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Chair

The Honourable Michael Chong

Standing Committee on Industry, Science and Technology

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• (0900)

[English]

The Chair (Hon. Michael Chong (Wellington—Halton Hills, CPC)): Good morning. Welcome to members of the committee and to our witnesses.

This is the sixth meeting of the Standing Committee on Industry, Science and Technology, March 30, 2010. We are here today pursuant to Standing Order 108(2) to study Canada's foreign ownership rules and regulations in the telecommunications sector.

In front of us today we have three witnesses: we have Mr. Morrison, who represents Friends of Canadian Broadcasting; Monsieur Paradis, from Groupe CIC; and finally Mr. Globerman, as an individual from Western Washington University. I want to in particular thank Mr. Globerman, who came on very short notice. We found out yesterday that he was in town today, coincidentally, to meet with someone else, and he graciously agreed to come in front of our committee today.

We'll begin with opening statements from each of the witnesses, beginning with Mr. Morrison.

[Translation]

Mr. Ian Morrison (Spokesperson, Friends of Canadian Broadcasting): Mr. Chair, members of the committee, thank you for inviting us to appear before you today.

[English]

Friends of Canadian Broadcasting is a watchdog for Canadian programming on radio, television, and new media. We're supported by 100,000 Canadians. Our most recent appearance before this committee was in 2003 during the hearing on foreign investment restrictions applicable to telecommunications common carriers. *Plus ça change....*

Section 7 of the Telecommunications Act states that “telecommunications performs an essential role in the maintenance of Canada’s identity and sovereignty”. The act outlines objectives of Canadian telecommunications policy, including:

to facilitate the orderly development throughout Canada of a telecommunications system that serves to safeguard, enrich and strengthen the social and economic fabric of Canada and its regions; ...

to promote the ownership and control of Canadian carriers by Canadians; ... and

to stimulate research and development in Canada in the field of telecommunications...

Hence, section 16 requires that Canadian carriers be owned and controlled by Canadians.

We support these provisions of the act, and we note that, by a wide margin, so do Canadians. In a survey that Friends of Canadian Broadcasting, ACTRA, and the Communications, Energy and Paperworkers Union commissioned from Harris-Decima in November 2007, for example, 61% of Canadians had an unfavourable reaction towards foreign ownership of telephone companies. Among our concerns regarding a possible loss of Canadian ownership and control of Canadian carriers are the export of high-end jobs, reduced protection of the personal privacy of Canadians through the intrusion of such instruments as the United States Patriot Act, loss of sovereignty through dependence on the United States routes for data flow, reduced resilience in emergencies, and a threat to service access on the part of Canadians living in rural and remote areas.

Friends' principal concern, however, relates to Canada's cultural sovereignty. Canada's media and communication industries have converged in recent decades, and the pace of this convergence has recently increased. For your convenience, we have reproduced CRTC data on the corporate structure of Canada's biggest media and communication companies: BCE, Canwest, Cogeco, CTVglobemedia, Quebecor, Rogers, Shaw, and Telus.

Let's take Rogers as an example. Beneath the holding company known as Rogers Communications, of which the Rogers family controls 82% of the voting shares, Rogers' business lines include cable television, local and long distance telephone, Internet access, wireless broadcasting, baseball, and publishing. Last year its revenues approached \$12 billion. Although Rogers may be the most converged media and communications company, it is by no means unique.

Shaw operates in the cable and Internet business and is entering wireless. Through the Shaw family's common ownership and control, Shaw is related to Corus, a radio and specialty television company. Quebecor controls Videotron, TVA, and Sun Media, and offers Internet access and plans to enter the wireless business. BCE controls Bell Canada, Bell Aliant, and Bell TV, and has a 15% stake in Bell Globemedia, which controls Canada's largest television company and *The Globe and Mail*.

In this integrated communication business, changing the foreign ownership requirement for one sector, telecom, can be expected to impact on the other sectors. If BCE were foreign-owned, it would become ineligible to control Bell TV. Rogers would have to dispose of Rogers Media and Rogers Cable, and so on. Disposing of these key broadcasting assets would destabilize the Canadian broadcasting system by reducing the investor pool as well as ending synergies between the component parts. For example, Rogers Cable's pipes carry Rogers Cable's telephone and Internet services.

It's reasonable to assume that the affected players would instead call for changes to ownership requirements under the Broadcasting Act, just as they did successfully when telecom ownership requirements were last changed in the 1990s.

● (0905)

The Montreal Gazette reported on November 23, 1995:

...the federal government is relaxing limits on foreign ownership of Canadian cable and broadcasting companies.... (Heritage Minister Michel) Dupuy said the rule changes put the broadcasting and cable industries on the same footing as telecommunications companies.

Indeed, CanWest's Leonard Asper told your predecessors during the 2003 hearings that:

Any changes in the rules that apply only to telecom companies would soon be of competitive significance to broadcasters as telecom companies move increasingly into the BDU and broadcasting businesses.

BDU means broadcast distribution undertaking. I call it CRTC, to speak for cable and satellite.

Cogeco's Louis Audet told the committee:

We are suggesting that competitive equity will require that cable companies and telephone companies be treated the same way under liberalized foreign ownership rules.

The 2003 industry committee's report underscored Mr. Audet's comment in the following passage:

Technological advances and convergence of technologies, especially over the last decade, have blurred the lines that previously separated the services offered by telecommunications common carriers and broadcasting distribution undertakings (BDUs, including cable companies, DTH satellite service providers and MDS). Telecommunications carriers and BDUs are now competing for the same customers in some markets (e.g., high-speed Internet service). The telecommunications and broadcasting landscape is further complicated by vertical integration and by cross-media ownership. Clearly, defining an enterprise as a pure "telco" or "BDU" on the basis of their underlying distribution networks or the services they provide is becoming more and more difficult.

That committee then produced a little visual that I find still applicable, and I ask to have it passed out for your consideration.

Canadian broadcasting is a public good that is essential to the communications infrastructure of local economies across the land. It facilitates the participation of citizens in the democratic process and contributes to building a distinct identity on the northern half of the North American continent. Allowing such an important instrument of Canada's national development to fall into foreign hands would signal the demise of our cultural sovereignty.

While no patriotic Canadian would deliberately counsel such an outcome, tinkering with foreign ownership rules in one part of the media and communications industry will place other parts at risk.

Last week you heard from Marta Morgan at Industry Canada that relaxing foreign ownership rules in telecom would serve to bring

Canada in line with other OECD countries. None of them is immediately adjacent to the huge cultural and economic influence of the United States of America.

In view of Canada's unique position, we urge you to heed the advice of the Lincoln report—that's the heritage committee—that the existing foreign ownership limits for broadcasting and telecommunications be maintained at current levels.

Thanks for your attention.

[*Translation*]

Thank you for inviting us, Mr. Chair.

● (0910)

The Chair: Thank you, Mr. Morrison.

Mr. Paradis, you have the floor.

[*English*]

Mr. Richard Paradis (President, Groupe CIC): Thank you, Mr. Chair and members of the committee and staff.

My name is Richard Paradis, and I'm president and CEO of Le Groupe CIC, a communications and telecommunications consulting firm based in Montreal, with clients in broadcasting, telecommunications, and the cultural industries sectors. I also teach at both the University of Montreal and the Hautes Études Commerciales, teaching courses in communications policy, management, cultural industries, the history of media, and social science research methodology. During my career, I've also worked for Bell Canada, the CRTC, and the department of communications both in Ottawa and in Quebec City.

At the outset, I would like to thank the committee for holding these hearings to review a very fundamental issue, which has been at the center of our tremendous success in communications and telecommunications over the last 50 years in Canada.

Over time, Canadian ownership and nurturing of a dynamic communications infrastructure in the public interest has made us a model for many foreign countries having to deal with moving from a state-owned telecommunications infrastructure to a mixed public and private system.

Our historic approach to Canadian ownership is directly linked to the social, cultural, and economic development of our country, and should not be handed over to foreign interests without some serious thinking about how we got there, who we are, and more importantly, where we want to go in the future. Communications are at the core of just about everything we do now, from waking up and checking our e-mails and cell calls, to listening to music on mobile phones and iPods, or watching the news and our favourite television shows on our iPhones.

Why are we here today? What has changed so drastically that we have to even think of opening our telecommunications sector to increased foreign ownership? Have we not been well served by our present system, which already allows for minority ownership of our telecommunications companies by foreign interests?

Through the telecommunication monopolies we had in Canada for decades, Canadian taxpayers have all contributed over the years to the development of telecommunications infrastructures that we benefit from today. In many ways, the telecommunication companies we have should be thanking Canadians for having favoured the development of one of the best telecommunications systems in the world.

