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Wage subsidies were meant to preserve jobs. In many cases, the $110.6-billion response padded bottom lines

The Trudeau government said CEWS would be a lifeline to struggling employers in the pandemic. But when The Globe compiled a list of who got money, and how much, it showed many firms weren't struggling at all in the lean months of 2020

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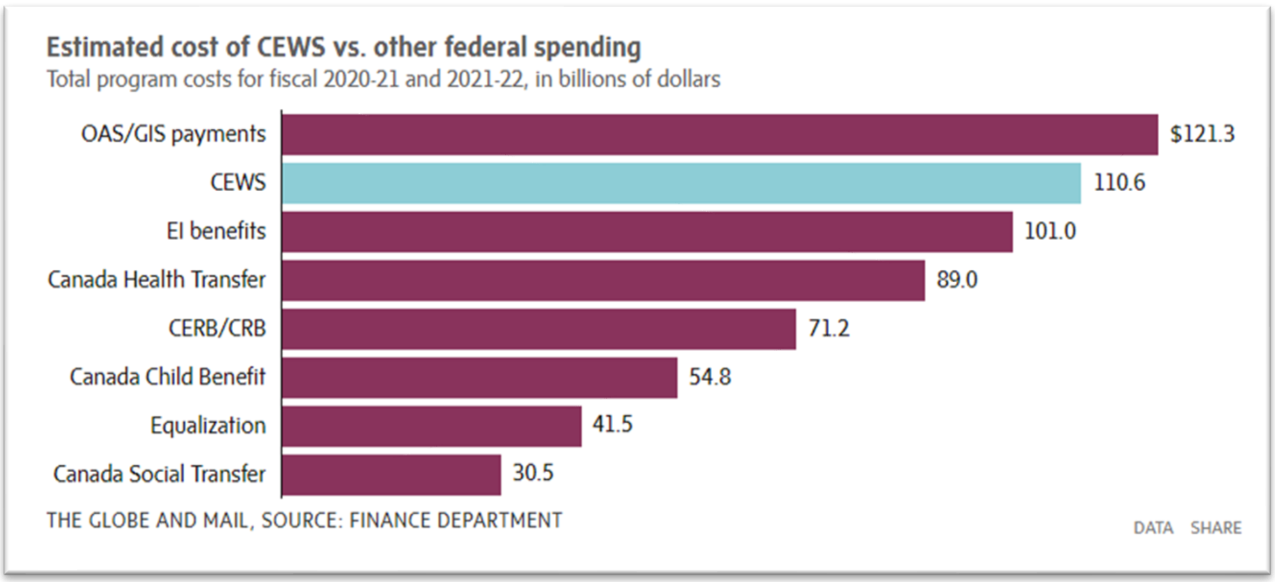
By any financial measure, TFI International Inc. has had a great pandemic.

Revenue at the Montreal-based trucking conglomerate, excluding fuel surcharges, rose in 2020. Net income jumped by double digits, in part because TFI moved quickly to cut its work force expenses. The company made a string of 13 acquisitions during the year. And after COVID-19 first gripped Canada last March, the company paid a higher dividend in every quarter compared with the same period a year earlier.

Along the way, TFI and its subsidiaries also collected nearly $75-million in payments under the Canada Emergency Wage Subsidy program, making it one of the biggest recipients in what is by far the single largest spending initiative in the federal government's history. CEWS allows employers to receive a 75-per-cent subsidy for payroll costs, with a ceiling on the subsidy per employee among other conditions.

With an estimated two-year price tag of $110.6-billion, Ottawa will spend more on CEWS than it does on child benefits, health care transfers, equalization payments or pandemic benefits for individuals. Only elderly benefits are larger, and then only if the Old Age Security and Guaranteed Income Supplement programs are lumped together.



If the intersection of a growing bottom line and a government bailout seems disconcerting, it shouldn't. There's no indication that TFI did not legitimately qualify for payments. The fact that a company posted solid results, paid out higher dividends, had money to spare for acquisitions and laid off workers to contain costs is no barrier at all to receiving CEWS payments – despite sporadic rhetorical feints to the contrary by the Liberal government.

And if TFI's experience seems unusual, it isn't. TFI has lots of company, according to a Globe and Mail analysis that married Ottawa's list of thousands of CEWS recipients to the Statistics Canada database on Canadian corporate parents and subsidiaries, and then cross-referenced that to the companies listed on either the Toronto Stock Exchange or the TSX Venture Exchange, according to S&P Global Market Intelligence.

