

Past Problems and Current Issues In Canadian Telecommunication Policy:

A Sense of Deja Vu

by

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Abstract

This thesis examines historical concerns regarding telephone service and their ramifications for current telecommunication policy issues. Since 1906, federally chartered telephone companies have been regulated to ensure that rates charged for service are "just and reasonable" and in "the public interest." The thesis identifies conflicting notions of how the public interest could best be served, as the notions were manifest in historical debates regarding the extension of service, federal regulation and the capitalization of telephone companies. Historical material is drawn from the 1905 proceedings of the House of Commons Select Committee on Telephones and Debates of the House of Commons from 1903 through 1967. A case study of Bell Canada's contract to provide a telephone system for the Government of the Kingdom of Saudi Arabia is presented to demonstrate the contemporary manifestation of historical policy concerns.

The thesis raises three major questions that have emerged repeatedly throughout the years regarding the regulation of federally chartered telephone companies: 1) whether the corporate objectives of private firms might conflict with "the public interest;" 2) whether regulators have had adequate power to review aspects of telephone company operations which are essential for effective regulation; and 3) whether regulators have adequate power to regulate provision of service.

Based on the historical material and the more recent case study, the thesis argues that while the scope of regulation has widened in recent years as the current regulatory agency employed a broader interpretation of its mandate, the

historical problems identified above remain and are manifest in current regulatory and policy issues. This is due to partially conflicting assumptions, evident as early as 1905, regarding telephone companies and the public interest. With the emerging emphasis on the "information economy," today, telephone companies are deemed important to industrial policy objectives because of their central role in the telecommunication infrastructure and their relationship with manufacturing and consulting subsidiaries which compete in international markets. Promotion of industrial policy objectives partially conflicts with the process of rate of return regulation. The thesis briefly discusses implications of continuing problems for current debates regarding rate restructuring.

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I. Introduction

Background

This study began with a question. What aspects of current debates regarding telephone policy issues are present in historical debates regarding federal telephone policy? This question arose because although there is currently a great deal of public debate regarding telephone issues, which has been accompanied by numerous academic papers and Government-sponsored research studies, little if any effort has been devoted to placing current policy debates in an historical perspective.

An initial review of papers, research studies, books and parliamentary material regarding historical telephone issues showed that many issues currently being debated, such as extension of service, competition, interconnection and the rate structure, have been matters of concern to the public, the telephone industry, regulators and provincial and federal governments since telephone service came to be provided in Canada. It was also apparent that while the political, social, economic and technical environment changed over the the years, a common thread was interwoven through the debates on various federal telephone service issues. The common thread was a continuing disagreement regarding assumptions as to the appropriate roles of the public and private sectors in providing telephone service.

Private telephone companies, most notably the Bell Telephone Company of Canada and the British Columbia Telephone Company (B.C. Tel), had requested and received federal charters authorizing them to provide telephone service.

Telephone companies under possession of a federal charter operated under federal jurisdiction. The central issue, evident in telephone debates over the years, was the question of how the federal Government would exercise its jurisdiction. Different assumptions about the role of the Government versus the role of the private sector led to different interpretations of policy objectives and disagreements regarding the best means of achieving these objectives.

The decision to focus on historical conflicts underlying policy debates was based on two factors. First, specific issues such as interconnection (Babe)¹, telephone rates (Currie)², public ownership of telephone systems in the Prairie provinces (Smythe, Mavor)³ and regulation (Schultz and Alexandroff)⁴ have been examined in some detail. Second, the federal Government and federally regulated telephone companies are key participants in current debates. The federal Government has coordinated federal-provincial investigations of current issues, federal regulators are considering these issues in regulatory proceedings and the federal Government has funded research and development in the telecommunication field.

Methodology

The thesis examines historical telecommunication issues to identify the extent to which assumptions about historical issues are manifest in current debates. The method chosen was to review the issues through three case studies: the 1905 Parliamentary Select Committee on Telephones, chaired by Postmaster General Sir William Mulock; a review of House of Commons debates from 1906 through 1967; and the recent deliberations on Bell Canada's billion dollar

contracts to construct a telephone system for the Government of the Kingdom of Saudi Arabia.

