BRIEFING PAPER
trade and investment series

C C P A
CANADIAN CENTRE for POLICY ALTERNATIVES
CENTRE CANADIEN de POLITIQUES ALTERNATIVES

Volume 6, Number 3 • October 31, 2005

Losing Canadian Culture

The Danger of Foreign Ownership of Telecom

By Julie White

The Issue

This paper considers the danger posed to Canadian culture by foreign ownership of the telecommunications industry. These two services, culture and telecom, are being handled very differently in the international negotiations taking place through the World Trade Organization (WTO). Member countries of the WTO are attempting to expand an agreement to increase international trade in services, called the General Agreement on Trade in Services (GATS).

Culture is in need of protection in the trade negotiations because unrestricted competition in this arena would replace local and national cultural expression with powerful international media conglomerates. The Canadian government claims to be protecting culture in the trade negotiations and has given some support to initiatives to maintain international cultural diversity. However, at the same time the government is aggressively negotiating increased foreign competition in the telecommunications industry. Culture and telecom are being treated very differently, as if they were distinct and unconnected. This approach needs to be revisited, because in Canada these two sectors are rapidly merging and becoming inseparable. As a result, trade negotiations to promote more foreign involvement in the provision of telecom services, including foreign ownership, threaten our cultural expression.

The usual definition of telecom services includes the network of communications, such as satellite, cable, wireless transmission and fiber optics, as well as telephones, fax machines and cell phones. Media or cultural services includes television, radio, news, music, as well as live performances and museums. Broadcasting services are the networks that specifically carry television and radio.

The following discussion looks at:

- foreign ownership restrictions in Canada in both telecom and broadcasting;
- the contrasting approaches of the Canadian government to culture and to telecom in the GATS negotiations;
- the merger of technology and corporate control that has occurred between the carriers of information (telecom and broadcasting) and the information or content itself (media and culture); and
- how lifting foreign ownership restrictions in telecom would harm Canadian culture.

Foreign Ownership Restrictions in Telecom and Broadcasting

In 1987 Canada's Ministry of Communications introduced a comprehensive policy on telecom, called the Policy Framework for Telecommunications in Canada. It was a long-awaited document in which a number of major policy proposals were set out, including those related to foreign investment and domestic ownership of Canada's telecommunications infrastructure. Most notably, it stated that domestic ownership was "essential to national sovereignty and security".[1]

In this report the government of Canada outlined, for the first time, its intention to apply foreign investment limits on telecom companies, but this was consistent with its longstanding position. For instance, in 1984 with the licensing of cellular communications, the Minister of Communications included provisions relating to domestic ownership and control of our wireless carriers, stating the same reason:

> "domestic ownership of Canada's telecommunications infrastructure is essential to national sovereignty and security."[2]

The Teleglobe Canada Act of 1987 and the Telesat Canada Act of 1991 placed ownership restrictions on the companies responsible for satellite communications within Canada and for international communications agreements.

Most importantly, the Telecommunications Act of 1993 established general domestic ownership requirements in the telecommunications industry. Section 16 of the Act requires that in order to operate in Canada, a telecommunication carrier must be a "Canadian-owned and controlled corporation", incorporated under the laws of Canada. The Act specifies that a corporation is Canadian-owned and controlled under the following conditions:

- no less than 80% of the members of the board of directors are individual Canadians;
- Canadians own, directly or indirectly, not less than 80% of the corporation's voting shares issued and outstanding; and
- the corporation is not otherwise controlled by persons who are not Canadian.

In 1994, the government promulgated the Canadian Telecommunications Common Carrier Ownership and Control Regulations, setting a minimum for Canadian ownership of holding companies at 66⅔% of voting shares.

Thus, under current ownership and control requirements, foreign companies can own no more than 20% of an operating company or carrier, such as Bell Canada, and no more than 33% of a holding company, such as BCE. When the math is calculated, this means an effective 46.7% foreign ownership limit in domestic network-based telephone companies.