The result: a database showing that 388 publicly traded companies (or their wholly owned subsidiaries) received more than $3.6-billion in CEWS payments as of late January (when the Canada Revenue Agency took down the federal government's online listing of companies). Some of the biggest names in corporate Canada are on that list, including Air Canada, BCE Inc., Canadian National Railway Co., Onex Corp., SNC-

Lavalin Group Inc. and Suncor Energy Inc. Taken together, those 388 companies account for 14 per cent of the combined listings on the TSX and TSX-V.

Citing privacy restrictions protecting tax filers, Ottawa has refused to release a full accounting of CEWS subsidies paid. Despite that very limited disclosure, the Globe database is the most comprehensive picture of how large companies have accessed the program.

But there are many limitations and omissions. Several companies did not disclose the subsidy amounts they received. And companies such as Bombardier Inc., which reported in securities filings it had received payments, had no direct name matches for itself or any of its wholly owned subsidiaries in Ottawa's online listing, and were excluded by our methodology.

Like TFI, many of the 387 other companies weathered the pandemic with relative ease, despite qualifying for assistance under CEWS. The program's goal was to preserve the jobs of millions of Canadians, but in many cases, payments padded bottom lines to the tune of millions of dollars.

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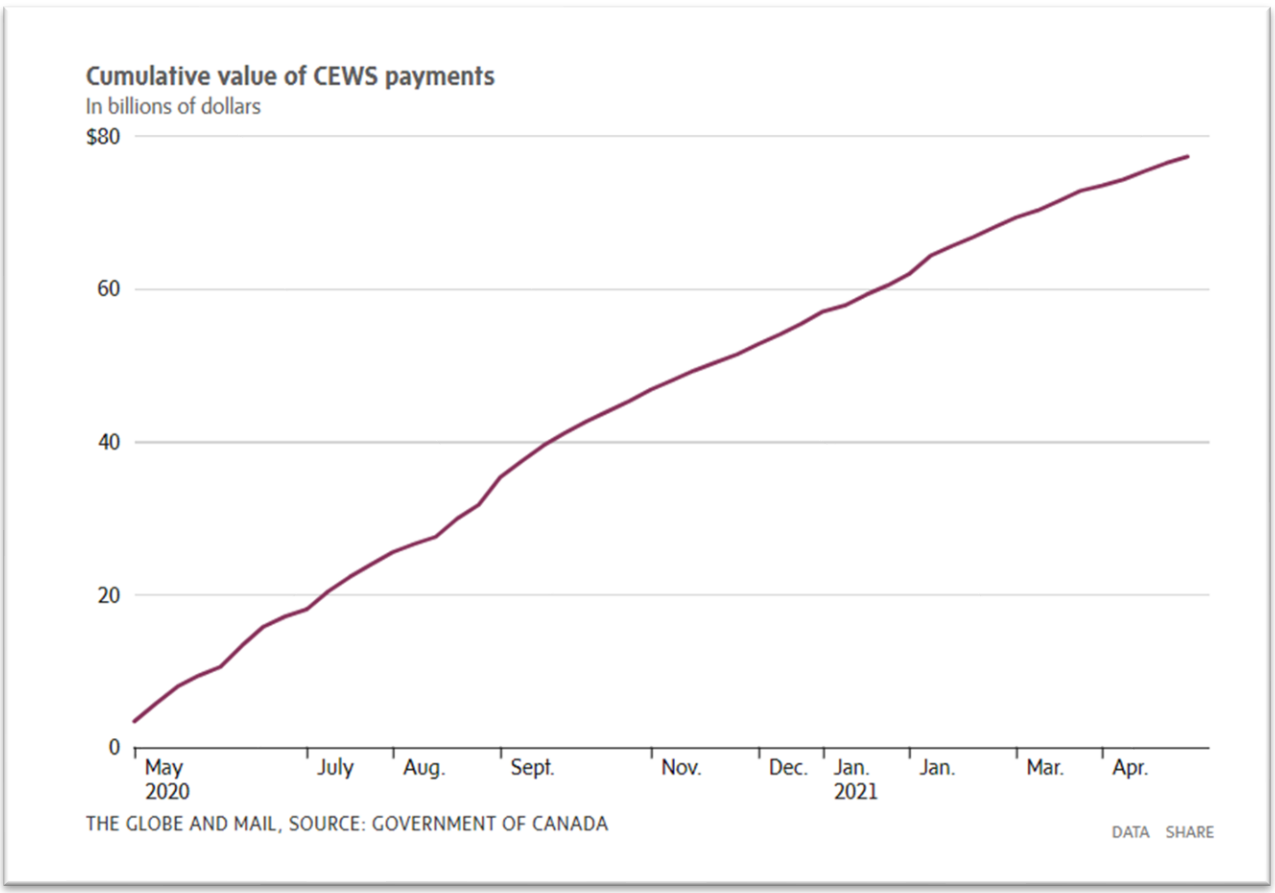