These case studies were selected for a number of reasons. The Mulock Committee conducted the first extensive examination of telephone service in Canada. The published proceedings of the Committee provide a wealth of information about early telephone service issues and conflicting views about how telephone service could best be provided in Canada. While Smythe, Babe and Mavor have referred to the Mulock Committee in studies regarding selected telephone issues, no attempt has previously been made to review the broad range of the Committee's investigation as a means of placing current debates in a historical context.

During this period, the telephone issues discussed in public debates primarily concerned the performance of Bell Canada. Bell possessed a federal charter authorizing the company to provide telephone service. The Select Committee was established in response to complaints that Bell had ignored rural areas, charged inordinately high rates for service and had conducted a systematic campaign to discourage the development of alternative local telephone systems. The goal of the Committee was to gather information to formulate proposals which would allow "the isolated individual in his country home to secure the benefit of telephonic communication at a cost within the means of the average resident in the outlying district." The Committee chairman favoured public ownership of trunk lines connecting with local telephone companies run by municipalities or local subscribers. Examination of the proceedings indicates that there were conflicting assumptions regarding the role of the public and private sectors in

providing telephone service. Public ownership was politically, economically and technologically viable, yet was not pursued. While the results of Bell's performance generated public outcry, the view that federally supervised telephone service should be provided by regulated monopolies prevailed.

The second case study covers the transition from the view that public ownership was a viable means of providing telephone service to the general view that federally monitored telephone service should be provided by large, private monopolies. During the period from 1906 through 1967, the Government did not attempt to develop an explicit "telecommunication policy" and conducted no major investigations of telephone issues. Broad policy issues were not discussed, as such, in the context of regulatory proceedings. Regulation was confined to setting rates and was carried out on a case-by-case basis. The only official sources for information about federal telecommunication policy issues, as they were considered by public representatives, are the debates of the House of Commons and testimony before Parliamentary committees during this period.

Again, an examination of the issues raised in debates indicates that there were conflicting views regarding the roles of the public and private sectors. Although the Government constructed and operated telephone and telegraph systems in remote and rural areas, the assumption on the part of federal policy makers was that telephone service should be provided by the private sector. The role of the Government became to ensure that the "public interest" was served through empowering a federal regulatory board to regulate rates.

Conflicts regarding the wisdom of entrusting telephone service to large private corporations metamorphosized into conflicting views about the scope and

character of regulatory oversight. Proposals to empower regulators to investigate the relationships between telephone companies and affiliated firms and to regulate provision of service were never pursued. The relatively unfettered activities of telephone companies, especially Bell Canada and B.C. Tel, were seen to serve the 'public interest' by virtue of the contribution of these companies to the economy and their ability to undertake large scale programmes.

As the state of the art changed, Bell and B.C. Tel positioned themselves for expanding the scope of their operations. They moved from providing "telephone" service to providing "telecommunication" services. Some members of Parliament expressed concerns about the proper role of telephone companies in providing telecommunication services, arguing that telephone company control of new media might hinder the ability of smaller firms to compete. They questioned the implications of increased telephone industry power for telephone service subscribers. Others argued that it was logical for Bell and B.C. Tel to move into new areas and that such activities would improve the financial health of the companies and would benefit the country at large.

The third case study examines the current policy environment. The current environment is characterized by the Government's attempts to develop communication policy to achieve the dual goals of strengthening the nation's industrial performance and using new media to attain the traditional objectives of extending communication service. The debates surrounding Bell Canada's Saudi contracts are illustrative of the way in which conflicting assumptions regarding the principles underlying telephone policy, evident in debates on telephone issues as early as 1903, are manifest in contemporary issues.

Research

The data for Chapter II, examining the 1905 Select Committee on Telephones, was drawn from three sources. Information regarding debates leading to the establishment of the Committee and the Government's actions after the Committee was dissolved was primarily drawn from House of Commons Debates, supported in a few instances by newspaper clippings. Information regarding the issues considered by the Select Committee on Telephones was drawn entirely from the Committee's published proceedings and evidence.

Data for chapter III was drawn primarily from Debates of the House of Commons of Canada from 1906 through 1967. The examination of the approach toward constructing and operating telephone lines was based on debates regarding Department of Public Works estimates. The data regarding the Government's approach to regulating federally-chartered telephone companies was primarily drawn from debates regarding proposed amendments to the charters of Bell Canada and B.C. Tel., with additional material gleaned from regulatory decisions rendered during the 1940s and 1950s. Currie's paper regarding the approach taken by regulators toward pricing telephone service provided additional reference material regarding regulatory issues during this period.