The same ownership regulations apply to broadcasting companies. Section 10 of the 1996 Radiocommunication Regulations, made in relation to the Radiocommunication Act, requires that persons or entities eligible to be issued radio licenses must meet Canadian ownership and control requirements identical to those established for telecommunications companies. Broadcasting distributors, such as cable companies, Direct to Home satellite service providers, and wireless telecommunications carriers, such as Roger Wireless, come under these ownership and control requirements.

The Broadcasting Act, section 3, sets out Canada's broadcasting policy as follows:

> "the Canadian broadcasting system shall be effectively owned and controlled by Canadians; and the Canadian broadcasting system, operating primarily in the English and French languages and comprising public, private and community elements, makes use of radio frequencies that are public property and provides, through its programming, a public service essential to the maintenance and enhancement of national identity and cultural sovereignty."

Similar language is found in section 7 of the Telecommunications Act:

> "It is hereby affirmed that telecommunications performs an essential role in the maintenance of Canada's identity and sovereignty and that the Canadian telecommunications policy has as its objectives:
>
> (a) 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…
>
> (d) to promote the ownership and control of Canadian carriers by Canadians…

> (e) to promote the use of Canadian transmission facilities for telecommunications within Canada and between Canada and points outside Canada."

In Canada today, telecom companies and broadcasters, including both television and radio, fall under the same 46.7% limitation on foreign ownership. Moreover, the legislation was clearly introduced in order to protect Canadian national identity and culture, as well as Canadian sovereignty. The Canadian Radio, Television and Telecommunications Commission (CRTC) is the authority responsible for enforcing these legal requirements in both telecom and broadcasting.

GATS and Culture

Canada has a variety of restrictions and programs to protect and support the development of Canadian culture. Foreign ownership restrictions apply to broadcasting, as outlined above, and also to newspapers and periodicals under the Canada Investment Act. The CRTC not only enforces foreign ownership laws in both telecom and broadcasting, but also grants licenses for television and radio and regulates private companies to ensure a certain level of Canadian content in programming. Private cable distributors, in return for their territorial monopolies, are obligated to contribute a percentage of their revenue to support Canadian productions, through agencies such as the Canadian Television Fund. Only Canadian-owned and controlled companies can receive financial support from public sources. National television and radio is provided through the Canadian Broadcasting Corporation, and most provinces fund public television channels. There is considerable concern in Canada that these protections have been undermined through changes in regulations and cutbacks in funding, and should be strengthened.

Canada is positioned just north of the country with the most powerful audio-visual industry in the world. In a nation with 33 million people spread out over 6.5 million square kilometers, Canadian artists and cultural producers will never have the economies of scale available to their U.S. counterparts. Without protection for Canadian culture, there are realistic concerns that we would be swamped by American television, music, news and other forms of cultural expression. Where no protection for Canadian content exists, as in the cinema, the market is dominated by the U.S.

All forms of artistic and cultural expression are services that may be subject to the GATS negotiations. However, the Canadian government has given, and continues to give, assurances that it will not negotiate culture under the GATS. In 2001 the Government stated:

> "Canada will also not make any commitment that restricts its ability to achieve its cultural policy objectives until a new international instrument — designed specifically to safeguard the right of countries to promote and preserve their cultural diversity — can be established."[3]

Canada has been a leader in promoting the development of this "international instrument". Heritage Canada has supported the International Network for Cultural Diversity (INCD) and La coalition pour la diversité culturelle, organizations that bring together artists, cultural groups and unions from over 70 countries. These organizations have been working to defend culture from international trade treaties and to obtain an international treaty to that effect.