Among the key findings of the Globe analysis:

- Almost half the companies experienced severe revenue losses in the second quarter of 2020 compared to the same period in 2019, as measured against the initial qualifying threshold for CEWS of at least a 30-per-cent drop in revenue. But nearly a quarter of the companies had higher revenue. The third quarter was slightly better: Just under a third of companies had revenue declines of more than 30 per cent, while more than a third posted revenue increases. That doesn't mean those companies didn't play by the rules, but it indicates the decline in their business was fleeting.

- The picture was similar for profits. Income from continuing operations in the second and third quarters grew for a large minority of public companies receiving CEWS payments. Only a bare majority of companies saw profits slip compared to the same periods in 2019, even as the country suffered its sharpest downturn since the Great Depression.

- The industrial products and services sector topped the list of publicly traded CEWS recipients, accounting for 22 per cent of them; that category includes TFI. Technology companies made up 16 per cent, even though some benefited greatly from a surge in e-commerce during the pandemic. Oil and gas companies, already suffering before the coronavirus struck, accounted for another 15 per cent of recipients. The remainder – including mining, life sciences, consumer products and services, and many more – were under 10 per cent.

- Ottawa's public-facing data fail to give a full picture of how companies with subsidiaries have accessed the program. The 388 public companies in the Globe database accounted for 1,541 separate subsidies, reflecting payments to their wholly owned subsidiaries. But those subsidiaries were not linked to their parent in the searchable list that the government has since taken offline. Now, there is only a limited search function that allows users to input a specific company name to see if it has received CEWS funds.

Clearly, wage subsidies flowed not just to companies that were struggling but to many that were strong enough to withstand the pandemic downturn on their own. Without a full public accounting from Ottawa, it's impossible to determine how many billions of dollars were needlessly spent. But it is certain that the cost of CEWS has climbed far higher than first anticipated.

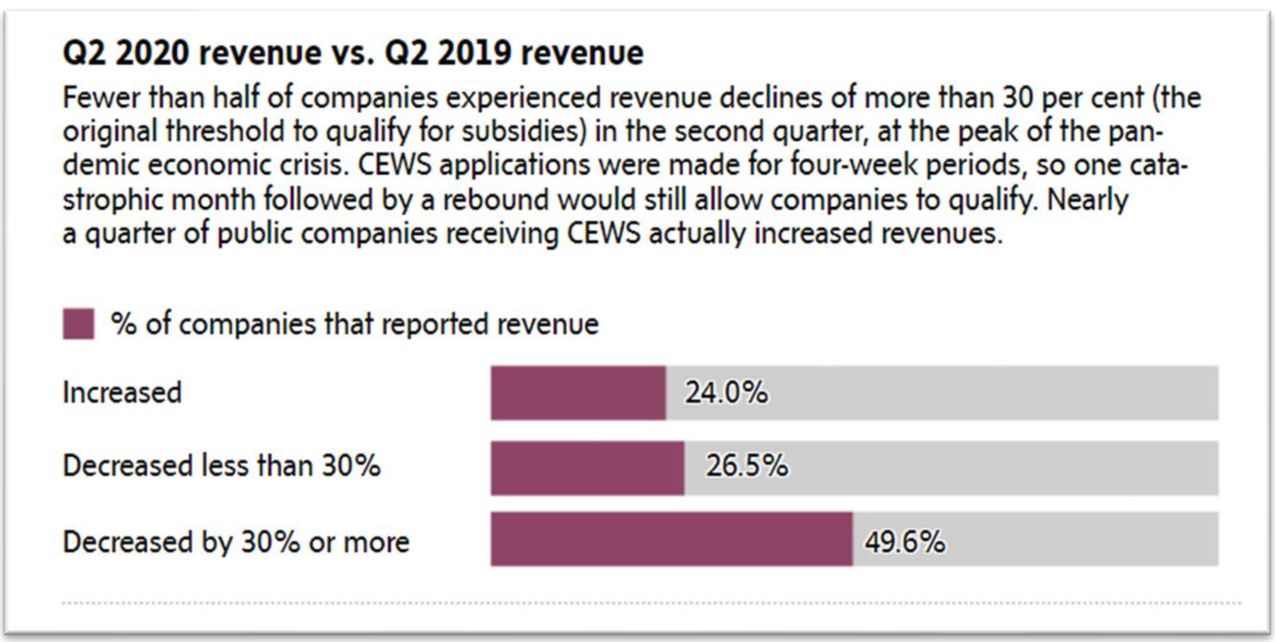
In the early weeks of the program, Ottawa estimated the total cost would be $73-billion, then trimmed that to $48-billion. But last month's federal budget pegged the total at $110.6-billion over two years. Those extra billions have now been added to Ottawa's pandemic debt burden. The question is: Is that unprecedented sum worth the resulting burden?