The data for chapter IV was compiled from documentary research. The examination of the changing policy approach toward telecommunication was drawn from House of Commons debates, policy statements, speeches from federal Ministers of Communication and reports sponsored by the Department of

Communications (DOC). The examination of Bell Canada's contract to construct a telecommunication system for the Government of the Kingdom of Saudi Arabia was based on a review of Canadian Radio-television and Telecommunications Commission (CRTC) decisions, evidence submitted to CRTC proceedings and newspaper clippings. The discussion of current telecommunication policy issues was based on a review of material generated by participants in major CRTC proceedings.

Definitions

The term "public interest" has a specific meaning within the lexicon of public utility regulation. In the context of regulation it is assumed that telephone service is provided by a privately owned monopolist and that society will benefit most from telephone service if regulators ensure that telephone service is provided at "just and reasonable" rates and telephone companies are not allowed to discriminate in providing service. The ambiguity of these terms is widely acknowledged.

In this study the term is used to describe the goal of providing telephone service in the most socially beneficial way. A central conflict identified in the study concerns the appropriate role of the public and private sectors in influencing the development and provision of telecommunication service. Historically, some have argued that the public interest would best be served through vigorous regulation intended to protect the public or through public ownership. Others have held that the public interest is best served through allowing the telephone industry a relatively free hand, based on the belief that,

as strong corporations, telephone companies will serve society through being a major corporate presence in the economy.

The terms "telephone" and "telecommunication" service are used. In this study "telephone" service refers to basic voice service. "Telecommunication" services refer to all types of information which can be transmitted over the public telephone network, including but not limited to, voice, data, facsimilie, telex, international record carriage (e.g., CNCP telegrams) television and radio signals and paging services. The "telecommunication industry" refers to providers of telecommunication services and firms engaged in research, development and marketing of telecommunication equipment and services.

"Long distance" service refers to voice telephone service transmitted as toll calls. "Message Toll Service" is the term used by regulators and the telephone industry to refer to long distance service. "Local" telephone service refers to basic voice service provided within the boundaries of a community, usually for a flat rate. The "local exchange" refers to the wires, poles and switches connecting local homes and businesses to the local telephone company.

The term "interconnection" refers to the connection to the public telephone network of telecommunication terminals or systems which are not controlled by telephone companies. "Terminal interconnection" would include the use of subscriber-owned telephones, personal computers with modems and Private Automatic Branch Exchanges (PABXs) owned by businesses. "System interconnection" would include connection of competing telecommunication systems (e.g., CNCP, B.C. Rail, cellular radio) and telecommunication systems run by governments and corporations with the public telephone network.

The term "high-technology" is used to describe the telecommunication industry in the context of current policy debates. In this study, high-technology refers to industries which rely on the use of sophisticated computer or computer-communication media or which are actively engaged in the research development and manufacture of such innovations. Bell Canada and B.C. Tel both utilize and contribute to the development of new media.

Outline of Chapters

Chapter II examines the telephone issues considered by the 1905 Select Committee on Telephones. The concerns leading to the establishment of the Committee are reviewed. The chapter concludes by reviewing the contradiction between the findings of the Committee and the course of action eventually pursued by the Government regarding federal supervision of telephone service.

Chapter III considers telephone issues from the period 1906 through 1967. During this period, the Government opted for supervising telephone service through rate of return regulation by semi-autonomous tribunals. The Government's perception of its role vis a vis the private sector in providing telephone service is examined. The chapter reviews issues regarding regulation of federally chartered telephone companies within the context of the changing telephone industry structure, changes in the state of the art of telephony and changes in the scope of telephone company operations.

Chapter IV describes the changes that took place in the Government's approach to communication policy beginning in 1968. The Government's emphasis on promoting industrial policy objectives through encouraging the

development of a high-technology communication industry and the central role of telephone companies in this endeavour are examined. Bell Canada's contract to provide a telephone system for the Government of the Kingdom of Saudi Arabia is examined in detail as a means of illustrating the current manifestation of conflicting objectives for telephone policy. Implications of the Government's approach to communication policy for monopoly telephone subscribers are addressed.

