

Lower corporate tax rate matters

BY PAUL VIEIRA, FINANCIAL POST JANUARY 23, 2011

Tom Searle, president of the Canada Region of CH2M Hill, says the Canadian oil patch is a big opportunity.

OTTAWA — These days, conventional wisdom dictates companies and investors should look east or south to emerging markets for faster-growth economies to fatten returns.

Challenging conventional wisdom is CH2M Hill, the privately held U.S.-based infrastructure company, which is reorganizing international operations to focus on the region it believes growth will excel: Canada.

The company is no small player in the engineering and infrastructure field. With current projects including the Panama Canal and India's Mumbai Airport and annual sales of US\$6-billion it's on par with Canada's SNC-Lavalin Inc. Tom Searle, recently appointed head of the company's Canadian operations, said plenty of factors proved too attractive to pass up: the country's ability to weather the financial crisis; prudent fiscal management; the robust natural resources sector that will demand the infrastructure CH2M can help build; and the drive to lower corporate taxes.

"Corporate tax rates do have an impact," Mr. Searle said. "Countries have to be competitive and there's many, many companies that consider corporate tax rates and do things based on upon them."

Other companies have taken note of Canada's attractive fundamentals as well, with Canada becoming the target of a flurry of deals so far this year.

These have included Target Corp.'s \$1.825-billion deal to acquire the leases of up to 220 Zellers Inc. stores, a \$4.9-billion deal by Cliffs Natural Resources Inc. of Cleveland, Ohio, to buy Consolidated Thompson Iron Mines Ltd. and the move by PIMCO, the U.S. investment giant, to open up a suite of fixed-income products for Canadian investors.

While the rest of the world continues struggle with large deficits, the federal government is promising to forge ahead with corporate tax cuts while balancing its budget by mid-decade.

Yet lower corporate taxes are becoming a wedge issue dividing the ruling Conservatives and the Liberal opposition party. The heightened rhetoric has raised the odds of an election as early as this spring when the minority government tables its budget, which will assume one last reduction to the corporate income tax rate, to 15% from 16.5%, effective Jan. 1, 2012 — the culmination of a five-year plan by Ottawa and the provinces to make Canada as attractive as possible to investors.

Business leaders worry the noise emanating from political leaders could thwart Canada's chances to draw cash.

"All this loose talk about tax cuts creates uncertainty," warned Perrin Beatty, president of the Canadian Chamber of Commerce. "And uncertainty drives out investment."

The Liberal party, led by Michael Ignatieff, has vowed that, if it comes to power, it would repeal previous business tax cuts to 2010 levels, at 18%, arguing Canada can't afford such tax relief given it ran a \$56-billion deficit last year. And to raise the debate a notch, the Liberals released TV ads attacking the Conservative tax plans.

Mr. Beatty said conversations he's had with Canadian-based executives at multinationals indicate it remains an uphill battle to persuade foreign companies to boost their Canadian presence. The corporate tax issue, however, has gone some way to attract interest, he said.

"If we give the tax cuts away, we will give up one of our best selling points."

Regardless, CH2M, based in the Denver suburb of Englewood, Colo., is convinced its Canadian gambit can work. The company, employing roughly 23,000 people worldwide and 1,200 in Canada, is involved in high-profile global projects such as the \$5.3-billion expansion of the Panama Canal, a US\$2-billion upgrade to Mumbai's airport, and planning and building the sports venues for the 2012 London Olympics.

"We decided that we needed to focus on the places where we could add the most value, and to the top of the list came Canada," Mr. Searle said.

He said the oil patch represents a big opportunity, as the energy sector will require the type of environmentally sustainable infrastructure CH2M believes it can help build and construct. And, he said, CH2M is more comfortable with Canada's standards on transparency, rule of law and payments system when compared to those in emerging markets.

As it happened, Mr. Searle was among those who met Finance Minister Jim Flaherty in Vancouver on Friday as part of the government's prebudget consultations.

He said he planned to tell Mr. Flaherty how Canada is the envy of the world. "But the key is to not just accept that and sit on your laurels but to continue to build and improve and innovate."

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