Why are we thinking of opening the door to more foreign ownership? Are our telecommunication companies suffering from lack of investment funding? Do they have dwindling revenues, low profits, and do they fear for their future? All recent public data about our major telecommunications companies would seem to show otherwise.

The Canadian telecommunications industry revenues for 2008 were \$40.3 billion. With respect to their wire line operations—that's the little wire that goes into the wall—which encompasses telecommunications operations as well as programming and non-programming BDU activities, the incumbent telephone companies reported a \$6.3 billion EBITDA and a 29.1% EBITDA margin. That's earnings before interest, taxes, depreciation, and amortization—EBITDA.

The wireless industry EBITDA increased from \$6.5 billion in 2007 to \$7.2 billion in 2008. Of this, the incumbent telcos and cable companies accounted for \$4.5 billion and \$2.8 billion respectively.

Let's talk about the cable sector. Based on the latest industry data released by the CRTC, the Canadian cable industry saw a revenue growth of 11.9% in 2009, following subsequent increases of 16% in both 2007 and 2008. Total revenues were \$11.4 billion, with a PBIT—profit before interest and taxes—of \$2.3 billion, up from \$2.1 billion in 2008 for a PBIT margin of 25.1%. For example, Rogers gets \$100 million profit from their business operations every month. That's \$100 million.

As any observer can see, except for the banks, this is one of the most lucrative industrial sectors in the country, even during an economic downturn.

• (0915)

There is no legal or other type of reason for opening the Canadian telecommunications sector to more foreign ownership. Why do we feel this is necessary?

In an era when telecommunications is becoming so important to our economic development—ensuring improved communication between all Canadians and the world—why do we want to now turn our industry over to foreign ownership and decision-making?

Why, after we have invested as a country for decades in developing one of the most impressive telecommunication sectors in the world, do we want to hand it over to others? Where's the logic? That is, other than to benefit a handful of senior management who would be looking for the golden exit, or lawyers and financial

analysts who will ultimately just boost the value of a property with no real benefits for Canadian consumers.

Telecommunications is an essential component to our future as a country and to our economic well-being. Would you put a major part of your personal wealth in the hands of foreign managers who have no legal obligations towards you? Well, that's what we're thinking of doing.

Let's just reflect for a moment on where we will draw the line if we envisage relaxing our present ownership rules. What's going to be the magic number—49%, 66%...? Why not 100%? How many competitors can we have in a small country like Canada? We're close to 40 million citizens. And more importantly, how will we ensure we are getting the best out of our telecommunications sector if its business decisions are taken in Dubai, Chicago, or Beijing? The ultimate deciding factor is where is the most return on investment.

Canada was the first country in the world to launch a commercial satellite in the early seventies. We were at the forefront of the development of the telephone with Alexander Graham Bell, and one of the first countries to develop national fibre optic highways across the country.

Yes, Canadians pay more for certain telecommunications services such as mobile phone service, text messaging, cable service, etc., but this is not because we lack competition in Canada. The federal government has introduced competition in almost all sectors of communications through the CRTC decisions and policies during the last twenty years.

There is ample competition presently in the Canadian market, and the only reason prices are not coming down is because the industry is complacent. This will not necessarily drastically change by letting in foreign players.

I notice in the description of the research areas to be covered by the committee that you also want to take a look at the implications of foreign ownership on the radio act and the Broadcasting Act. I am one of those who strongly believe that in today's world of convergence, the government should look at revisiting both the telecom act and the Broadcasting Act to reflect the convergence we now have with large corporations. They not only have concentrated ownership, but are also highly integrated both vertically and horizontally.

Whether we speak of Rogers, Shaw, Quebecor, Bell, or Telus, all of these companies have many things in common. They deliver communications services to Canadian consumers. They are at times radio or television broadcasters, local telephone and IP providers, they offer mobile phone service and audio-visual content. It can range from music preferences to yesterday's favourite television program or today's financial market data, the weather, and the local news as it happens.

May I remind the committee of the key words spoken by a number of prominent Canadians in the past: It's all about content. I sincerely believe that we are at the crossroads in terms of where our broadcasting and telecommunications system is going. It is up to you and your fellow parliamentarians to ensure Canadian content can continue to be developed, and, more importantly, reach Canadian consumers through whatever means they may wish.

Your committee will be meeting with a number of cultural organizations next week, and I'm sure many of them will complement my comments today. But the major telecommunications operators will then give you their version of the world in three weeks. I can only say, please take care to ask them why the Canadian model needs to be changed. How will this ultimately and truly benefit Canadian consumers? Yes, more competition can be good, but too much competition can also be detrimental to any given industrial sector.

This completes my oral presentation. Thank you.

• (0920)

The Chair: Thank you, Mr. Paradis.

Now we'll go to Mr. Globerman.

Dr. Steven Globerman (Director, Center for International Business; Kaiser Professor, Western Washington University, As an Individual): Thank you, Mr. Chairman, and thank you, committee.

I am here almost by complete coincidence, by getting an e-mail late yesterday afternoon while I was in the airport in Vancouver, flying here for another purpose. I did manage to organize a few thoughts, and I hope they're relatively coherent, but they're nowhere near as well organized as my co-panellists', so bear with me.

Let me give you just a bit of background about myself.

I'm currently the Kaiser professor of international business at Western Washington University, which is in Bellingham, Washington, about 60 miles from Vancouver, but I'm also an adjunct professor at the Segal Graduate School of Business in Vancouver. I have had my academic career in Canada, starting at York University's faculty of administrative studies, and then at UBC, and then at Simon Fraser University.

My background has been focused very heavily on issues of foreign ownership, particularly foreign ownership in Canada, and the telecommunications and broadcasting industries. I've written extensively on all of these topics. I did not prepare a bibliography, but I can tell you that in 1986 I published an article in *Telecommunications Policy*, and the article was focused on foreign ownership and telecommunications, with a particular focus on Canada. So I addressed many of the issues in this article, I think, that you're going to be talking about in this committee and that were already raised by my co-panellists today. Most recently, I completed a fairly extensive report on foreign investment in Canada for the Global Competitiveness Committee. These are the background areas I'm going to draw on to make my comments.

Now, there are a number of fundamental questions that are clearly being considered by the committee and that are raised by my co-panellists, so let me start with the main point.

Why do we tolerate foreign ownership? Why do we even want foreign ownership in any industry, to start with? The answer, I think, has been made relatively clear over at least 30 years of academic research: foreign investment improves efficiency in the host economy. That is a fundamental, empirical observation. I'll say it again: foreign investment, inward investment, improves productivity in the host economy. That's my own research for Canada. I've had a number of papers published in the *Canadian Journal of Economics* that document this, and there are literally hundreds of studies out there.

Now, the question is why is foreign investment of benefit to the productivity of the host economy? There are a variety of channels that people talk about that have been identified. It's the source of inward technology. This technology spills over to domestic firms. Domestic firms then get the benefit of this technology that comes into the host economy. Workers who are trained in foreign-owned companies improve their skills. They migrate, they start their own companies, or they work for Canadian-owned companies.

The competition itself—a point that was raised a moment ago by Mr. Paradis—improves efficiency. How much competition is enough? We're never going to be perfectly competitive in any industry. By definition, “perfect competition” is enough. We'll never have perfect competition. More is almost always better than less, but in any case, empirically inward investment does stimulate competition, and improved competition stimulates improved efficiency.

Now, is there any reason to believe that's different for the telecommunications industry? There's no reason to believe it's different from the telecommunications industry. There are lots of concerns about why the telecommunications industry is unique. And by the way, I agree completely with the panellists that it's very hard to arbitrarily separate discussions of the telecommunications industry from the broadcasting sector. They intersect, they interact, but so do a lot of industries. I'll get back to that point in a minute, and that will be one of my last points.

The co-panellists offered you a variety of reasons for concern about why telecommunications might be different, why this is a sensitive sector and it requires special consideration. Now, I'm not going to deny that telecommunications is an important sector. It is. Clearly, it is. It's very important. But I'm not sure it's unique, in the sense that it obviates the basic wisdom that an open market, with free-flowing capital and labour and inputs of other sorts, is good for the industry in terms of improved efficiency, and is ultimately good for consumers.

● (0925)

Let's look at some of the concerns. The concern was raised that rural Canadians will be disadvantaged because foreign owners will want to charge prices that reflect the costs of providing service in high-cost areas. Well, so did Canadian telecommunications companies. I was involved in almost all of the deregulation hearings, starting with the long distance hearing and the CNCP hearing. Canadian carriers from Bell Canada on down all wanted to charge prices that were reflective of costs. In the end, the subsidy was determined by government policy. CRTC policy is directed by government, and that presumably would continue.