The concluding chapter draws together the results from the three case studies to identify differences and similarities in debates regarding telephone issues over the years. The central concern is to identify the extent to which conflicting approaches to telephone policy underlying current debates are reflected in historical consideration of telephone issues. The ramifications of these conflicts for effective regulation and for the development of communication policy are discussed.

Notes

1. Robert E. Babe, "Telephone Interconnection: Bell Canada 1880-1920," paper prepared for the Ministry of Transportation and Communications, Province of Ontario, (December 1975).
2. Archibald W. Currie, "Telephone Rates in Canada," in Canadian Issues: Essays in Honour of Henry F. Angus, ed. Robert M. Clark (Toronto: University of Toronto Press, 1961).
3. Dallas W. Smythe, "A Study of Saskatchewan Telecommunications," paper prepared for the Department of Communications, Government of Canada (July 1974); and James Mavor, Government Telephones: The Experience of Manitoba, Canada (Toronto: Maclean, 1917).
4. Richard Schultz and Alan Alexandroff, Economic Regulation of the Federal System, prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985).

II. Parliament's Select Committee on Telephones (the Mulock Committee)

Introduction

In 1905, Parliament established a Select Committee on Telephones, chaired by Postmaster General Sir William Mulock, a proponent of public ownership. The Committee was to hold hearings and produce a report with recommendations for government action. The Committee's investigation was the first systematic review of telephone service in Canada.

In the early 1900s, discussion about "telephone issues" in Parliament meant discussion about the Bell Telephone Company of Canada. The Bell Telephone Company of Canada and the Canadian Telephone Company had been incorporated under federal charter in 1880 as subsidiaries of the U.S. National Bell Telephone Company. Bell was authorized to . . .

. . . manufacture telephones and other apparatus connected therewith . . . used in connection with the business of a telegraph or telephone company, and to purchase, sell or lease the same and rights relating thereto, and to build, establish, construct, purchase, acquire or lease, and maintain and operate, or sell or let any line or lines for the transmission of messages by telephone, in Canada or elsewhere.¹

In 1882, Bell persuaded Parliament to revise the company's charter to declare Bell's works to "be for the general advantage of Canada."

The Canadian Telephone Company held the Canadian rights to patents on the telephone and granted the Bell Telephone Company of Canada "the exclusive license for Canada" for all telephone patents in its possession, in exchange for one-third of Bell Telephone Company of Canada capital stock. In the U.S., these patents "formed the basis of the Bell System monopoly . . . until their expiration in 1893 and 1894." In Canada the Minister of Agriculture declared the Bell patents

void in 1884 and competitors were able to establish telephone systems.²

Although Bell's charter authorized the company to provide service throughout Canada, Bell's resources were primarily employed in serving urban areas in Ontario and Quebec. The company's reticence to serve rural areas produced anger on the part of rural residents, who proceeded to construct telephone systems. Bell's neglect of rural areas and propensity for setting high rates in cities and towns generated public outcry for some form of regulation of the company's operations. In 1892, the Bell Act was amended by Senate to include a clause stipulating that Bell rate increases required approval by the Governor-in-Council.³ This form of regulation was not sufficient and the public's demand for action resulted in the establishment of Parliament's Select Committee on Telephones.

The Committee held hearings for several months. Forty-nine witnesses testified on behalf of a variety of interests. These included large Canadian telephone companies, independent telephone companies, municipal telephone systems, municipalities, boards of trade, foreign telephone companies and railroads. Over one-thousand pages of testimony were heard by the Committee. Moreover, the Committee received written comments from several municipalities, boards of trade and manufacturers of telephone equipment. While the Committee reported to Parliament, a formal report containing a discussion of the issues and recommendations was never published and the recommendations of the Committee were not debated in the House of Commons. Nonetheless, the published proceedings offer valuable insights into early telephone issues.

This chapter examines the factors leading to the establishment of the Select

Committee on Telephones and the testimony and evidence generated by the Committee. The chapter identifies differing views of parliamentarians as to the role of telephone service in Canada, national policy objectives regarding telephone service and the best means of attaining such objectives.