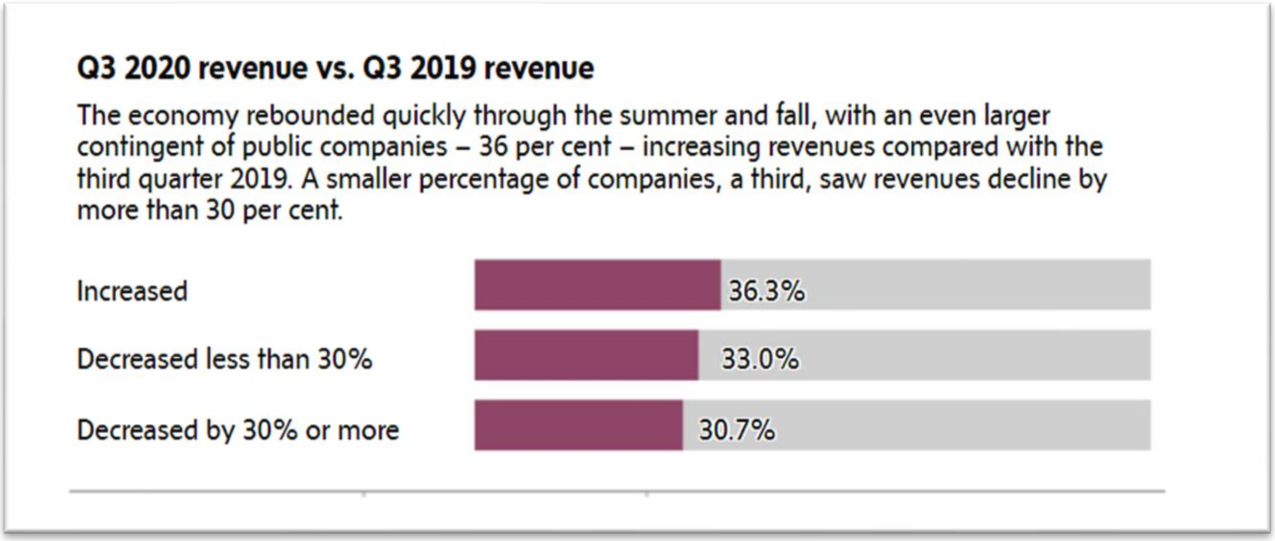
According to weekly data published by the CRA, as of May 2, 443,630 unique applicants had received 3,317,570 subsidy payments, accounting for $77.25-billion in expenditures so far. Although the agency does not break those figures down by size of business, the vast majority of payments – 97 per cent – were under $100,000.