There are concerns about trusting foreign managers with critical infrastructure like telecommunications, which we use for defence and security. Again, those are assets the Government of Canada has sovereignty over. An act of sabotage, terrorism, or misuse of those facilities is certainly, to my knowledge, a criminal act, and could be made one if it's not at present.

Foreign managers and foreign investors absolutely are concerned with profits. So are Canadian managers and Canadian investors. To the best of my understanding, the Government of Canada has no less sovereignty over a foreign company operating in Canada than it does over a domestically owned company operating in Canada. There is nothing in any trade agreement that I know of that makes that invalid. A company is subject to the sovereign rules of the state in which it does business.

Technological change is often raised as a concern. Where is the R and D going to come from if the industry is owned by foreigners? The concern is that they're not going to do R and D. Well, that's not necessarily true. It's been true in the past that Canadian-owned telcos did more R and D per dollar of sales than foreign companies operating in Canada in roughly the same industry, but things are changing. The whole notion of global value chains is making location a very fungible item in the calculation of corporate strategy. Companies are moving activities to where it's efficient to do those activities. It may well be that by saying no to foreigners that they can't come here, even if they want to move R and D facilities here, we're actually denying our industry the opportunity to grow and to do more technology.

At the end of the day, the world is becoming more integrated. It's becoming much more specialized in what it does, where activities are done, and how they're done. We can choose not to be part of global value chains, but if we do, we're hurting ourselves. I don't think telecommunications are any different. If we have strong suppliers of equipment, foreign-owned companies will want to buy the equipment in Canada. They have to. In a competitive industry, they can't afford not to. You have to buy the inputs that are giving you the most value for the money you pay.

I could go on, but I know that time is short and that you want to ask questions. Let me just say that the issue of the cultural identity component of telecommunications is a tricky one. I've written a lot about that as well. It's not made me popular with almost anyone in the cultural industry, but I don't think I've changed my mind on this. I think many of the things I've said about telecommunications apply to culture as well. At the end of the day, if Canadians want content and we want them to watch content that's Canadian, we want them to

watch it on the best available technology that can deliver that content. So why deny Canada the opportunity to import improved technology through foreign ownership? By the way, if it's not improved technology, the foreign companies are going to come in here and lose money and they are going to leave. The market will decide whether that's the best way to deliver those signals.

Thank you very much.

The Chair: Thank you very much, Mr. Globerman.

We'll begin now with questions and comments from members, beginning with Mr. Garneau.

● (0930)

[*Translation*]

Mr. Marc Garneau (Westmount—Ville-Marie, Lib.): Thank you, Mr. Chair.

Thank you very much for your testimony on an important and very complex subject.

With regard to Canada's telecommunications sector, a number of people seem to think that our country is lagging behind its competitors when it comes to access, costs, speed and access to services. For instance, there is the issue of broadband cellular or Internet access in some parts of the country and even in our big cities.

Some people are speculating that the problem is related to competition and, by extension, are suggesting that, if we wish to increase competition, we must encourage foreign investment. In a way, this is what we are really talking about. Of course, we are also talking about the complex issue of cultural connections.

Regarding competition, Mr. Paradis, you said in your testimony that you feel that there is ample competition in Canada and that, perhaps, the problem really stems from the fact that our companies are complacent. I would like to get your opinion and that of other witnesses on competition.

Will attracting foreign investments enable us to increase competition or is this unnecessary, as you say, Mr. Paradis, because there is ample competition already?

Mr. Richard Paradis: I could share with the committee some information I came across at the commission, where a study was conducted last year on the difference between costs of various types of mobile services—high-speed Internet and other services—in various countries like Canada, the United States, Great Britain, France and Australia.

Many people out there believe that we are paying more for those services in Canada. However, services equivalent to those we have here are more expensive in the United States. There are some sectors where we may be paying more for services. There is a lot of pressure for as many people as possible to have high-speed Internet access at very affordable rates.

If you were to ask me if Canada is shutting itself out of technology development, I would say that, aside from the fact that we must wait about a month before we can get our hands on the iPhone because the U.S. market can absorb everything that was produced in the first months, we are right up there with other countries. As to whether there is enough competition, I believe that one of the reasons for our being here is Globalive and the reversal of the CRTC decision.

New players are getting ready to tap into the Canadian market and offer people wireless services. Quebecor will begin a service that will be very competitive in the Quebec market starting in June or July. Globalive will launch Wind Mobile. It is already clear that this company, though it is well funded by foreign owners, is having a lot of difficulty starting up because existing market players—TELUS, Bell and Rogers—own about 94% of the wireless market.

So, even if lots of companies were allowed to enter the market, they would not necessarily be able to offer products at a better price. You should not forget that all the companies now entering the market, whether it is Dave Wireless or anyone else—there are three or four companies that are getting ready to enter the market—have paid about two and a half times more than they expected to pay for the frequencies they have bought. If you are in business and you believe that starting a company will cost you \$100 million, but you end up spending \$250 million, it will affect your ability to establish yourself in the market by offering advantageous rates in an attempt to compete with companies that are already established, that have an infrastructure.

So, the problem does not lie in the lack of market competition. As I said in my statement, there are big companies that have been established for a long time, such as Bell and TELUS—originally BC TELECOM—and their gears are turning slowly when it comes to change and opening the market to competition. Competition in the long-distance sector has existed for only 15 years. Before that, we could not own a telephone at home. It's hard to believe, but it's true.

Therefore, the Canadian market has developed slowly from an acknowledgment of the fact that monopolies were initially necessary for reaching as many Canadians as possible. Ninety-nine percent of Canadians have access to a telephone at home, and thanks to wireless phones, it is now possible to reach most Canadians. Because of the current wireless rates, Canada is one of the countries with the least penetration in that sector. The rate of penetration in the wireless sector is still at around 67% in Canada, compared to 80% or 90% in Europe.

• (0935)

[English]

Mr. Ian Morrison: I understand the need to be quick here, so I'll speak in bullets if I may.

First, I think we have moved over a period of two or three decades from monopoly situations to duopolies and then to more of a market situation. There's an evolution.

We are a country of 34 million people now, with a huge geography and many time zones, with vast expanses of land that cost more in terms of infrastructure than European or United States comparisons would indicate, and we've done rather well, considering that. If you consult the CRTC's most recent monitoring report, the *Communica-*

tions Monitoring Report, for 2009, you'll see some international comparisons that reflect less poorly on our competitiveness and affordability than you tend to get from some of the recent information.

I'd just like to point out that in 2003, when this committee was studying this matter the last time, the Canadian dollar was down in the range of 70 cents and below. Today, the Canadian dollar is at 98 cents and is projected to pass above parity. It's a 50% change in exchange value with the U.S. dollar. The euro was at 1.6-something and is now 1.35. It's a 15% change. These things tend to tilt statistics in a way that makes our infrastructure look more expensive but have nothing to do with the underlying fundamentals.

Then there's also the issue of mergers. I noticed that Mr. McTeague raised this subject with the industry department last Thursday. The issue of unintended consequences is one where you can do something and provoke a Telus-Bell merger, for example. What are you going to do about that?

There are a lot of anti-competitive factors at work in the marketplace today that relate to company policies. We commissioned a major research project from Pollara, just a year or two ago, about Canadians' attitudes to the cable industry. We found that a majority of Canadians really didn't feel they had a choice in telecom providers, because the companies bundle Internet, cable, and telephone services for you to buy at the same time. It's too big a decision to change it.

Those are my bullets.

The Chair: Thank you very much, Mr. Morrison.

Monsieur Cardin.

[Translation]

Mr. Serge Cardin (Sherbrooke, BQ): Thank you, Mr. Chair.

Gentlemen, good morning and welcome to the committee.

As Mr. Paradis said, we are principally here because of the Globalive issue. We are also here because the government expressed its intention, in the Speech from the Throne, of opening the satellite and telecommunications market to foreign ownership. Another reason for our meeting is the government ultimately deciding to include in its Budget Enforcement Act a clause on opening the telecommunications market.

The government did things backwards. It did not amend the Telecommunications Act or the Broadcasting Act. It sold spectrum licenses to Globalive for \$442 million. The company came up with \$500 million. It is to be expected that someone who puts up \$500 million intends to have a say in the matter.

I will give you some context. CRTC had decided that the company was foreign-owned, but the government reversed the decision. Had the matter been handled according to the rules and gone through Parliament, and had an attempt been made to amend the Act to open the market to foreign ownership, do you not think that other companies would also have been interested in buying spectrum licences? Selling first and then having to issue an order to open the market to foreigners was not the best way to go about this.

Do you see a way to put a stop to opening the market to foreign investors? Of course, I am talking for those who wish to put a stop to this practice. Those in favour of it can also speak up.

● (0940)

Mr. Richard Paradis: You raised a number of issues that you will have to settle among yourselves.