Factors Leading to the Establishment of the Committee

The Select Committee on Telephones was established in response to escalating public dissatisfaction with the activities of the Bell Telephone Company. In the years prior to creation of the Committee, Members of Parliament expressed concern over Bell's reluctance to provide service to rural and remote areas, disputes with municipalities over rates and anti-competitive practices which were seen as detrimental to the general public. As a result, legislation providing for cabinet supervision of rates was enacted; and bills were introduced which were intended to prevent rate discrimination and attempts by the Bell Telephone company to eradicate alternative independent and municipally-owned telephone systems. While Bell's charter was altered to provide for Cabinet approval of rates in 1902, some Members of Parliament argued that this was not sufficient to ensure that Bell's activities served the public interest. They argued that because Bell was federally chartered, the Government had a responsibility to govern the provision of telephone service.

From 1902 through 1905, when the the Select Committee on Telephones was established, matters of public concern with regard to telephone service were debated with increasing intensity in Parliament. In 1902, telephone issues were primarily addressed by one member of the opposition, W. F. MacLean, Progressive

Conservative Member of Parliament for York. By 1905, MacLean's concerns were echoed by Members of Parliament representing many different parts of the country, including the Postmaster General, Sir William Mulock.⁴

Debates regarding a bill introduced by MacLean in 1902 show that concern regarding Bell's performance was not limited to anger over high rates and lack of rural service. Members of Parliament reiterated their constituents' disenchantment with Bell over matters such as prices charged for telephone sets, discrimination in providing service to different subscribers and different municipalities, interconnection of independent telephone systems and attempts by Bell to eliminate other telephone systems through predatory pricing.

MacLean's bill provided for supervision of rates for messages and rental of telephone sets by the Governor in Council. Furthermore, it contained a clause prohibiting unfair discrimination, a section stipulating that every telephone company must allow interconnection with every other telephone company and a section intended to prevent telephone companies from trying to eliminate competition through predatory pricing. The bill also would have authorized the Government to assume control of telephone service at any time.⁵ In speaking to support the legislation, MacLean cited instances of telephone company abuse which had generated public complaint:

The object of this bill is to comply with a widespread public expression in favour of some kind of regulation of the telephone companies of this country. It has been found that these companies have not been treating the public fairly, and this parliament has been besieged with petitions from all over the country in favour of some measure of this kind. At the present time they are under no regulation, and they do with the public pretty much as they choose. Just take two or three instances in point. These companies, like other

great companies, are incorporated to do a certain business, and are given a great franchise; but there is no compelling clause in their charters to force them to give the public a reasonable service, a cheap service, or a service wherever the public may demand it. It is high time that some means should be adopted for compelling these companies to treat the public fairly. . . .⁶

Still another important point . . . is a clause which will have the effect of preventing any telephone company hereafter from discriminating unfairly against a rival line. For instance, the municipalities of this country are going in for a municipal system. But when the Bell Telephone Company or any other that at the present controls the business -- as has been the case in the United States -- hears that a new telephone system is being started they starve it out by competitive rates. In some places where a rival telephone system has been started and has been giving subscribers telephone service at from \$25 to \$35 a year, the big monopoly has come in and said to the local users of the new system: we will give you telephone service at \$2 or \$3 a year for three years if you will sign an agreement with us. They will not be able to do that under this Bill. They will have to treat every city and every village under like circumstances in a like way. . . . I hope that when it (the Bill) comes before the House we will have the co-operation of the House and especially the cooperation of the government in giving the public some kind of control, some kind of regulation, of what is becoming one of the great monopolies of this country, and a monopoly that up to the present time does not treat the public fairly. The Bell Telephone Company have asked this parliament to increase their powers of capitalization and for other great privileges. But in asking for these privileges they have not been willing to make any concessions to the public.⁷

In 1903 Parliament revised and consolidated the Railway Act, creating the Board of Railway Commissioners and investing them with the power to regulate railway rates.⁸ MacLean proposed to amend the Act to address the issue of discrimination arising from contracts between the Bell Telephone Company and railway companies which granted Bell exclusive rights to place telephone sets in railway stations. He cited cases where municipal systems and independent telephone lines, established by people for whom Bell had refused to provide

service, were effectively precluded from telephone communication with the railway station:

It is a fact that the Grand Trunk, the Canadian Pacific and the Canadian Northern Companies have entered into contracts with the Bell Telephone Company, whereby that company has an exclusive entrance into all the stations of these three great railways. The result is that if a municipality establishes a telephone system, as the two thriving towns of Port Arthur and Fort William have done, or if the farmers of any locality, when they cannot get a satisfactory service from the Bell Telephone Company, establish a telephone service of their own, they are denied entrance to the railway stations of these railways.