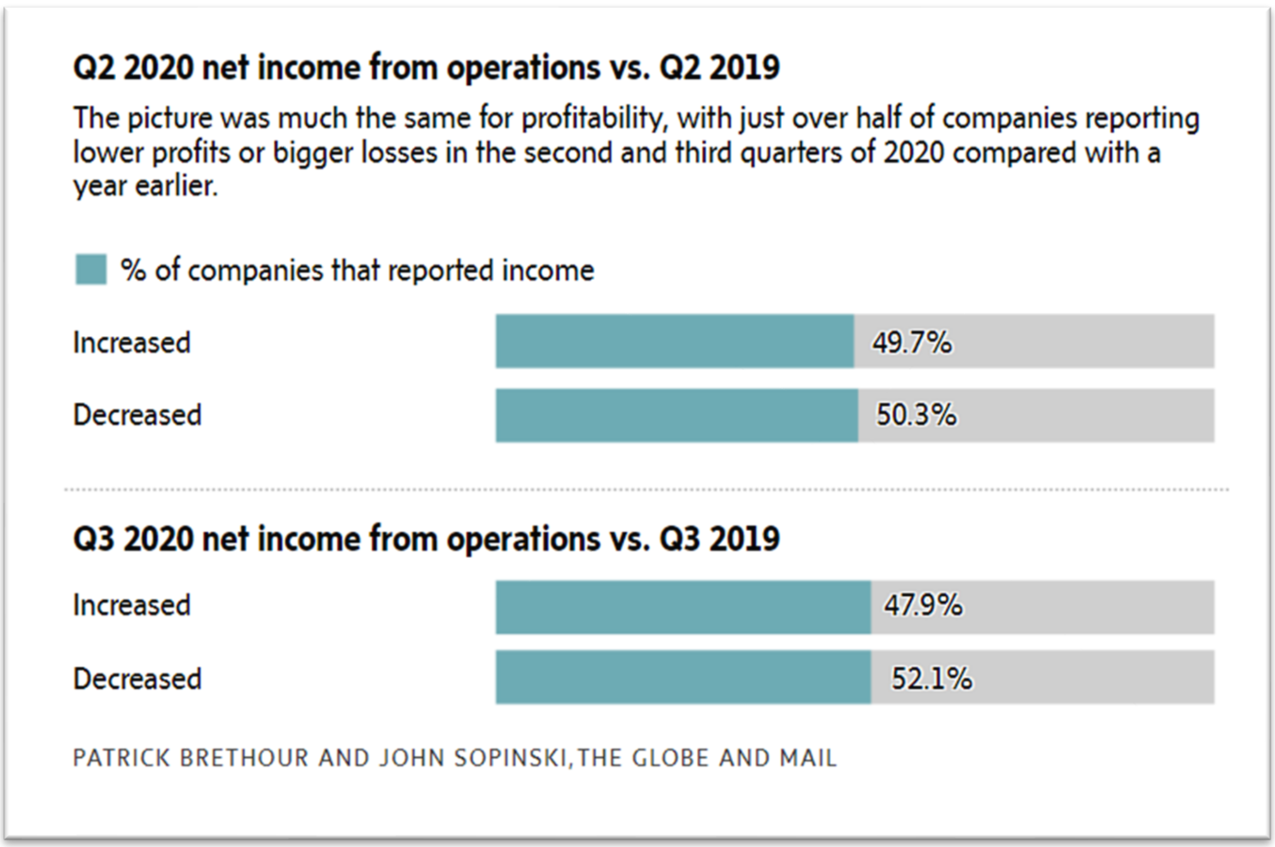
And the jobs of millions of Canadians have been subsidized. Although employers can apply for CEWS retroactively, the high-water mark of the program clearly came last July, August and September, as the government progressively loosened eligibility requirements. But that peak also came after the immediate economic crisis had passed – by September, employment was just 3.7 per cent below prepandemic levels.

For University of Toronto economist Michael Smart, the data on the use of CEWS by publicly traded companies underscore design flaws at the heart of the program. Ottawa chose not to limit it to small businesses. Nor did the government only pay subsidies for workers whose jobs were at risk of being eliminated. If a company qualified, salaries for all its work force – even in the executive suite – were at least partly subsidized. And CEWS allowed subsidiaries to qualify, without taking into account the resources or financial performance of their broader corporate entity.

“This program might have made sense for small private companies, but it was extended to large public companies,” Prof. Smart said. “And there was never a good policy basis for that.”







Haste making waste is as good an explanation as any for those design flaws, at least in the early going of the pandemic.

The wage subsidy program – which, to be more accurate, is really a payroll rebate program – was Ottawa's second attempt at a bailout of businesses threatened by the combined economic blows of the pandemic and the resulting lockdowns.

The first try, in the middle of March, 2020, fell flat. The Temporary Wage Subsidy for Employers was limited in scope, scale and time. Only small businesses could apply, the subsidy was just 10 per cent of payroll and the program was to last three months. But the backlash to that initial measure was fierce, particularly from small businesses, which saw the subsidy as too small to prevent mass closings and widespread job losses, particularly for companies limited to a hand-to-mouth cash flow.

In those early weeks of the pandemic, the economy looked to be in a freefall, with precipitous declines in employment and worries of even bigger job losses to come. Within 10 days of the government floating the original plan, Prime Minister Justin Trudeau announced there would be a massive ramp-up in wage subsidies to cover 75 per cent of eligible salaries, with the CEWS being formally rolled out by the end of March. (The formula set a cap on how much salary could be subsidized for an individual employee, and it excluded some forms of compensation, such as severance pay and stock options, from that calculation.)