Let us consider what happened in the case of Globalive, as it is related to what I said. There will always be foreign investors interested in investing in Canada. As I have already said, nothing is currently stopping a foreign investor from investing money in Bell Canada, TELUS or Rogers. They can buy shares and have their say, when the times comes, at annual meetings.

The real issue is control. Who will be making the decisions and in whose interest? Earlier, the gentleman said that, even if foreign companies become owners, they will be governed by Canadian laws. This is possibly true, but let us go back to the economics. When the time comes to make decisions on profit margins, if those who invested in Globalive see it as more profitable to invest in France or in South America, they will not hesitate much before moving their money.

In Canada, we have a system in place and there is enough funding. Bell never complains about not finding enough shareholders, and it is the same with TELUS. Occasionally, they consider merging in order to become even stronger global competitors. Nevertheless, at the end of the day, capital is available in Canada. As for the decision on Globalive, I believe that CRTC's decision should have been respected, but we do not get a say in these matters.

Mr. Serge Cardin: You talked about opening the market to foreign investors. Are you not worried that, instead of bringing more competition, this practice might make the market much more concentrated, since foreign companies will have to buy spectrum licences or buy companies with licences? You also said that executives could perhaps make some money. This is potentially true, but I rather think that we would end up with more concentration instead of more competition.

[English]

Dr. Steven Globerman: I'm sorry, but I'm going to have to ask for a translation of that.

The Chair: I'm sorry, Mr. Globerman, there's translation provided through channels 1 and 2.

Dr. Steven Globerman: I didn't see that.

[Translation]

Mr. Richard Paradis: I would just like to add that every time a company buys frequencies, it must pay additional fees. When additional fees are paid, consumers end up with higher rates so that the company can turn a profit. When the government sold new frequencies a year and a half ago, it really opened the market to competition, and it even set aside 25% of frequencies for new market players. In Canada, there are mechanisms for fostering competition and enabling new players to enter the market, but I could never understand the rush to fling the doors wide open.

Earlier, the gentleman said that we need not concern ourselves about the Canadian content carried by these companies. I would just say that convergence is real. If users own iPhones and subscribe to

Bell or another company, they have access to TV programs. To what extent will we be able to ensure that Canadian content is available to these users in the future? This is an important issue.

● (0945)

Mr. Serge Cardin: Yes, given the rapid evolution of cellphone technology, do you believe that CRTC's decision to not regulate the content of telephone systems is still a good idea?

Mr. Richard Paradis: I feel that, with the arrival of the Internet, CRTC, our regulating organization, was, for the first time in its existence, unsure of what to do and was even afraid to think about the possibilities.

A number of foreign governments, including France and Australia, are currently considering ways of profiting, or at least getting some advantage for the community, from the Internet systems on their territories. For instance, this can be done by imposing fees on Internet users and using the money to help Canadian designers develop content for those platforms. ADISQ will most probably talk about this next week.

The Chair: Could you perhaps rephrase your question for Mr. Globerman?

Mr. Serge Cardin: I believe that one can have too much of a good thing. Unlike you, I believe that opening the market to foreign ownership will more likely result in market concentration. Of course, foreign companies have to buy spectrum or buy companies that own spectrum, but this could create much more concentration rather than competition, in my view.

[English]

Dr. Steven Globerman: I think the basic issue is how much competition is enough, and if we do want more competition, how should we manage that? Should it be with very deliberate steps of allowing $x\%$ of ownership in a staged manner for different stages of the industry, or should we truly open up the market to whichever investors want to put their money at risk? If they deliver the product to the customer, they're going to make profits and be successful.

As an economist, it's hard to favour anything except allowing the market to determine how much competition there should be, subject to the Competition Act, which is there protecting all industries from abuse of dominance and monopolization. I don't think there is a magic number. I don't think anyone can credibly defend any magic number for foreign ownership as being "optimal", whether it's 49% arbitrarily because that's the limit before you get control, 23%, or 22%. I don't think there is a magic number.

There's one thing that should be very clear, and I think it was mentioned a moment ago. It's that the telecommunications industry is truly dynamic. New technologies are being made available. Comparisons of Canada's performance to other countries based on terrestrial models of telecommunications are really irrelevant, because we're moving away from those models rapidly, and in broadcasting as well. It's really impossible to predict where the future is going to be, but we know that the future is going to look a lot different from the past.

Do we want to try to manage this whole technological change process through a regulatory infrastructure, where the primary goal is some arbitrary number for foreign ownership? Or do we want to be able to take advantage of any technology out there that's superior in a meaningful way? That can certainly come through foreign ownership, or maybe it won't come through foreign ownership. But we should be open to those possibilities.

The Chair: Thank you very much, Mr. Globerman and Monsieur Cardin.

Mr. Lake.

Mr. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC): Thank you, Mr. Chair, and thanks to the witnesses for coming today.

Mr. Morrison, I'll start with a question for you. Currently broadcasters in Canada operate under fairly specific broadcasting regulations under the Broadcasting Act. I'm wondering if you can specify the most critical of those regulations and their importance to the broadcasting industry.

• (0950)

Mr. Ian Morrison: In the field of television, for example, one of the regulations is that over the course of a broadcasting year, 60% of the programs that are aired have to be Canadian. Under the policy the CRTC put out last week, that is proposed to change to 55%. There has been debate within the commission and between the commission and the industry and other interest groups about other regulatory matters, but the weight of opinion seems to be moving in the direction of requiring television broadcasters to spend a certain proportion of their revenues on Canadian programming. That's the short answer. There's also a 30-minute answer, but I've already seen the chairman taking up his pen.

Mr. Mike Lake: We've said that as a government we have no intention of touching the Broadcasting Act, with the changes in competitiveness we want to see in the telecommunications sector. Given that we're not going to touch the Broadcasting Act, does that allay some of your concerns regarding some of the things you've talked about?

Mr. Ian Morrison: No. When you say the government has no intention of touching the Broadcasting Act, those words are more rather than less comforting, but they are insufficient. I won't repeat everything I said in my initial remarks. Because of the integrated nature of the broadcasting industries right now, there will be major problems if you change foreign ownership provisions in telecom that will spill over to broadcasting.

I won't repeat what I said in my presentation on that. Just to rely on the presentation, I brought up several points that are substantive, I believe.

Mr. Mike Lake: One of the things you talked about in your opening statements, one of the results you were concerned about of opening up this competition, is what I think you phrased as the export of high-end jobs. Do you have specific concerns about the ability of Canadian technology companies to compete in a world that's a lot more competitive?

Mr. Ian Morrison: I would be unwise to say in the presence of the member of Parliament for Kitchener—Waterloo, where half of it is all happening, that I had specific concerns about the ability of Canadian technology companies to compete. They do a very good job of competing on a world scale.

But taking Monsieur Paradis's comment about acknowledging that there is all kinds of room for foreign capital to enter the Canadian telecommunications field right now, that it's just rather a question of control, taking it from that point of view, when you do get to a situation of control, notwithstanding Mr. Globerman's comments, it is a legitimate fear that you're exporting some of the best jobs to other parts of the world.

Mr. Mike Lake: Actually, can I just get Mr. Globerman to comment on that?

Dr. Steven Globerman: I would say, with all due respect, the kinds of concerns that Mr. Morrison and Mr. Paradis raised really were concerns that were front and centre in the 1970s and 1980s, when multinational companies operated models much different from the models they're operating today, and I alluded to that earlier.

Most multinational companies that I'm aware of that have been written about are moving towards global supply chains where very specific and specialized activities are being moved to locations where they're most efficiently done. It is not necessary that we're a home country company and everything that is high tech is going to be done at home and everything else will be done elsewhere. Companies, including Canadian companies, are moving some jobs abroad and bringing some jobs home that were done abroad. Foreign companies are moving research and development facilities into Canada. Microsoft has moved a big research and development facility into Vancouver.

We could go on and give any number, hundreds or thousands, of examples. It's simply not an accurate characterization of how global companies operate today to say they're simply going to be biased against doing high-tech jobs in a foreign country. They'll do it if that's the best location in which to do it.

That's the challenge that we have in Canada, to make our location the best place for high-tech companies to do business.

• (0955)

Mr. Mike Lake: Mr. Paradis, I have a question for you too. I was thinking, as you were speaking earlier, that if some of my constituents—I'm sure thousands of them—were tuning in live on the Internet, as they were listening to your opening statement they'd be getting a little bit fired up about the level of competition in the Canadian industry.

You talked about large profits being made by Canadian companies even during a downturn. I think you said that, yes, Canadians pay more for wireless, cable, text, etc., and then you explained that it's because the industry is complacent. Those all seem pretty good arguments to me for the need for more competition.