In June 2005 UNESCO agreed upon a new treaty to protect culture, after years of lobbying and debate. However, this new Treaty is limited and has been widely criticized for its weaknesses. While it declares the right of States to implement cultural policies, it does not adequately protect cultural services from trade agreements. Of particular concern in the context of this paper is the following assessment: "The scope of the Convention is limited to policies that have a direct effect on cultural expressions, rather than incorporating those that might have an indirect effect."[4]

The Canadian government recently restated its position with regard to culture. Participants in consultative workshops expressed fears for a number of services, including culture:

> "The Government responded by underlining the message that we will maintain and preserve the ability of all levels of Government to regulate and set policy in areas of importance to Canadians; we will not negotiate our health, public education or social services, and we will

> maintain the flexibility to pursue our cultural policy objectives."[5]

In common with Canada, most countries have been reluctant to negotiate cultural services under the GATS. Apart from national concerns over identity and popular opposition to the dilution of national culture, there are also economic realities. The audio-visual market is so dominated by U.S. companies that there is little incentive for exporters of media products in other countries to press for a GATS deal.

However, despite the reassurances, it is not clear what will happen to culture in the GATS negotiations. The new UNESCO Treaty is unlikely to provide protection, as it seems that the WTO and GATS would take precedence. The U.S. has requested market access for audio-visual services, maintains that Canadian cultural subsidies are "trade distorting", and has urged that electronic software be covered so that any regulatory measures would be prohibited.

Moreover, not all the pressure is from outside Canada. Some Canadian media companies are lobbying the federal government to include audio-visual services in the GATS negotiations. A senior policy advisor in the Ministry of Economic Trade and Development recently reported:

> "…there have been moves by Canadian industry, notably some of the major English-speaking based companies…to exert pressure on the Canadian Federal government for Canada to take commitments in AV (audio-visual) services".[6]

CanWest Global is mentioned as one of the companies lobbying for more unregulated trade. This company has interests in Australia, New Zealand and Chile and recently attempted, unsuccessfully, to obtain a license in the U.K. As an international player, CanWest may well be interested in reducing trade regulations for audio-visual services.

Thus far, it would appear that the Canadian government has declined to risk our cultural protections—or has it? What may not be surrendered to foreign control in the name of culture may be just as effectively lost in the name of telecommunications.

GATS and Telecommunications

At the other end of the spectrum from the reluctance to subject culture to unregulated competition, telecommunications is the GATS poster child for deregulation and competition. In 1998 57 countries, including Canada, committed themselves to the Telecommunications Reference Paper. This document provides for virtually unlimited foreign access to telecom markets and requires governments to adopt "pro-competitive" regulation. The WTO explained the implications:

> "…the vast bulk of the world market, measured in revenue terms, is subject to open markets for the supply of basic telecom service…" and "…in a way that goes far beyond what has been achieved so far in any other sector."[7]

For proponents of further trade liberalization, the Telecommunications Reference Paper stands as a model to be followed in all other sectors.

As a result of WTO and GATS commitments, Canada has one of the most open and loosely regulated telecom markets amongst OECD countries. Virtually unqualified commitments with regard to value-added services were made during the negotiations that lead to the inclusion of GATS as part of the WTO framework in 1995. In 1998, Canada made further commitments under the Telecommunications Reference Paper, including sweeping reforms to the policy and regulatory framework for basic services. Deregulation and privatization were given priority over the previous public interest policies and rate setting mechanisms. Finally, foreign ownership restrictions were greatly relaxed in the case of Teleglobe, and completely abandoned in the case of resellers, overseas underwater cables and mobile and fixed satellite systems.

Canada, often unilaterally, agreed to:

- end Teleglobe Canada's monopoly on transcontinental (overseas) traffic on October 1 1998;
- end Teleglobe's special ownership restrictions, which prohibited investment by foreign telecommunication carriers and limited the investment by Stentor (the incumbent carriers);
- allow 100% foreign ownership and control of international submarine cable landings in Canada as of October 1 1998;

- allow 100% foreign ownership and control of mobile satellite systems used by a Canadian service provider to provide services in Canada; and
- end Telesat's monopoly on the fixed-satellite system on March 1 2000, allowing the use of foreign satellites to provide services to Canadians (except for broadcasting services, which were excluded).

The only foreign ownership restriction that remains is the 46.7% limit for telecom companies that own their own networks, as outlined above.