But CEWS also expanded who could apply for subsidies. Not only small businesses with limited cash flows would be supported, but companies of any size could get in line, so long as they met the qualifying criteria. Initially, that threshold was set at a revenue decline of at least 30 per cent, although by last fall that criteria was relaxed to allow smaller revenue declines to be used to claim proportionately smaller subsidies.

There was no corporate equivalent of a needs test. The ability of companies to absorb a temporary downturn was not incorporated into the determination of subsidies. With an unexpectedly quick economic rebound, companies that experienced sharp but short slowdowns were still able to collect CEWS payments.

Nor did the hastily designed program – jamming into days a task that would have typically occupied bureaucrats for months, at least – take into account the ability of large companies to tap capital markets, or to simply redeploy cash from profitable subsidiaries to struggling ones.

Big businesses also have deep administrative benches, making it inevitable that large companies would tap CEWS, says Kevin Page, president and chief executive officer of the Institute of Fiscal Studies and Democracy and a former parliamentary budget officer. “Publicly traded companies are big employers and are well positioned administratively to gain access to government programs,” he said in an e-mail.

Most controversially, CEWS did not place any limits on how companies used the funds, in contrast to similar policies in other countries launched around the same time. In the United States, for instance, the Paycheck Protection Program, rolled out in April, 2020, extended hundreds of billions of dollars in forgivable loans to businesses. But to qualify for loan forgiveness, companies have to maintain staffing and compensation levels and spend at least 60 per cent of their PPP funds on payroll costs.


Finance Minister Chrystia Freeland speaks alongside the Prime Minister on May 3.BLAIR GABLE/REUTERS

Ottawa declined to impose such rules and restrictions, even as it revised, expanded and extended CEWS several times past its original 12-week lifespan. But that didn't keep Chrystia Freeland, who was appointed Finance Minister last November, from implying that the Liberals had done so. NDP finance critic Peter Julian twice grilled the minister during finance committee hearings, pressing her on why companies receiving CEWS were allowed to pay dividends, buy back stock, boost executive compensation and even lay off workers.

In their first exchange in early December, Ms. Freeland responded by saying, "The wage subsidy can, by very clear and specific design, only be used to pay employees. That money cannot be used for any other purpose."

She doubled down in March, when Mr. Julian again asked her about what he described as "abuses" of CEWS, saying companies who used payments for anything other than payroll would be breaking the law. "It is important for companies to understand that, legally, the wage subsidy can only be used to pay employees. It can't be used for any other purposes," Ms. Freeland told the committee.

In fact, there are no such rules in the legislation implementing CEWS. Indeed, the structure of the program doesn't even make such a scenario possible. Despite its name, the wage subsidy program is more of a payroll rebate program. It has been divided into successive four-week claim periods. Companies submit retroactive applications for each period, once they can show the degree of their revenue losses in that time. So, they have already paid salaries before making any CEWS claim.

And those reimbursement claims don't have to be made immediately. Under the rules of the program, companies could have waited until early February, 2021, to submit applications for the initial reimbursement period in May, 2020. Whether they hired or laid off workers in the intervening eight months was irrelevant.

Tax lawyer Shannon James, a senior associate at Borden Ladner Gervais LLP, says she has heard Finance and CRA officials make statements similar to Ms. Freeland's about the intended purpose of CEWS funds. But Ms. James says such a statement of purpose is "conspicuously absent" from the legislation.

When asked, Ms. Freeland's office did not cite any regulatory restrictions outside the legislation. Instead, her office said Ms. Freeland was pointing out that employers can only claim CEWS payments based on wages or salaries paid, rather than other kinds of compensation, such as stock options or other non-cash rewards.

In a statement, Ms. Freeland's spokesperson Katherine Cuplinskas said subsidies are paid as a reimbursement for wages and only companies that experience a revenue loss for the relevant period qualify for such payments. The statement also said the program has allowed businesses to keep employed or rehire five million Canadians.

NDP finance critic Peter Julian stands with Leader Jagmeet Singh at a July ceremony in Burnaby, B.C.DARRYL DYCK/THE GLOBE AND MAIL

In an interview, Mr. Julian said the NDP has repeatedly raised the need for restrictions on companies receiving wage subsidies, including with Ms. Freeland's predecessor, Bill Morneau. But the Liberals have consistently rejected any such measures, he said.

Despite Ms. Freeland's statements, there is no proof any company has received "even a rap on the knuckles" for paying out cash to shareholders, boosting executive pay or laying off workers while receiving CEWS payments, Mr. Julian said. He said he asked Finance Ministry officials in early March for the names of companies breaching the principles articulated by Ms. Freeland. At two months and counting, he has not received any list.