Do you think Canadians should pay more for wireless, cable, and text in order to protect some other areas? Is that a reasonable justification? I would think that would be a pretty difficult argument to present to consumers in my area and across the country, that they should be paying more for wireless, cable, and text.

Mr. Richard Paradis: I think there is probably nothing underlying the financial model of the mobile providers that would stop them from lowering the amounts Canadians pay for their cell service. Mobile companies have found all sorts of ways of making money. They're making money with text messaging, and one of their biggest money-makers is dial tone downloads, which for us might not mean very much, but talk to anybody who's below eighteen years old and they'll tell you they download \$2.95 a piece iTunes three or four times a week, just to change the tune when you call.

There's room for the companies to bring the rates down. The problem is we haven't found one of them. Maybe one of the new entrants will be able to reduce the cost and make it simpler for a consumer to understand what he is buying for a while. Maybe it's because our companies are too comfortable, but I don't think that's a reason for necessarily injecting new players who may decide to do the same thing, or will be a little bit more aggressive. The problem is you've got to always think about how many companies we can actually have.

Remember when we first had cell technology in Canada, we had what must have been 30 or 40 companies that started up in business, and then the ones that were most successful were bought up by Bell and Rogers. This means that we've got three or four operators, and even when we introduce new ones we're going to find that eventually they'll be bought up by the major ones.

Can our market permit good profit margins, which we've seen for three or four companies? We should maybe find ways to pressure companies to bring the rates down, but it's not a solution to bring in new people. And even though he talks about the innovation that you get from bringing in foreign investment, you have to wonder who stopped us from being very inventive in what we've been doing and successful in what we've been doing.

The Chair: Thank you very much, Mr. Paradis.

We're going to go down to Mr. Davies.

Mr. Don Davies (Vancouver Kingsway, NDP): Thank you, Mr. Chairman, and thanks to the witnesses.

Mr. Morrison, I'll start with you. I think sometimes in these complicated issues it's good to go back to first principles. So I'd like to hear from you directly how you would phrase the original rationale for introducing foreign ownership restrictions in the telecommunications sector in the first place, and perhaps let me know—or all of us—if that's still valid today, in your view.

Mr. Ian Morrison: I referred to section 7 of the Telecommunications Act and consequently section 16. I think the framers of the legislation almost 20 years ago—or 18, whatever it is—were pretty

good at formulating. They understood that the telecommunications system is a public good that is important to the social and economic development of the country. And I think they also understood that in the context of this country being adjacent to the largest and most powerful country in the world, about which, as you know, a famous Canadian once said, "they are our best friends, whether we like it or not".

So we have a special situation we have to deal with, and that is the fundamental principle that you see in the Telecommunications Act and that you would have to exorcize from an amended Telecommunications Act in order to accomplish the goals that Her Excellency mentioned in the throne speech of last month. The same goals are present in other statutes, such as broadcasting.

● (1000)

Mr. Don Davies: So as a follow-up, of course many are worried that opening up telecommunications common carriers to foreign ownership will sooner or later eventually impact programming content, and of course there are fears that Canadian content will decline as a consequence. I know that you will likely agree with that sentiment. I'm wondering if you could provide any examples that substantiate the relationship between ownership of signals and content.

Mr. Ian Morrison: That's a good question, by the way, which you might consider posing to the people from the Library of Parliament. They could do some research to answer such a question.

I would say, in a general way, in response to your comment and to get back to fundamentals, that it is established, not just in Canada but in other countries, that the people who own the means of communication have an influence over the content. You cannot separate those two things. It's a continuing struggle in the English-Canadian audiovisual system to maintain a share of shelf space for Canada in that system. We have been extraordinarily successful in defending a ratio of about one-third Canadian viewing to two-thirds foreign viewing—99% of that is American—over a number of decades. It requires continuing interventions on the part of a regulator, a regulator that is using regulation to facilitate markets. We also, Mr. Davies, have the benefit of more access to foreign signals in this country than, for example, our American colleagues have in their country.

Mr. Don Davies: Thank you.

Monsieur Paradis, foreign entrants, the claim is made, almost as a matter of certainty will create a more competitive telecom market with supposedly more efficient pricing and choice, particularly in markets where there is largely a duopoly between the large telephone companies and the incumbent cable provider. If relaxation of foreign ownership rules leads to takeovers and mergers of existing Canadian firms, as opposed to new entrants, it's arguable that there will be no change, just different owners.

An article published in *The New York Times* just a few days ago about wireless consolidation around the world quotes the chief executive of Orascom, the Egyptian wireless company, which is the majority owner of Globalive, as saying: "The next few years will witness major consolidation. All small and medium-sized operators are looking for appropriate M&A. deals to be able to secure themselves a place on the new world map."

In your view, is this what will likely happen if foreign ownership restrictions are lifted in the telecom sector: Canadian companies will simply be purchased by larger foreign wireless companies, and the supposed greater diversity in competition will simply not materialize? Is there a risk of that?

Mr. Richard Paradis: Yes, there is. I agree with you that if we did open up the market, in ten years we could find ourselves with our major telecommunications companies being majority-owned by foreign interests.

In reference to what you were asking about the relationship between telecom and broadcasting, if it were 20 years ago, and we were talking about telecommunications companies, which were just pipes in the old days, it would be less of a problem, maybe, to have this discussion. The problem now is that there's no way you can differentiate a cable company from a telecom company, because they're offering people the same services. That comes down to Canadian content and whether it's available.

When Telus offers you, in western Canada, their IPTV possibility, through phone lines, to access television programming, it's a telecom company offering you that content in your home. Because they do that, under the Broadcasting Act they have obligations about what kind of Canadian content should be offered among all the other programming choices you have when you get the service. That's a way in which the Broadcasting Act has an impact on a telecom enterprise. That's why there's a definite problem with the legislation, because now the companies have become two industries that do the same things, but they're regulated differently.

• (1005)

Mr. Don Davies: The last question is to Mr. Globerman.

I'm interested in the connection between ownership and research and development. I listened to your words very carefully. You were very concrete about relying on empirical evidence in terms of the association between foreign ownership and efficiency.

Your words on R and D were that it's not necessarily true that research and development follow ownership. We've all seen in the broader technology sector what happened, say, with Nortel. The divisions of Nortel were carved up and sold off to foreign companies, and we lost what was one of the largest private funders of research and development in this country. We saw their R and D leave. I'm just wondering if there is any empirical evidence that research and development generally flow where the ownership of a particular entity goes. It seems intuitive that this would be the case. Is there any evidence?

Dr. Steven Globerman: There has been a history of evidence on whether foreign ownership affects research and development in the host country. A colleague of mine, Don McFetridge at Carleton, has done a lot of that research.

I was alluding to that before in my opening remarks, that if you hold everything else constant—the size of the company, the industry, and the country—foreign-owned companies probably do less R and D per dollar of sales than domestically owned companies. I suppose if you took AT&T and lined it up with Bell Canada, Bell would do more per dollar of sale of R and D within Canada than AT&T.

What we're interested in as consumers certainly and as a nation as a whole is efficiency. It's not just the performance of R and D. That's what I was saying in my earlier remarks. What foreign ownership does is bring R and D done elsewhere into the country to be used by suppliers, including domestically owned suppliers through these spillover effects. While you may get less R and D per dollar of sales, you don't necessarily get less efficiency per dollar of sales.

One other point—I did make the comment at the end, and I think empirically there's lots of evidence for this—there is more decentralizing of R and D going on today by multinational companies than ever before. In the case of some countries, some multinationals, such as Swedish multinationals, do more R and D per dollar of sales abroad than they do domestically. What companies are doing now is removing their R and D centres to what are called centres of excellence.

If Canada, which does have centres of excellence, like software in Toronto.... A colleague of mine at Simon Fraser, Danny Shapiro, and I did a study that showed that many small foreign software companies do more R and D in Toronto than they do in their home country because Toronto happens to be a real centre of excellence for the type of software development that they do.

It's really not the foreign owner being obstinate about keeping R and D in the home country, either just by patriotism or other wilfulness, but it may have been the best place to do it historically. As time changes and other places become better, they're showing a great willingness to move their R and D facilities, at least a significant part of it.

The Chair: Thank you very much, Mr. Globerman.

Mr. Rota.

Mr. Anthony Rota (Nipissing—Timiskaming, Lib.): Thank you, Mr. Chair.

Thank you for being here this morning.

The argument was made that foreign ownership increases or improves efficiency and productivity in the host country, and the basic premise is competition brings better service.

We all know that corporations are in it for profit, and some would argue that foreign corporations are strictly profit. They're moving into an area that seems lucrative for them. Servicing a population is not something that is first on the agenda of a corporation. I think that's something that parliamentarians have to look at.

