Strange Bedfellows at BCE: Ontario Teachers and U.S. Private Equity Funds

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Free market madness swirls around the globe, leaving its mark everywhere, creating, in the name of freedom, yet more monstrous, marauding, monopolizing, corporations—freedom of the market is monopoly of the market—pouring out propaganda in the guise of a free press, appropriating knowledge, feasting on disaster, commodifying everywhere, even corporations themselves, obscuring vision, crowding out local and national voices, all in the name of universal truth. The least we should do, it might be thought, is hunker down and wait it out.

The propensity of capital is to concentrate, but it does so unevenly over time, in bursts and pauses. We have recently been living in a burst of what passes under the name of "mergers and acquisitions," or "M&A," some within one country, which can be a threat to domestic competition and lower prices for consumers, others spilling across national borders and manifesting themselves in any one country as foreign ownership. In late August (2007), the investment banking services company Crosby and Company Inc. reported a level of takeovers in 2007 involving Canadian companies already so high as to be a new yearly record. There were 27 deals in excess of $1 billion in the spring quarter alone, nine internal and 18 which were cross-border. The total M&A smashed all previous quarterly records.

The largest of them all, the largest ever in Canadian history and, indeed, the world's largest leveraged buyout—a quintessential Canadian way to make the Guinness World Records—was BCE's takeover by the Ontario Teachers' Pension Fund, jointly with U.S.-based Providence Equity Partners Inc. and Madison Dearborn Partners LLC. At present, Canadian law requires that telecommunications firms be Canadian-owned in order not to be foreign-controlled. The Teachers' Fund is the majority shareholder with 52%, with another 7% owned by Canadian investors, so the provisions of the law are met, but it is uncertain where control of BCE really rests.

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Pension funds are essentially investment funds interested in maximizing their shareholders' return and with limited capacity to exercise a management function in firms they invest in. While it would appear that the Teachers' Fund played the active role of promoting the deal, *de facto* control may lie with the U.S. private equity firms, and particularly with Providence which has the larger stake.

In effect, if *control de jure* is with the majority Canadian owners, but *control de facto* is with the minority foreign owners, this deal has finessed Canada's foreign control rules for telecommunications companies. In fact, the Canadian Radio-television Regulatory Commission (CRTC) has scheduled hearings on precisely that matter with respect to the BCE takeover. The deal has already been approved by BCE shareholders and by Canada's Competition Bureau, so the CRTC ruling could be decisive.

As it now stands, we have a bizarre situation where teachers, who are unionized and tend to be progressive politically, find their pension funds used to increase foreign ownership which they likely oppose and which has uncertain consequences for their brothers and sisters in the acquired company. The transformation of the pension funds of workers into just another variety of profit-maximizing firms should be seen as one of the lost opportunities to transform capitalism, at least marginally, toward a human scale.

Providence is what is called a private equity fund; that is, it is not a company with shares available to the public. Such firms are financial entities which specialize in using debt, a.k.a. leverage, to buy shares in publicly-traded companies which then become private companies. On the one hand, the shares of BCE, formerly Bell Canada, for a century one of the stocks most widely held by the Canadian public, are now in private hands where disclosure and transparency are minimal. On the other hand, BCE is stuck with a huge debt load which adds significantly to its costs and the risk of the deal going bad.

Unlike pension funds, private equity firms are in the business of managing their acquisitions, playing a hands-on operational role that goes beyond the financial. Nor are they necessarily in for the long pull. They typically want to "restructure" the companies they buy into, which often means making them leaner and meaner, driving up their share value, then selling them off to the benefit of their own shareholders and moving on. There is no presumption that the employees of such bought-up companies, or anyone other than the select list of the equity fund's shareholders, benefit from this shuffling of the cards. The increasing prevalence of such activities, which benefit the few at the expense of the many, presumably helps to explain why the overall distribution of income and wealth has worsened in developed countries.

There were three other bidders for BCE. Two of these were also an alliance of a Canadian pension fund and a U.S. private equity firm. The third, however, was the Canadian telecommunications company Telus. Such a merger would have created no ambiguity about the nationality of ownership. As well, it would conform to the classic model where firms in the same business merge, alleging that resulting "synergies"—a marvelous sounding word that often means nothing more than the sum of our ignorance - will lead to public benefit. For potential BCE-Telus, the media freely tossed around $1 billion as the size of the synergy, which sounds suspiciously less like a figure than a figment conjured up from pie-dough in the sky. As well, there is no guarantee, given the lessening of competition—of which there already is discouragingly little - and the consequent tendency of prices to rise, that the Canadian public, in fact, benefits.

Still, proponents of this way of doing business see it as a way to create "national champions" able, as the clichés go, to wheel and deal in the competitive struggle on the world stage. Oddly, this has morphed into Canadian business voices calling for abandonment of Canadian ownership rules anywhere and everywhere. In telecommunications, what would be ideal from the national-champion's perspective would be a BCE-Telus merger able to stand up to foreign buyers and play the global game, meaning that the sector would no longer need protecting.