But the NDP MP does not exempt corporations from criticism. Even in the absence of a formal prohibition, companies should understand that public subsidies come with a commensurate obligation to act in the broader public interest. Paying out dividends or buying stock, boosting executive pay and laying off workers are incompatible with that interest and clearly are "breaking the spirit of why CEWS was put into place," he said.

"It is a problem in the executive suite, that they are not understanding why Canadian taxpayers are stepping up to provide support for their business."

Top 10 CEWS claimants

AIR CANADA	$656,000,000
CANADIAN NATURAL RESOURCES LTD.	$192,648,604
FAIRFAX FINANCIAL HOLDINGS LTD.	$157,622,160
IMPERIAL OIL LTD.	$155,000,000
TRANSAT A.T. INC.	$146,940,000
LINAMAR CORP.	$130,002,000
BCE INC.	$122,900,000
CAE INC.	$115,700,000
FINNING INTERNATIONAL INC.	$115,000,000
EXTENDICARE INC.	$91,200,000

Note: While CAE Inc.'s filings mentioned it took advantage of "recently enacted COVID-19 support programs" totalling $115.7-million, the company only specified CEWS by name.

THE GLOBE AND MAIL, SOURCE: S&P GLOBAL MARKET INTELLIGENCE; STATISTICS CANADA; CANADA REVENUE AGENCY; CORPORATE FILINGS

CEWS claims to date since launch, as of May 2, 2021

3,317,560

Total approved applications

3,343,110

Applications received

3,317,560

Total approved applications

443,630

Unique applicants with approved claims

$77.25

Dollar value of subsidies approved (in billions of dollars)

THE GLOBE AND MAIL, SOURCE: GOVERNMENT OF CANADA

The political debate over the lack of formal restrictions on the use of CEWS funds is really just a symptom of design flaws in the program, which fails to target payments to companies that are truly struggling. Michael Dolson, a partner and tax lawyer at Felesky Flynn LLP, said the revenue test ignored the fact that for some companies, costs would fall along with revenues, limiting the damage to profits.

Ottawa also did not limit CEWS payments to jobs that were at risk of being eliminated, instead providing subsidies for all positions within qualifying entities. “There were some employees who were never going to get laid off, simply because they are too valuable,” Mr. Dolson says. “You’re subsidizing them as well.”

Beyond the issue of including large companies, the program did not distinguish between stand-alone operations and wholly owned subsidiaries of conglomerates. In the case of TFI, the trucking conglomerate, the company’s package and courier business was allowed to collect subsidies in the third quarter even though its logistics business revenue rose, in part, from the explosive growth in e-commerce during the pandemic. All told, 20 different corporate entities wholly owned by TFI received CEWS payments. TFI declined a request for comment.

But TFI barely cracked the list of the top 20 companies with the most subsidiaries accessing CEWS. Corus Entertainment Inc. headed that list, with the parent company and 79 of its wholly owned corporate entities receiving a total of $40.2-million in subsidies in 2020. BCE was second, with 63 wholly owned subsidiaries; together, the parent and its subsidiaries received $122.9-million. (The company only disclosed that figure in a lobbying registry filing, saying that the subsidy amount was not large enough to merit a mention in its financial filings.)

Another flaw that has become evident in hindsight is the ability of companies to make subsidy claims for what turned out to be extremely limited downturns in their business. A case in point: Montreal payment processing company Lightspeed POS Inc., whose stock market value grew by more than $9-billion during the pandemic, as independent retailers and restaurants signed up in droves for its payment software that allows clients to process sales online.

Lightspeed collected US$7.26-million in CEWS payments, largely because of a fleeting decline in revenue from March to June, 2020. It was the only quarterly revenue drop the company suffered during the pandemic – a meagre decrease of US$100,000. The wage subsidy it claimed was, in effect, 70 times greater than the shortfall.

Overall, Lightspeed's revenue surged by 79 per cent in 2020. And it became one of the best performing Canadian tech companies in 2020 because of the pandemic. The company also listed on the New York Stock Exchange last September, a blockbuster debut that garnered it US$332-million in gross proceeds.

In a statement to The Globe and Mail, Lightspeed said it applied for CEWS at a time when it "met the eligibility criteria," and the funds enabled the company to weather the start of the pandemic without any layoffs, "until revenue stabilized." Lightspeed is no longer collecting CEWS payments.