I come from northern Ontario. The premise makes a lot of sense in larger cities, more densely populated areas like Toronto or Vancouver and all the larger centres. When we look at places in rural Canada that are less densely populated, how do we see service improving in these less densely populated areas?

What is to encourage foreign owners from coming in and saying they are going to service northern Ontario and not only service rural Canada but also upgrade? Because it would be easy to say we have that in place and it's not feasible, whereas under regulation and under a monopoly that's regulated, or even under a duopoly, you have to provide that service. What is the incentive for foreign companies, and what kind of service do you perceive? Are there any other cases where rural, distant, less dense populations get service, and at which level?

• (1010)

Dr. Steven Globerman: Would you like me to...?

Mr. Anthony Rota: I'll open it up to the floor.

Dr. Steven Globerman: Okay. I'll take a try at the first one.

Of course, it's very difficult to say with any kind of confidence, if you change the rules of the game, what's going to happen. It's certainly true that to the extent that there are economies of scale, rural areas are going to have higher costs for suppliers, who are going to want to recover those costs. That's been an issue, as you're saying, in Canada for many years. The economist's answer would be to provide a direct subsidy for disadvantaged users, but let's hold that aside, because it's a separate issue.

There are many parts of the world today, particularly in the developing world, in which rural areas are getting state-of-the-art telecommunications service because new suppliers are bringing in new models and new communications technology—wireless, short-range wireless. In fact, my sense would be that if anything, to really change the way the job is done in higher-cost rural areas would particularly benefit opening up the market to new entrants who are not wedded to old technologies, who are not building out old technologies that may not be suitable for low-density, low-scale areas.

You can go to places in Africa and Asia that are very much low-population areas and get wireless and satellite. Not everyone has it, but it's certainly an improvement over what was there before, which was one village telephone that was extremely expensive. It seems to me that this concern in fact augments an argument for opening up the market to new sources of competition, rather than saying that nothing is going to change, so that maybe it will just get worse.

Mr. Ian Morrison: When the CRTC inevitably appears before you, you might put on your agenda, in questioning them, to talk about—and it's possible that I have the name wrong, as it's just coming out of my brain—a “national contribution fund” that they have mandated, whereby telecommunications providers who do not offer services, for example, in large parts of your constituency are

required to make a contribution in order that money go to the providers who do. So there is some existing policy and practice that derives from values in the Telecommunications Act and that seeks to address the question of rural access.

The broadcasting side presents a very difficult issue. People in northern Ontario in fact have much less access to our audio-visual system than people in the Northwest Territories, as you are probably well aware.

The Chair: Thank you very much, Mr. Rota.

We're now going to go to Mr. Braid.

Mr. Peter Braid (Kitchener—Waterloo, CPC): Thank you very much, Mr. Chair, and thank you to all of our witnesses for being here this morning.

I would like to start with Mr. Globerman and then I'll move to Mr. Morrison.

I appreciated your remarks, Mr. Globerman. In the end they were very coherent, despite your cobbling them together overnight, so I thank you very much.

If I heard you correctly, you seem to suggest that the record in R and D on the part of Canadian telecommunications companies isn't as good as it could be. Could you elaborate on some of the reasons for that?

Secondly, could you outline any other policy suggestions you might have, in addition to this review of opening up foreign investment, that could improve the investment in R and D on the part of Canadian telecommunications companies?

• (1015)

Dr. Steven Globerman: Thank you for your comments, Mr. Braid.

If I have said that the record of Canadian telcos in performing R and D was unsatisfactory, I may have misspoken. In point of fact, and I think this is going back to some work that I knew was being done in the 1980s and 1990s, the R and D of Canadian telecommunications carriers was to my mind not necessarily worse in terms of dollars per sale than that of carriers elsewhere in the world.

The important issue is what really encourages any company in Canada to do R and D. Clearly, if it's a private company, it's the opportunity to earn profits. Part of that is what the quality of the workforce is, what the quality of the tax system is, whether it penalizes, whether it favours. There's a host of things that promote an environment in which R and D is more or less likely to be done.

It's difficult to say with any precision that there's any one thing that would really be important in Canada, but one thing is clear. That is, that access to larger markets and customers helps. One thing that I think we haven't talked about is the reciprocity of Canadian companies being able to serve other markets and the risk that if we are in a meaningful way protectionist here, this might open up the potential for reciprocity elsewhere, so that successful Canadian companies would have trouble competing abroad. That certainly would discourage research and development at the margin.

Mr. Peter Braid: Thank you very much.

Mr. Morrison, as you know, we're looking at a review of our telecommunications industry and considering opening it up to greater foreign ownership, if appropriate. The stated policy goals to do that are more foreign investments, which will lead to greater competition, which will in turn provide better service to Canadians and reduce rates. Many of us would suggest that these are important and noble policy goals.

Do you have any suggestions for how we achieve those important policy goals while at the same time responding to some of the concerns that you've laid out?

Mr. Ian Morrison: One idea, going back to Mr. McTeague's question of the industry officials last week, is that if there is indeed a threat that an 800-pound gorilla is going to be created through a merger, maybe in anticipation of this rather than after the fact the government might consider what an appropriate maximum share of market for any one provider might be—40%, 50%, 30%, something like that—in order to head off the unintended consequence. That would be one practical suggestion.

I move to the cable side of things—what your constituents would think of as cable, not as BDU. There would be all kinds of ways. Mr. Paradis' comment about profitability is completely accurate, right to the decimal point—I notice he said 25.1% profit before interest and taxes for the cable industry in the year ending August 31, 2009. When you look at something like that, from the point of view of customers it could be thought of as perhaps an excessive profit. From our research we have found that more than half of cable customers do not feel that they have a choice. I myself live in a building in downtown Toronto, Mr. Braid, where the orientation of my apartment would not enable me to use satellite service, and the condo rules would not permit me to have an antenna, so I am a captive of Rogers.

Your constituents would be aware of the continuous increases in their rates. The CRTC used to control the rates for basic cable, and companies had to ask for increases and justify them. In the year 2002 they stopped doing that. Guess what? The consumer price index since 2002 has gone up 14%, and the rates that Rogers charges for basic cable in the Toronto and Ottawa markets, where we have researched the question, have gone up by 85%. Now, that's not really in the interest of consumers. It's a territorial monopoly for a majority of people, and yet its rates aren't regulated.

So there is a whole range of activities that could be done, within the power of government, to give people a better deal in this country.

• (1020)

The Chair: Thank you very much, Mr. Morrison and Mr. Braid.

We'll go to Madame Lavallée.

[*Translation*]

Mrs. Carole Lavallée (Saint-Bruno—Saint-Hubert, BQ): Thank you, Mr. Chair.

Mr. Globerman, could you please put your earpiece in, since I will mostly be speaking to you?

First, I would like to clarify that I do not normally sit on the Standing Committee on Industry. I am a member of the Standing Committee on Canadian Heritage. I am here today because Quebec's cultural sector feels very threatened by the Conservative government's change of position on opening telecommunications companies to foreign ownership. When I say cultural sector, I do not just mean broadcasters, but also producers, filmmakers, artists, musicians and craftspeople of all kinds. Everyone feels very threatened by the opening of this market.

You said it yourself: telecommunications and broadcasting are becoming increasingly difficult to tell apart. Mr. Paradis and Mr. Morrison also said so. Even Mr. Wilson's study, which was published two years ago and which is the reason for today's meeting, states that it is becoming increasingly difficult to differentiate between telecommunications and broadcasting. To the point that a lot of people would like to see the two acts merged. The threat to companies and cultural products is very real in Quebec and in Canada. Ours was the first country in the world to sign a cultural diversity treaty. In all free trade treaties, there is a rather unique exception made for culture. We must protect this culture and help our artists, lest we let ourselves be invaded by the American empire right next door to us.

It has become clear that those who control access, control content as well. We need not go further than the wonderful Bell advertisement offering 16 applications to their users, just for cellphones. The ad contains highly cultural elements that are very artistic, in the broadest sense of the word. In the ad, Bell offers Disney movies and information on Air Canada or the National Film Board. Out of its 16 applications, at least six are not Canadian, and those that are aren't very representative of Quebec.

If the intention was to make the applications more representative of Quebec culture, Bell would have chosen the magazine *L'actualité* instead of *Maclean's*, Société Radio-Canada instead of CBC Radio, Caisses populaires Desjardins instead of Scotia Bank. I think that all Quebecers are members of a caisse populaire, in Quebec. I do not want to list everything, but I would like to go back to the fact that those who control access control the content.

Nowadays, telecommunications are getting into broadcasting. An American-made cellphone arriving on the Canadian market will contain American cultural products, that much is clear. This will be a threat to Canada and Quebec's cultural activities, but especially to the French language.