I say that should not be, but the railway companies should be compelled to give a telephone entrance to their stations to all persons applying for it on equal terms. In the township of Markham, in my constituency, and in the adjoining township of Pickering, in West Ontario, the farmer for a long time wanted telephone communication, and could not get it from the Bell Telephone Company. At last eighteen farmers and store keepers in that neighbourhood united and established their own telephone system. Every one of them was a good customer of the Canadian Pacific Railway, travelled over it and gave it their freight; and when they established this private telephone line and asked for a connection with the Locust Hill station of the Canadian Pacific Railway, they were told that they could not have it, that the agreement to which I have referred precluded it. The result is that these people cannot have telephone access to the station to ask whether the train is on time, whether their freight has arrived, or any other question in connection with the traffic of the railway.⁹

Members of Parliament who shared MacLean's concerns spoke of the growing importance of the telephone in Canadian society. They argued that, as the railway station was the center of economic activity in many communities, it was essential for people to have telephone contact with railroad offices. They stressed the importance of the telephone to rural communities. The following excerpt from Commons debates addressing the amendment is representative of

their concerns.

Mr. Ross, (Ontario). I notice that in these clauses relating to telegraphs and telephones the position of the government is satisfactorily guarded. . . . But since these sections were formed, a new element has sprung up in the country. That element is the telephone business. The telephone is extending throughout all the country districts. The matter which the Hon. member for East York [Mr. MacLean] speaks of was a very live question the the riding next to mine last season. But the matter the Hon gentleman speaks of, the agreement between the railway companies and the telephone companies, was of such a nature that it precluded the farmers from obtaining connection with the railway station by their own independent line of telephone.

Now, I seriously think that, as the telephone is to be such an important factor in our home life, we should see to it that the rights of the people in it are carefully guarded. I cannot see, for my part, why an independent telephone line should not have communication with the railway station. In many places throughout this country the railway station is practically the centre of the district. It is there the goods are carried to and it is from there the goods are taken; and the communication of the people seems to be naturally with the railway station. And, the people being accustomed to the use of the telephone, I cannot see any difference between a person calling up the railway station by telephone and one going in at the door to ask a question of the station master. However, if it is thought to be too great a hardship to place upon the agent at the station the duty of answering the telephone, why not allow an arrangement whereby an independent line or lines could keep an operator there for their one purpose? Some arrangement of that kind should be made in the interests of the public. I have been thinking over the telephone business of the country, and I am not sure that the government should own the trunk telephone lines and allow anybody to communicate over them who desires to do so. That is a question, of course, which will come up in the future.

But we have telephone lines widely in use now, and the use is rapidly extending. It is a cheap means of communication as it is now carried on. In the western states, I am told, the farmers, even use the top wire of their fences for telephoning, and when they come to a highway crossing, they simply elevate the wire. It offers a very convenient way for the farmers to communicate with one another. Of course, it is not suitable for long distances, but, over short distances it works very well. There is no doubt that the telephone is with us to stay, and it is bound to be the medium of communication

for the people. Any law that interferes with the rights of the people in the use of the telephone matter, should be cancelled.¹⁰

The Minister of Railways and Canals, former New Brunswick Premier A.G. Blair, argued that adding a clause of the character of MacLean's amendment would "disfigure the whole bill." He argued that the amendment would interfere with the property rights of the railway companies and suggested that the proposal was "socialistic." Further, he raised the question of how many people might desire to place telephone lines on railroad company premises, raising the spectre of thousands of individual telephone lines being connected to railway offices.¹¹

Members of Parliament who expressed support for allowing independent telephone companies access to railway stations responded with the following points. First, they argued that the proposed revisions to the Railway Act contained clauses requiring railways to grant equal "equal facilities, on equal terms and conditions" to all users of railway service. They argued that giving equal entrance to telephone lines followed the same principle and, thus, could hardly be considered "socialistic." Second, they took issue with the notion that 20,000 subscribers would demand access to railroad company offices. They pointed out that the proposed amendment stipulated that telephone line access to railway offices would be subject to approval by the Board of Railway Commissioners. Third, they raised the question of what took precedence -- the public interest or the rights of private corporations? They pointed out that railroads had received federal help in the form of land grants and financing and that railroads benefitted from public reliance upon their facilities.¹²