Beyond those anecdotes, Prof. Smart points to the surge in corporate profits in the third quarter of 2020 as proof that CEWS overcompensated businesses. Corporate profits normally take a severe hit in a recession, declining by as much as half, he says.

Not so during the pandemic. In the third quarter, aggregate corporate profits on a seasonally adjusted basis as counted by Statistics Canada's quarterly national accounts were $12.1-billion higher than in the fourth quarter of 2019, the last full prepandemic quarter. By the end of third quarter, the economy was rebounding sharply from its freefall in the spring, with GDP just 5 per cent below the prepandemic levels of February – although that recovery was uneven between sectors.

Government subsidies to business, including CEWS payments, were $22.6-billion. A separate tally of CEWS by the government pegged the third-quarter costs of the program at $21.3-billion.

Prof. Smart says that means that about half the subsidies paid to businesses amounted to overcompensation, since they increased corporate profits beyond prepandemic levels.

The same pattern emerged in the fourth quarter when, according to Statscan, total corporate profits were $10.9-billion higher, with subsidies slightly lower at $10-billion. That meant profits had recovered almost entirely to prepandemic levels, and subsidies simply bulked up the bottom line.

“There’s exactly one explanation for it: CEWS,” Prof. Smart says.

Faced with all of this, the government has done little to tighten the criteria for CEWS. When asked about the findings of The Globe’s analysis, the Finance department did not provide a direct response. Most of the government’s changes have made it easier for a wider range of businesses to qualify, including provisions that eliminated the all-or-nothing threshold of a 30-per-cent revenue decline during the pandemic in favour of a tiered system that allows businesses to qualify for smaller subsidies with smaller revenue declines.

Originally slated to expire in June, 2020, CEWS is now slated to wind up this September, although subsidy rates will start declining in July.

There was a limited change introduced in the budget last month: a clawback provision placing limits on executive compensation. Publicly listed companies that boost pay for top executives in 2021 compared to 2019 will have their CEWS payments reduced by the equivalent of any raise. This measure comes into effect June 5 and is not retroactive. And as of July 4, only companies with revenue declines of more than 10 per cent will qualify for CEWS.

A hiring subsidy program that launches in early June, and will provide $595-million to expand payrolls, has the same criteria as CEWS, with companies eligible for wage subsidies also generally eligible for the new program. There is one significant difference: Publicly listed companies are not eligible. However, the program does not distinguish between large and small private companies.

Whatever lessons there are to be had from the federal government’s most expensive – and counting – program, Ottawa has yet to apply all of them. For Mr. Page, the former parliamentary budget watchdog, those lessons need to be compiled, so they can be learned. He says the experience with CEWS points to the need for third-party scrutiny of the program, including its design, timing, impact on the economy and industrial sectors, and implementation.

“It is important that we have an independent analysis of our pandemic response so that we are better prepared to deal with the next public-health crisis.”

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METHODOLOGY

How The Globe analyzed this data

The Globe’s analysis of public companies receiving the Canada Emergency Wage Subsidy relied on four data sources: corporate research service S&P Global Market Intelligence, Statistics Canada, the Canada Revenue Agency and the companies’ own securities filings.

Before looking for CEWS recipients, we first had to build a list of all companies on the Toronto Stock Exchange and TSX Venture. Using market data, including quarterly and yearly summarized financial statements, we then looked up each company’s wholly owned subsidiaries on Statscan’s intercorporate ownership database, since a publicly listed parent may not have collected CEWS directly. (We only looked at 100-per-cent-owned subsidiaries.)

Once we’d constructed a list of companies, they were checked against a copy of the CRA’s list of CEWS recipient names, collected by The Globe in January, netting 386 companies. To find a match, both datasets had to have the exact same name. Thorough checking turned up no cases of mistaken identity, but the imprecise nature of matching up names leaves open the possibility of cases of mistaken identity.

To account for this, reporters combed through hundreds of financial statements – annual and quarterly reports – searching for mentions of CEWS. Many companies did not disclose any CEWS receipts. Others did, but not the exact amounts. Any exact amounts disclosed were transcribed and added to a database for analysis.

In a parallel verification process, The Globe also looked at filings for all companies on the TSX 60 listing of major companies. This step netted three companies that weren’t identified during the matching process due to variations in their names. Those companies were added to our database.

Editor’s note: *Neither Power Corp. nor any of its wholly owned subsidiaries received payments under the Canada Emergency Wage Subsidy program. Incorrect information appeared in an earlier version of this story.*