Voices in the business press already warn us that Telus may now be picked off by a U.S. private equity fund, while in, say, five years, the Canadian rules on foreign ownership could have changed and BCE could then be acquired by U.S. giant AT&T—and then, who knows, AT&T acquires Telus as well. Our potential "national champion" becomes part of "their" imperial champion. In fact, the Harper government is currently reviewing its foreign ownership rules that now put telecommunications—and banking—off limits, and it's just possible that the door will be opened all the way and the matter before the CRTC rendered moot.

The conventional wisdom, of the corporate élites and of economists of the orthodox persuasion, smoothly rationalizes all of this, though as much by assumption as by research. Canadian companies, it is said, are takeover targets exactly because they are not being well enough managed and so share prices are lower than they would otherwise be. The funds, private equity and pension, buy them, give them a good shake, a little "shock therapy," as it were, by way of restructuring them, making them more productive and profitable, and driving up share prices. Shareholders benefit, and so do Ontario teachers as their pension funds make a quick windfall.

This orthodox analysis is not without merit in its own terms. For instance, there is considerable comment in the business press about the inadequacies of BCE management, and BCE CEO Michael Sabia has announced his departure, leaving us to ponder whether he may have been pushed by those now in control. But there are a couple of serious defects with this analysis. First, the actual track record of BCE-type deals shows a significant number of disasters.

"Hockey Player" used with permission of Constance Hague.

Second, even when the conventional wisdom works, it's based on a narrow, abstract, market-fixated, short-term, corporate-friendly analysis, whereas people live as citizens of countries and work in real factories and offices and have long-run concerns for the fate of their children and grandchildren.

There's nothing unusual about countries requiring domestic ownership of the telecommunications industry; indeed, the U.S. itself so requires. This may make no sense to orthodox economists who, when pressed on this matter, mutter "special interests," that is, domestic companies seeking protection of their profits. But this is to miss the main point. Why, it should be asked, are some sectors thought by the public to be ones that should be under national ownership and control?

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It is hardly surprising that means of communication—and transportation—tend to make even the shortest of lists, for they bind countries together. They are, in Marshall McLuhan's terms (and, interestingly, McLuhan was a Canadian, as was the other great communications guru, Harold Innis), the collective nervous system. Or, in terms of the justly influential American social scientist Benedict Anderson, they constitute the networks necessary to create and sustain the imagination that underlies communities like nations. Innis famously linked *Empire and Communications*—the title of his path-breaking book. Put Anderson and Innis together and the message is that nationalism is inherently anti-imperialist and communications a necessary terrain of struggle.

If the rhetoric of "sovereignty" is dismissed as old hat in the 21st century, then the discourse of "security" is highly relevant in the post-9/11 universe. The 2006 report of the federal government's Telecommunications Policy Review Panel (TPRP) informed us that: "Telecommunications infrastructure plays a vital role in every country's national security... [I]n the heightened security environment of the early 21st century, it is likely that the foreign acquisition of the major telecommunications carriers of OECD countries such as the U.S., U.K., France, Germany and Japan could...raise concern about national security...These countries maintain explicit or implicit controls on foreign investment in their telecommunications carriers."[1] If it's good enough for them, including the American masters of our world, it should be good enough for us.

If Canadians want both Canadian ownership of telecommunications and services at some pretence of competitive prices, then stick with the status quo. If Canadian capital can't live with this, then I suppose we have a case for public ownership of a single Canadian firm mandated to serve the public.

If this is a formula that runs against the tide of globalization, then so be it, for the tide may be turning. As I write, the underpinnings of the financial system which are at the heart of globalization are not looking so good, and some lessening of those ties may well be in order simply for that reason. And there is the deeper problem that the world-system itself may be out of control as we face fiercer climate change, nuclear proliferation, terrorism, and "wars against terror"—all of which are parts of the real-world package that passes under the name of globalization.

There would seem increasingly to be a compelling case for lessening the links to the global economy, in the hope that lesser levels, like smaller national states and local communities, can (re)assert themselves. Having stood our ground on telecommunications, it makes no sense for Canadians to give up now.

"Small was beautiful because it was built on a human scale of tongue and ear and living memory."

(CANADIAN AUTHOR DAVID GODFREY ON HAROLD INNIS)[2]

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[1] Industry Canada. (2006). Telecommunications Policy Review Panel. *Final Report*. Ottawa: Public Works and Government Services Canada. p. 11-23 www.telecomreview.ca

[2] Godfrey, David, (1986) "Foreward," in Innis, Harold A. *Empire and Communications*. Edited by David Godfrey. Toronto: Press Porcépic, p..viii.