I know that you are a distinguished academic and that your theories apply to everything from soup to nuts. However, given the particular nature of broadcasting, in the telecommunications sector, I do not think that your theories apply to the world of telecommunications and broadcasting, or to cultural life in general.

•(1025)

[English]

Dr. Steven Globerman: Mr. Chairman, I hope you give me a few moments to respond to that.

I apologize for not being the best exponent of multiculturalism, as I need to use this translation.

Let me tell you an interesting story.

The Chair: One moment, Mr. Globerman.

I'll ask the clerk to see what's going on. There's no translation, so just wait one moment until we get this straightened out.

Okay. Go ahead, Mr. Globerman.

Dr. Steven Globerman: I live in Bellingham, Washington, and my wife, who is unfortunately not with me, is fully bilingual. She listens to French radio on Comcast Cable, which is the local cable provider and about as American-owned as you can get. She has access to at least three or four private stations—I'm not talking about French CBC—that broadcast music and news in French. She listens to them all the time. Unfortunately, my French has not picked up fast enough to learn it.

I think the point is that the means of transmission carries the content, the means of transmission doesn't determine the content; consumers determine the content.

There happen to be a lot of Canadians who live in Whatcom County, where I live, which is just south of Vancouver. I'm sure Comcast finds that it's not a big profit-maker, but they find it worthwhile to dedicate a small portion of their broadband capacity to providing French-language services to their subscribers. That illustrates the power of the market to produce solutions for minority consumers. I'm very fond of giving that little example.

It is a relevant challenge to say that telecommunications isn't like anything else, because it carries content, and content is culture, and culture has diversity—different people like different culture—and therefore we can't apply economic principles to telecommunications. I would turn that completely on its head. I would say it is the opportunity for new suppliers to find new uses for their capital to meet the needs of new consumers. That really is the power of the marketplace.

Can I say that every consumer in Canada would be happy with the market system that might be created if we allowed unrestricted foreign ownership? No, I can't say that. The market isn't perfect. There may be certain types of cultural demands that really are not profitable to provide.

What do we do about that? One of the things we can do is to be honest to society and say that we value this culture even though it can't generate a profit for even the most efficient producer, so let's subsidize this directly. I don't think we should say the market system is the villain so let's throw it out, when we can solve that problem by being honest in saying this is a social need so let's subsidize it directly.

The Chair: Thank you very much, Mr. Globerman.

Merci, Madame Lavallée.

Mr. Van Kesteren.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you, Mr. Chair.

Thank you to our witnesses for coming this morning.

Mr. Paradis, nobody has asked you any questions, so I have one for you. You are kind of quiet in the corner there.

You made a statement—and I believe this is your conviction—and I'm wondering if there is any study, or what angle you were coming from when you said that too much competition is detrimental. I want to understand that. Could you elaborate on that?

Mr. Richard Paradis: I don't want you to think I am against competition; I think it is extremely important and good for the marketplace. I was just trying to give caution. We have opened the market in Canada to competition over the last 20 years. It is taking maybe more time than we would have liked for people to be a lot more competitive. Maybe it's because when we decided to have competition the market was so open to accepting new players that without offering necessarily competitive rates they were able to get customers and become the companies they are now, with the profit margins we saw this morning.

It's about being very careful about introducing new foreign or other players in the marketplace. There is only a certain capacity of frequencies that are accessible for the market anyway. Right now we are probably at about eight or ten companies that have access to spectrum for mobile service in a very small country. If you look, Great Britain and France wanted to have more companies and they've had to pull back.

When satellites were developed in the early 1980s, the British government decided to have competition in the availability of signals through satellite in the British market. There were two players, and even in the British market the economy couldn't support two. So now there is only one player in Great Britain for satellite service.

•(1030)

Mr. Dave Van Kesteren: Okay, so you're qualifying that with the example of other countries, and there may be other reasons for that. But that's good. I wanted to hear that.

I have another question, but I have to move rapidly, because we have only a few minutes.

Mr. Morrison made the statement, and I share it, because I have the same experience in my apartment. It just drives me that I'm stuck with one company. So I want to give Mr. Globerman an opportunity to respond.

I understand, sir, what you're saying. At one point they were regulated with their increases. We've eliminated that, and you're right, the rates have gone up. What would opening up to more competition do directly in terms of that problem? That's a real burr under my saddle too.

Dr. Steven Globerman: I don't want to sound flippant in saying this, but I have to say it, because this is a fact; it's true.

You made a choice to live in an apartment. You can move to another apartment. You might say this is truly an academic economist just talking complete and absolute nonsense, but in point of fact, apartments did compete on the basis of offering different access to different types of telecommunication set-ups, and that will continue. Part of the package you're buying is the telecommunication capacity of the apartment.

A friend of mine lives in Tokyo. She lives in her apartment because it has a unique telecommunications capacity. It's one of those smart houses that does everything: cooks your food, runs your shower, etc. At some point, the prices may go up. She may not like it. There are other apartments to change to. There's always a first mover problem, just as we have in this country. We have a huge terrestrial network that's outdated, and over time we're going to have to evolve our way out of that. You can leave your apartment a lot more quickly.

Mr. Dave Van Kesteren: Then, finally, I want to know if our Canadian geography and our social uniqueness is a breeding ground for innovation and creativity that will maybe spawn the growth of companies, if we allow, as you said, possibly some of the companies that are involved in the same type of geography and have been more successful. Could we become a breeding ground for innovation?

Dr. Steven Globerman: There's no doubt about that.

I just want to close with one observation. I don't think the committee should be fixated on numbers of competitors. What really matters is the opportunity to enter a market, and it's the threat of competition out there that really motivates the competitors that are already in the market. Sometimes takeovers are required to really shake things up. The real key is to keep the market open to new technology, to new suppliers.

This is a big world. There are a lot of potential suppliers out there. Why do we want to deny ourselves that opportunity? Canada is a very attractive market, in large measure because it does have tremendous capacity to innovate. We have a lot of smart people. We have a highly educated workforce. We have good rules, good property rights regimes. We are an attractive place to do business.

The Chair: Thank you very much, Mr. Globerman.

Now we'll go to Mr. Davies.

• (1035)

Mr. Don Davies: Thank you.

Mr. Globerman, I want to drill in on the efficiency argument a bit, because to me there's something different between broadcasting content and culture and widgets. You said that having foreign ownership improves efficiency in the host economy. But the question going through my mind is, what if preservation of culture is not efficient?

The example I have—and perhaps it's a bad one, so forgive me if it's a bad analogy—is that we have a policy in this country of official bilingualism. It would strike me that it's probably not the most efficient policy. Probably it would be very efficient to be unilingual, but we've decided as a country that it's an important part of our culture and we're prepared to sacrifice some efficiency for a greater expression of our cultural uniqueness.

Would you not agree with me that, while what you said is accurate, efficiency might not be the complete picture when it comes to determining our cultural content?

Dr. Steven Globerman: Yes, I agree, and I tried to make that point before by saying that preserving rural areas and giving them access to technology may not be what the market wants to do because it's not profitable, so we subsidize it because we think it's important.

Certainly we think culture is important. We think minority culture is important. The question is, how do we want to support it?

Do we think that by discouraging foreign ownership we are in fact supporting it? The point I made earlier was that a privately owned Canadian company has the same concerns about providing unprofitable services as a foreign-owned company in Canada. It's the job of the government to provide those public services, including culture, through the tax system, or if you want—which is second best—through regulation, but those regulations would apply to everyone.

A U.S.-owned company doing business in Canada would have to contribute to the Canadian broadcasting fund, the same as a Canadian company would.

Mr. Don Davies: I have a similar sort of question, playing the devil's advocate, about your statement that consumers determine the content. I'm not so sure that has a completely accurate ring to me. I think something you just said may actually have supported my thought, because it might be government or policy that determines content, and not just the consumers.

I remember that in large parts of the early 1970s I witnessed the development of Canadian content in television. Let me charitably say that not all of it was of the highest calibre, but it seemed to me that we made a decision to nurture a nascent Canadian-content industry in order to build up that expertise.

I'd be interested, Mr. Paradis, in your views on that aspect. Do you agree with the statement that consumers determine the content?

I don't mean to shut you up, Mr. Globerman; if you'd like to comment too, I'd be interested in your view.

Maybe that's not the entire picture; maybe there's a role for government policy to ensure that we have content reflecting who we are as a country.

Mr. Richard Paradis: To come back to the reference by Madame Lavallée to the advertisements, if you have an iPod and you're looking for applications in the Apple Store, it comes down to this: when you look at your screen and there are 16 options, how many of them are going to be Canadian? There is no obligation for iPod or the Apple Store to include four Canadian applications in every 16. The only way you're going to do that is through regulation. That's the way we've done it historically.