A dramatic shift has occurred in Canada from highly regulated telecom monopolies, with extensive foreign ownership restrictions, to loosely regulated private markets. These changes have resulted in substantial increases in local telephone rates, a decline in the quality of basic services and a lack of new services, such as internet access, in rural and remote areas. Meanwhile, business has benefited from reduced rates for buyers of large quantities of these services.

In the current round of GATS negotiations, many countries have made both requests and offers in telecom. Contrary to its position on culture, the Canadian government is actively pursuing agreements on telecommunications:

> "Federal trade officials are suggesting that for this sector, we continue to press priority members to remove any remaining restrictions on market access…. Canada also proposes to encourage members to adopt the regulatory principles of the reference paper."[8]

Meanwhile, the U.S. and other WTO members are demanding that Canada remove its telecom foreign ownership restrictions. While the federal government has not publicly stated its position, there are realistic fears that the government may negotiate away the remaining 46.7% restriction as part of an overall GATS package

These fears were reinforced when, in 2003, Industry Canada decided to review the foreign ownership restrictions. The Parliamentary Standing Committee on Industry, Science and Technology then endorsed the removal of restrictions in both the broadcasting and telecom sectors, a position supported by the Industry Minister at the time. In October 2004, the OECD urged Canada to drop its foreign ownership restrictions.[9]

When Culture and Telecom Converge

Canada has one of the most advanced telecom sectors in the world. Despite the vast size of the country, almost 98% of Canadians have telephone service, over 80% have Internet access, and 43% have a cell phone.[10]

In Canada, technology has brought telecom and culture together, blurring, if not obliterating, the distinction. The digitization of all content (voice, data and video), along with the incredible growth in current network capacities, has redefined the telecom sector and erased the boundaries between it and the media sector. Broadband is the term now used for the capacity to transfer huge amounts of information at high speed, whether over fiber optics, satellites, wireless or cable. The Canadian government sponsored a National Broadband Task Force in 2001 that described these developments as follows:

> "The task force is convinced that over the next 10 or 20 years, the development of broadband network services and applications will have a profound effect on all aspects of Canadian life. Broadband will transform the way we learn, the way we work, the way we use our leisure, the way we govern ourselves, the way we communicate, the way we express ourselves and the way we care for each other."[11]

Telephone and cable television companies are tripping over each other to offer both traditional and new services to subscribers. Telephone companies are now providing an expanding mix of video, data and voice services to Canadian citizens and businesses. Saskatchewan Telecommunications and Manitoba Telecom Services both launched television services several years ago and have over 55,000 clients. Bell Canada has a joint project with Microsoft Networks to offer satellite television on broadband networks and is spending $1.2 billion to bring IP-based television to the Quebec-Windsor corridor. Telus and Aliant are both running trials on providing television service.

With voice over Internet Protocol (VoIP), cable companies are in turn competing with telephone companies to provide telephone services. VoIP technology digitizes voices and encodes them into data that passes over a cable network. As a result, cable networks may be poised to take away much of the telephone companies' basic and long distance services. A new initiative has just been launched by Vidéotron, the largest cable company in Quebec, with 1.5 million subscribers, and also a major internet provider. In January 2005, the company announced a major expansion into telephone service, offered initially to 300,000 residents in Montreal. It is based on a hybrid technology using fiber optics and internet Protocol (IP), converted to a traditional signal to enter houses through the usual coaxial cable. One outlet, with one bill, will provide telephone, television and Internet services.[12]

Shaw Communications, another cable company, has just launched a telephone service in Calgary, providing the same "triple-play" package of Internet, telephone and television.[13] Other cable companies, such as Rogers and Cogeco, have indicated that they will be moving in the same direction this year. Studies have suggested that cable companies will cover 9 to 10% of the telephone market within three years.[14]

Cable companies have just received a boost in their efforts to compete for telephone services. In May 2005, the CRTC decided not to regulate the prices charged for VoIP services by cable companies, while continuing to regulate the larger telephone companies, such as Bell and Telus. This means that the telephone companies will be unable to protect themselves from competition by undercutting prices for either VoIP or bundled services.

