other discrete pieces of infrastructure in a number of European countries, the US, Canada and Australia. But while they involve substantial transfer of risk, the sharing of risk is trivial, there is no mixing of interests as would happen through a formal partnership (much less shared ownership of equity) in the venture, and the roles and responsibilities of all the entities involved is set out exhaustively in contracts. At bottom, there is no pooling of interest in a single organization, which is the essence of the mixed-ownership corporation.[12]

Pension funds

In recent years public pension funds operated by the provinces and by the federal government have become major investors. Conservatively invested, much of the cash used to be in fixed-income securities, often of the very governments that sponsor the funds. In recent decades, however, a more professional approach to investment has taken hold, with decisions on investment policy and specific transactions delegated to professional managers. In consequence most now devote more than half of their holdings to corporate equities. And the sums involved are staggering: about $800 billion in total. The Canada Pension Plan Investment Board alone administers $103 billion of workers' assets.

The leader in equity investment among pension funds has been the Caisse de depot et placement du Québec. Over the period from the 1970s to the turn of the century it actively sought, consistent with a good rate of return, to invest in Quebec companies, with the idea of creating 'national' champions. This *dirigiste* idea was shipwrecked on shoals of losses -- $8.5 billion in 2002 alone – which led

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[12] We assert this despite arguments to the contrary in, e.g., Alessandro Marra, "Mixed public-private enterprises in Europe: economic theory and an empirical analysis of Italian water utilities," *Bruges European Economic Research Papers* 4, July 2006; www.coleurop.be/eco/publications.htm

to a revolution in management and the establishment of a new goal: creating the best possible retirement for its annuitants. The conflict, in other words, between maximizing returns and funding provincial economic development came to an abrupt end when the conflict between goals was resolved in favour of the people to whom the trustees of the fund owed a fiduciary duty.

In many ways the story of the Caisse has been salutary for its peers, none of whom take an active role in the affairs of their investee companies. In general their holdings in individual publicly traded companies are small – a few percent of any one company, perhaps, and highly diversified. The Canada Pension Plan Investment Board has tended simply to 'buy the index' -- i.e., not to exercise any discretion about individual companies but to buy across the board in proportion to market capitalization. There are pressures on these boards to vote their shares in favour of a variety of good causes: good corporate governance practices (though these are now much more closely regulated by law than a decade ago, when that particular pressure began to be felt), or good environmental performance. These pressures are for the most part resisted, although there is some movement in that direction.

The bottom line is that the investee companies are not mixed-ownership corporations of the classic sort. The pension boards may well be Crown agencies, but their objective is maximizing return within a set of investment and risk guidelines for the pension plan beneficiaries, a matter which is thought not to involve an active role in management.

Provincial cases of mixed ownership

Provincial experiments in mixed ownership are few, and there is no central registry of them. As with the federal government, they were more popular in the 1970s than before or since. In Saskatchewan, for example, a Crown-owned corporation has long overseen the affairs of the provincial government's more-or-less commercial corporations, but private investment in these vehicles is minor and mostly at arm's length. British Columbia also experimented with a holding company for Crown corporations but tended to see this as a step on the way to privatization.

Minor sources of mixed ownership

There is a program of the federal government, Technology Partnerships Canada, which can result in short-term government ownership of some of the equity of private companies. Conditional loans are made to companies meeting fairly strict guidelines; these loans are repayable if the technological development in question is successful, usually under some sort of royalty arrangement. In the case of a wildfire success, the government may reserve some warrants on company stock. Usually these turn out to have no value; in the rare cases when they do, they are disposed of as soon as practicable.

Technically, the federal government may find itself sharing equity with other creditors through the workings of the *Bankruptcy and Insolvency Act*; but as the entity in question has already failed, this hardly gives rise to policy or governance questions.

Finally, Crown corporations themselves may have non-wholly-owned subsidiaries.[13] Thus Canada Post owns 80.41 percent of Purolator Courier Ltd., 51 percent of Innovapost Inc., and 6.1 percent of Co-operative Vereniging International Post Corp. The Canadian Broadcasting Corporation owns 20 percent of Look Communications Inc. and 29 percent of The Canadian Documentary Channel. These and others are minor entities, for the most part, operated with strategic partners rather than financial investors in an unreservedly commercial manner.

Concluding observations

Why are there so few mixed ownership corporations in Canada? The answer lies in the structure of incentives for private investors. In this economy, the expectation is that the only reason that government invests in anything that looks like a corporate enterprise is because it is not something the private sector would normally invest in. The enterprise is freighted with objectives that have little to do with private profit; or the risk is beyond the frontiers of rational private investment; or it may be subject to whimsical operational decisions based on the personalities of individuals who are appointed by the government to the board or management. These persons may not be motivated by the pure flame of profit maximization. The question private investors would ask is why anyone would want to invest in a mixed enterprise?

Private entities may lend money to government operations, especially when, as is usual, they pledge the "full faith and credit" of the government to the repayment of principal and interest but still pay a few basis points more than government bonds. In such cases the return to the private investor is entirely independent of the success or failure of the enterprise. Equity investment carries no such guarantee.

Shared-governance entities are different. These are typically industrial or regional promoitional bodies, or entities with quasi-regulatory or sectoral

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[13] Canada, Treasury Board, *2004 Report to Parliament – Crown Corporations and Other Corporate Interests of Canada*, Ottawa, 2005

management functions, which are in essence representative of the sectors being regulated or promoted.[14] In these cases, there are no real assets to be diverted, only operational funds, to which the government typically makes a contribution in return for a seat or two on the board. The purpose of such representation is essentially informational, though it may be supposed that the mere presence of such members may keep self-dealing to a decent minimum.

It would appear that the purpose of government investment affects governance and whether or not conflicts arise in the minds of managers and observers. Where shares are acquired simply in order to take advantage of private sector management in a search for superior returns, as is the case with the pension plans, no conflicts arise. Where shares are held temporarily with the purpose of sale, as in Petro Canada during the period of mixed ownership, objectives are also strongly aligned. It is when the government wants to avail itself of private investment in competitive markets in the pursuit of goals which may inhibit profit maximization that instability may be expected.

In Canada, when governments wish to avail themselves of the disciplines of ordinary commercial markets for a policy purpose, they normally do it through wholly-owned Crown corporations. If they wish the enterprise to be carried on by a genuinely private firm or by private managers, government generally arranges it through fairly sophisticated contractual arrangements, or more generally through the creation of private financial advantage through direct or tax expenditures. The private sector avoids mixed enterprises unless there is some advantage – monopoly, monopsony, self-regulation, sectoral or regional promotion, insider information, procurement preference, tax or financial penalty avoidance – of a more than ordinarily commercial sort granted in the process. In this sense, the Canadian example is either of little use to Russia, or a great deal. The example might be helpful if Russians were to decide to unwind the sometimes unhealthy connections between public and private interests in ordinary commercial enterprises.

[14] These are listed in the annual report of the Treasury Board to Parliament, "Crown Corporations and Other Corporate Interests of Canada," available on the website www.tbs-sct.gc.ca/report/CROWN/