Special Assistant to the Deputy Minister of Justice. For the past three years he has been General Counsel and Director of Legal Services for the Department of Consumer and Corporate Affairs.

RTPC ISSUES FIRST ANNUAL REPORT

The Restrictive Trade Practices Commission will henceforth issue an annual report. Its first report, for the year ended March 31, 1981, was tabled in the House of Commons on July 15, 1981.

It was Consumer and Corporate Affairs Minister André Ouellet who suggested the issuance of an annual report even though it is not mandatory. In a letter to Chairman Stoner, he cited the broadened activities of the Commission as a result of the 1976 amendments to the Combines Investigation Act and the desirability of further enhancing public awareness of the issues before the Commission.

The first report describes the functions, organization and history of the Commission as well as its activities during the fiscal year. A feature of the annual reports will be the inclusion of the texts of RTPC decisions in respect of reviewable practices. The text of the Bombadier decision is in the first report.

REPORT ANALYSES POST-WAR CHANGES IN MANUFACTURING INDUSTRIES CONCENTRATION

A study[1] by Dr. R.S. Khemani, which was released in July 1981, measures and seeks to explain changes in levels of concentration from 1948 to 1972 in a sample of 57 Canadian manufacturing industries. The industries in the sample are those for which comparable data over the period could be obtained, and they accounted for about half of total manufacturing shipments and employment. Concentration was measured in terms of employment.

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1 Concentration in the Manufacturing Industries of Canada: Analysis of Post-War Changes. by R.S. Khemani, Research Monograph No. 8, Research Branch, Bureau of Competition Policy, Department of Consumer and Corporate Affairs, Ottawa, 1981.

According to an executive summary, the principal empirical results of the study are:

"a) Canadian manufacturing industries have varying but generally high levels of concentration. In 1972, approximately half of the total number of census manufacturing industries had four-firm concentration ratios of 50 percent or more.

b) Concentration levels on average have increased over the post-war period. The average four-firm concentration ratio in 1948 was 44.4 percent; in 1972 it was 48.3 percent. The four-percentage point increase is significant given that generally concentration levels in countries such as the United States have remained relatively stable over the post-war period. (Editorial note: the average four-firm concentration ratio rose to 49.4 percent in 1978.)

c) Concentration in industries with initial high levels has tended to decrease, but these industries still remain highly concentrated.

d) Econometric analysis indicates that the significant concentration-increasing factors are firm multi-plant operations, horizontal mergers and firm exits. The significant concentration-decreasing factors are market growth and entry of new firms.

e) The concentration-increasing effect of change in plant size is statistically insignificant. In other words, observed higher levels of industry concentration in 1972 do not result mainly from larger plant sizes. This result suggests that firms have probably exhausted the available economies of scale at the single-plant level.

f) In contrast, the significant concentration-increasing effect of firm multi-plant operations suggests that the firm level economies of operating two or more plants were not initially exhausted. The increase in firm multi-plant operations appear to stem in part from market growth.

g) Growth in market size, aside from possibly facilitating the growth of medium- and small-sized firms, also appears to have had the effect of reducing barriers to entry. Entry of new firms, which is found to be a significant deconcentration factor, is highly correlated with market growth.

h) The exit of firms possibly reflects rationalization of industry production. The relative effect of exit tends to be slightly greater in industries subject to the additional pressures of import competition.

i) The significant concentration-increasing effect of horizontal mergers suggests that the leading firms are the more active acquisitors of other firms in the sample, industries analysed.

j) The effects of advertising and tariffs on concentration change are found to be insignificant.

"The results cast doubt on theories which suggest that the tariff-protected small size of Canadian markets inhibits firms from pursuing potential plant economies of scale. If such economies were realized, industry concentration levels would be even higher. Increases in plant sizes were generally found to be statistically insignificant in explaining the post-war increases in industrial concentration levels. But the fact that increases in firm multi-plant operations have a significant concentration-increasing influence lends support to the conclusion of the Royal Commission on Corporate Concentration that the lack of adequate firm level economies was a major disadvantage confronted by Canadian firms.

"The significant role that horizontal mergers have played in increasing concentration levels further buttresses the concerns of the Bureau of Competition Policy relating to mergers. The specific merger provisions of the Combines Investigation Act have been rendered ineffective by past legal interpretation. Without revisions to these provisions, the trend towards higher industry concentration levels will remain unchallenged."

An unpublished paper by the Department provides more recent data relating to concentration. Using data from Statistics Canada, it shows that the shares of manufacturing shipments by the 25, 50 and 100 largest enterprises rose in each of the years 1968 to 1978 inclusive. That of the hundred largest rose from 43.9% in 1968 to 50.4% in 1978. The shares of the 25 and 50 largest were 29.2% and 38.7% respectively in 1978. The share of the hundred largest in Canada was considerably higher than in the United States and Japan, somewhat higher than in the United Kingdom and comparable with that in West Germany.

Product concentration ratios based upon so-called five-digit product classifications for the year 1978 are also provided. Examples of five-digit products are four-door passenger sedans, canned soup and men's dress shirts. 3,907 of the 4,080 five-digit classes had four-firm concentration ratios in excess of 50% in terms of value of shipments.