Where does this lead? It means that a cable company like Shaw is competing with Telus, a telephone company, in providing telephone service. But Shaw is a cable broadcaster that also competes with Alliance Atlantis, a company that is a broadcaster of specialty television channels, supplied with material from its own collection. Alliance is also a motion film distributor. The distinction between telecommunications and media is already impossible to define, with sweeping implications for the GATS or any other treaty or domestic regulation. For example, given these developments, what does it mean that the GATS Telecommunications Reference Paper covers telephone services, but excludes television broadcasting? Both are now carried on the same network facilities, by the same companies.

Cross Ownership and Concentration

It is not only technology that is eliminating the division between media and telecommunications, but also the structure of ownership. There is a high level of concentration and cross-ownership; companies have become huge conglomerates, owning enterprises in several media sectors in combination with telecom services.

For example, BCE Ltd. combines the largest telephone company in Canada (Bell Canada) with ownership of the CTV television network, eleven specialty television channels, *The Globe and Mail* national newspaper and the major satellite broadcasting system. BCE also owns the country's major Internet service provider, Sympatico, which has a corporate partnership with Microsoft Network. In 2003 the company announced a pilot project to offer the television programs available on its satellite system to high-speed Internet users.

Vidéotron, as mentioned above, is the cable company that has just started providing telephone services. It is part of Quebecor Media, which owns four daily newspapers, twelve television stations, the largest number of magazines in Quebec, a chain of music stores, twelve publishing houses, the leading internet service in Quebec and video rental retail outlets. It employs 15,000 workers and is the second largest media company after BCE.

If telecom is to be opened further to foreign ownership, but media is to remain under Canadian control, what does this mean for companies like Vidéotron and Bell Canada?

One proposal to protect culture from foreign ownership is divestment, the idea that companies would be required to spin off or create new and separate corporate structures for their media holdings. This is highly unlikely for at least two reasons. First, it would be the largest divestment in Canadian history involving the restructuring of many billions of dollars in equity. The value of Bell Globemedia, the media subsidiary of BCE, is by itself estimated to be over $2 billion.[15] If the Canadian government is unable to resist the pressure from U.S. and Canadian corporations to allow foreign ownership, it is unlikely to find the political will to require the separation of media from telecom enterprises to the tune of billions of dollars.

Second, divestment defies the business logic of digital production. Telecom companies and media companies have merged for the express purpose of selling digital content and having control over both the network and the content. Moreover, telephone, internet, radio and television services are now carried on the same cable or telephone line and are inseparable. Technologically, it has become impossible to divest one from the other.

Foreign Ownership of Telecom…and Culture

The Canadian government has assured its citizens that culture will not be on the table at the GATS negotiations. But, at the same time, the government is aggressively pursuing GATS negotiations on telecommunications. The government seems poised to give up foreign ownership restrictions on companies that provide telecom and broadcasting services. Once such GATS commitments are made, they are effectively irreversible. The implications for our media and cultural industries are profound.

Foreign ownership of telecom means that large international corporations would be able to purchase Canadian companies that provide both telecom and cultural services. The most likely scenario is ownership by major American companies, such as Time-Warner. Once companies providing Canadian telecom and broadcasting services become holdings of massive U.S. conglomerates, the possibility of retaining any special treatment for Canadian producers or special requirements for Canadian content will be remote. U.S. companies are backed by an enormous production industry for American programs, news, films and music, all ready to feed across the border and into our networks. The economic efficiency of distributing the same content more broadly would be part of the attraction of purchasing Canadian companies.

In this scenario, there would be enormous pressure to rescind the various regulations that protect Canadian production and content. The CRTC regulations on Canadian content, the contributions from private companies to support Canadian productions, and the provision of financial support exclusively to Canadian companies would all be threatened. Without such regulation, we would certainly see less expression of Canadian culture, whether in television programs, drama, news or music.