Dr. Steven Globerman: I don't think the 1970s are today. The broadband world will allow almost anything to be broadcast if there is a small but significant number of consumers. We can go on and on about that, but I won't.

Let me say that I agree with you that government policy can contribute to the growth of talent, which then becomes in demand not just on the part of Canadians, as we know, but all over the world. There are incredibly successful Canadian performers. That doesn't gainsay my point that consumers ultimately dictate what broadcasters are going to supply. What it says is that government can, through intelligent subsidy mechanisms, encourage the growth of certain types of talent that then become in demand.

● (1040)

The Chair: Thank you very much, Mr. Davies, Mr. Globerman, and Monsieur Paradis.

Mr. Wallace is next.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chair.

First I have an apology to Mr. Morrison. I came in a minute or so late, after you got started. I had a previous meeting. I try to make these things on time, but am unable to....

Mr. Ian Morrison: I apologize, Mr. Wallace; I didn't notice.

Voices: Oh, oh!

Mr. Mike Wallace: You must have been watching CBC.

I have a basic question, and I really appreciate the discussion today. It's been absolutely excellent in presenting the different points of view; however, I'm of the view that Canada can't operate in a cocoon. Things are happening around the world in all industries, including the telecommunications industry, in terms of competition, consolidations, and those types of things. My concern today is that if we do not move to be more competitive in the world market in terms of opening up to foreign investment, the companies that are here today just will not survive in the long term because they won't be able to attract the capital to be able to compete. We have a small market to begin with, as you've mentioned.

I'm offering you an opportunity to make an academic response to that view. Do you believe that in the long term, preventing more foreign ownership would have an effect on the ability of existing Canadian companies to survive? If you believe, as I think Mr. Paradis does, that they could survive, how do we encourage Canadians to invest in their own companies? What are we doing wrong? Are the companies doing something wrong? What could the government be doing?

I come from Burlington, Ontario. Steel was a big issue in my area. We had Dofasco and Stelco. I'll use Dofasco as an example. It is now owned by a foreign entity. It was an excellent steel company and still is an excellent steel company, but it waited around, and as consolidations happened around the world, it got swallowed. The alternative was to be more proactive, in my view. That's what I'm concerned about in the telecommunications business.

I'll leave it to you to comment. Mr. Paradis, you can go first, and then we'll go down the line if anybody else wants to comment.

Mr. Richard Paradis: Okay. Briefly, if you have any kids in the house, you know they're watching the Internet about 50 hours a week right now and they're listening to music about 40 hours a week, and you sort of wonder when they ever study or eat.

The fact is that we're moving in an era, even yourselves, when we're consuming more and more information through communications tools. Of those companies that we're talking about that are Canadian, be it Telus, Bell, Rogers, or Quebecor, we've been in an economic downturn for the last two years at least, and these companies are still making 25%, 26% profit margins. They are investing in infrastructure, but they're still making 25% profit, and in a bad time. In the coming year, as the economy starts going again, we're probably going to see them with profit margins of 30%, 35%. So they're not having a problem finding capital.

We're moving into an economy that's based on the transfer of information and the fact that everybody wants to have their own little personal intelligent phone. And as soon as the kids get their hands on an intelligent phone, your bill doubles. So it's an industry that has a fantastic future. It's one of our industrial sectors that's probably going to be the most performing in the coming years, and none of them are complaining that they can't find capital.

Mr. Ian Morrison: I passed out, perhaps before you arrived, CRTC's ownership data. At the very top of the very front page is the ownership of BCE. I understand that some half a million Canadians are owners of that company.

But it seems to me that there is a tension between two values that you are describing. One is profit, the extent of profit; the other is price and affordability to the consumer. They don't go together. The profit includes higher prices. So as you're pushing down prices through more competition, hopefully sustainable competition, you're going to push down profits of the existing incumbent players.

● (1045)

The Chair: Thank you very much, Mr. Morrison.

Thank you very much, Mr. Wallace.

We're going to go lastly to Mr. McTeague.

Hon. Dan McTeague (Pickering—Scarborough East, Lib.): Thank you, Chair and guests. Thank you for being here, Mr. Globerman, and yourself, for making the effort.

I've spent a considerable amount of my time as a member of Parliament going back well before 1995 into the subtle changes in the terms of the Broadcasting Act. Notwithstanding the fact that a decision was made to do a one-off with respect to Globalive, I'm not sure any of us here really had any interest in or had heard a lot about the need for foreign ownership in terms of telecommunications. So I'm wondering if this is in fact a problem that is in search of a solution, rather than vice versa.

Four years ago the government chose to short-circuit competition in the telecom industry in its forbearance decision. I'm wondering how much of that forbearance decision to short-circuit and to prevent new competition from coming in, particularly in wireless, is the reason we're having this discussion today. I'd welcome any observations you have in that regard.

The second question I would have is to you, Mr. Globerman. You have the Hart-Scott-Rodino Act, which is extremely powerful and can be used in certain circumstances, whether there's a question of foreign ownership or investment or not.

I'm wondering, given that we have a Competition Act written by some very large dominant players in Canada with very few significant amendments, headed by an individual who was responsible for creating a merger in the propane industry when she was working in the private sector, do you feel comfortable with the assertion that our Competition Act is up to snuff?

More importantly, do you believe that Canada has the regulatory wherewithal to prevent a dominant position from taking place, where assets in Canada can simply be scooped up with very limited protections and wind up in fact preventing Canadians from getting access to international technologies in the wonderful world that you paint for us?

Dr. Steven Globerman: I feel like I've come from the file of horrible examples today, because I actually worked for the Competition Bureau. I was one of their expert witnesses in the Superior Propane case.

Hon. Dan McTeague: Then you'll be aware of my building destroyed by—

Dr. Steven Globerman: Yes, I share your concerns. That was a bad decision.

Hon. Dan McTeague: Thank you.

Dr. Steven Globerman: I think that clearly the Competition Act has been an improvement over what was there before, which was really no merger provision at all. I think the real issue is fundamentally whether the telecom industry—and in fact then, as my co-panellist has said, the broadcasting industry—be moved completely under the Competition Act so it doesn't have a regulatory exemption. Then it truly is subject to the merger provisions in the Competition Act, which, as an aside, I would favour.

I think we do have to be concerned about concentration levels in this industry, as we do in every other industry. That's why I was saying that opening up the industry to entry is the greatest defence we have against monopolization.

I just want to make one quick point about the issue and availability of capital. I agree with my co-panellists. I don't think the concern is whether Canada will have enough capital to grow this industry. I think the concern is whether Canada will be an attractive enough environment in which the industry will grow. I think the issue of globalization is important, because it's participating in the global economy that's going to keep you efficient and make you an attractive target for investors.

The Chair: Go ahead, Mr. McTeague.

Hon. Dan McTeague: I'm concerned when I read stories of Goldman Sachs or AIG having an incredible amount of economic or

capital leverage. They can come into a situation, work in cooperation, for instance, with any index investor, fund an exceptional purchase of Canadian assets, and then ultimately suggest perhaps control of content indirectly: who you hire, for instance, or what you cover if you own one of these assets.

I recognize the great world is not moving towards voice but towards broadband, and we can't walk away from the exception that there may be a question of what is covered and what is not covered.

But I can see a scenario—and it is one that I think has been proven time and time again—whereby individuals will purchase assets, drive prices below cost, prevent any new entrant from coming in, acquire public assets that have been paid for by Canadians over the years, and wind up closing shop for Canada to the rest of the world.

That's recognizing, of course, that we're 36 million people. I mean, the African and Middle Eastern markets represent potential in terms of numbers of consumers that are far greater.

So what I'm really driving at is do you not envisage a scenario whereby consumers will actually lose in the long run, as opposed to gaining?

• (1050)

Dr. Steven Globerman: I absolutely acknowledge the possibility that if there were no ownership controls, we could have one or two foreign investors who take over large Canadian companies and concentration in the industry would increase. That's the purpose of the Competition Act, to try to prevent that.

But let me just say in passing that we do a lot of things in this country that discourage entry into broadcasting that make that potential problem even worse. For example, when we allocate spectrum we make sure that the established carriers get their so-called fair share. But competitive bidding for spectrum where the bidding was really open to foreign companies might bring in new, large competitors, not through the acquisition process, but as *de novo* entrants.

We can do a lot of things to make this sector more competitive, in addition to and besides using the Competition Act appropriately.

The Chair: Thank you very much, Mr. McTeague.

I want to thank our three witnesses, Mr. Globerman, Mr. Morrison, and Mr. Paradis, for your testimony today. We very much appreciate it.

We're going to suspend for two minutes to allow the witnesses to depart and the room to clear. We are then going to reconvene, because we have three items to discuss in camera regarding future committee business.

The meeting is suspended.

[*Proceedings continue in camera*]

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