Recognizing the dangers, cultural organizations in Canada have opposed increased foreign ownership. The Canadian Conference of the Arts (CCA) is the national forum for arts and culture, advocating on behalf of artists and for Canadian cultural expression. To illustrate the danger of foreign-owned broadcasting, they looked at the level of Canadian content in music, books and television productions, comparing Canadian-owned and foreign-owned companies. In each case, the Canadian companies provided far more Canadian content. The CCA argues strongly for maintaining the foreign ownership restrictions in the broadcasting industry.[16]

In a major report, the Standing Committee on Canadian Heritage opposed any change in the foreign ownership regulations for broadcasting or telecom:

> "Regarding foreign ownership, the Committee is convinced that the best interests of Canadian citizens and the reflections and fostering of our talents and imaginations cannot be left to foreign interests. The danger is that Canadian companies would be maintained as satellites within the larger orbit of foreign corporations and vital financial and creative decisions would be made in New York, Paris or Los Angeles, rather than in Montreal, Winnipeg or Toronto."[17]

The report recognized the challenge of convergence and specifically opposed the recommendation of Industry Canada to lift the telecom ownership restrictions, stating:

> "While American conglomerates such as AOL-Time-Warner and larger cable and telecom operators such as Rogers would like to see foreign ownership limits either raised or lifted entirely, the Committee is of the view that one wrong move could do irreparable harm to the Canadian system. Once this happens, there will be no turning back. For this reason, the Committee believes that the suggestion that ownership restrictions can be lifted in the telecommunications sector without a serious impact on broadcasting content is seriously flawed."[18]

The Future

The link from telephone companies to culture is not immediately apparent. It would seem that you could care about Canadian content on television without worrying about whether a telephone line is owned by a foreign company. But the link is critical. As the technology converges, telephone, cable and broadcasting companies are competing to provide the same services.

Here is the future: a house no longer has a television in the basement, a computer in the study, a sound system in the living room, a radio in the kitchen and several telephones. Instead, each room has a screen with a control panel. This one unit provides radio, television, music, films, news, internet access and email and telephone services, as well as a range of services we cannot yet entirely envision, but including health services, educational courses and interactive virtual attendance at political events, such as city council meetings.[19] And when you leave your home, you will carry in your pocket not a cell phone, but your mobile media-communication centre—from which you can telephone and send emails, but also access the internet, listen to music and watch television.

This is broadband. It is the capacity to send huge amounts of digitized material over a single network, whether it is based on fiber optics, cable, wireless transmission or satellite. In this world, where is the division between communications and culture, between telecom and media?

In February 2005, the federal government announced a review of the telecommunications sector. The Industry Minister, David Emerson, has established a panel to review the regulatory body (the CRTC), the regulations, and foreign ownership. This has extremely important and far-reaching implications for our telecom and cultural industries. David Emerson is on record as approving further competition in the industry.[20]

More recently, in April 2005, Heritage Minister Liza Frulla endorsed the Standing Committee's recommendation to maintain the foreign ownership limits in both the telecom and broadcasting sectors. This confirms the continuing disagreement on this issue between the two federal departments, Heritage Canada and Industry Canada.[21]

Meanwhile the negotiations for GATS continue. About one third of all WTO member countries have submitted initial offers in the GATS negotiations. Canada and other countries are now considering what they might include in an improved GATS offer. Countries that have not yet tabled initial offers are being encouraged to do so. Ontario and other provinces are working to determine whether we are able and prepared to add anything to improve Canada's offer.[22]

In Canada, we must mount a renewed initiative to protect our telecom sector and broadcasting from foreign ownership, in order to protect our media industries and our cultural expression. Meanwhile, Canada should stand as a warning to other countries that have not yet reached the same stage of development in their telecom industry. Trading away control over telecom in the GATS negotiations will undermine national culture and expression when telecom and media merge as they have done in this country.

(Julie White is a researcher with the Communications, Energy and Paperworkers Union, which represents workers in both the telecommunications and media industries.)

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