Blair, president and a member of the board of directors of the New

Brunswick Telephone Company, was accused of having a conflict of interest. Bell Telephone Company of Canada President C.F. Sise also sat on the board of New Brunswick Telephone. Blair, supported by Prime Minister Sir Wilfred Laurier, argued that he was under no conflict of interest because he did not work for Bell.¹³

In the course of the debate, Blair indicated that his main objection to MacLean's legislation was that it infringed on the rights of railroad companies. He indicated that if acceptable wording could be developed, he would not oppose amending the Railway Act to allow independent telephone companies access to railway stations.¹⁴ Blair eventually submitted his resignation to the government over a dispute regarding the Grand Trunk Railway. Following his resignation, he was appointed Chief Commissioner of the Board of Railway Commissioners, occupying that post from 1903-1904.

Parliament enacted legislation precluding exclusive contracts between Bell and the railways and amended the Railway Act to allow independent telephone systems to place telephones in railway offices, subject to approval by the Board of Railway Commissioners. The clause gave the Board the power to "order the company to provide for such connection or communication upon such terms as to compensation as the Board deems just and expedient, and may order and direct how, when, where, by whom and upon what terms and conditions such telephone connection or communication shall be constructed, operated and maintained."¹⁵ This section led to a Board of Railway Commissioners decision which was controversial and which highlighted the importance of considering the structure and powers of regulatory agencies.

In 1904, the adjoining municipalities of Port Arthur and Fort William, Ontario applied to the Board for permission to place telephones in Canadian Pacific Railroad (CPR) stations, contending that the only right to compensation that should be recognized was "in respect of the expenses reasonably incident to the placing, operating and maintaining the telephones" placed in the stations. Bell argued that it "had vested rights and interests by virtue of its exclusive contract, which would be injuriously affected if the order applied for were made, especially without just and proper compensation." Counsel for Port Arthur argued that as the contract between Bell and the CPR had been found to be contrary to public policy and legislation had been enacted to preclude such contracts, the contract could not provide a basis for compensation.¹⁶

The Board's terms of reference stipulated that if an issue was decided on a point of law, only the Board's chairman could rule on the matter. While two out of three Commissioners believed that allowing competing telephone lines into a railway station was in the public interest, Board Chairman Blair ruled the matter to be a point of law and subsequently rendered a decision stipulating that the municipalities must compensate Bell for lost business if their telephones were to be allowed in railway stations.¹⁷ In dissenting from the decision, Commissioner Mills noted that two conflicting interpretations of "the public interest" underlay the disagreement regarding the decision:

In all the cases cited one thing is clear, viz., that the fundamental and guiding principle is the public interest, and that no restraint upon trade or restriction upon legitimate business in any part of the country should be regarded as reasonable and in harmony with public policy unless it can be clearly shown that it does not interfere, or tend to interfere, with the rights of the public in that

locality.

It may be said that an exclusive privilege such as that in the telephone agreement, does not interfere with the public interest, because the public will be better served by a strong well equipped organization, such as the Bell Telephone Company, than it would be served if free competition were allowed. That may or may not be so. One thing we know, viz., that this is the argument of all monopolists. We know also, generally speaking, the people are the best judges of their own interests, and on a well established principle of government in free countries they should be allowed to decide such questions for themselves -- whether to depend wholly on an organization such as the Bell Telephone Company, or establish a municipal system of telephones for their own use.¹⁸

The public's dissatisfaction with Blair's ruling is evidenced by the fact that Commissioner Blair felt compelled to make a public defence of his action in response to the "extreme criticism and personal remarks upon my conduct and motives" expressed by the public and the press regarding his decision.²⁰

The Mulock Committee

Raison d'être

Debates about telephone service generated fundamental questions. If the government was responsible for telephone service, what was the best way of carrying out the responsibility? Should the state or the private sector own the telephone system? What form should public ownership take? What form should private ownership take? If the telephone system was to be privately owned, how would it best be regulated? What regulatory powers would be necessary to ensure that the public interest was safeguarded? The increasing concern with these questions led to the establishment of the Select Committee on Telephones.

The proposal to establish the Committee was presented to and unanimously

endorsed by the House of Commons on 17 March 1905. The Committee was chaired by Postmaster General Sir William Mulock, admittedly a proponent of public ownership of telephone systems. Mulock believed the telephone was becoming a more important public service, placing it second only to postal service. Noting that England was opting for state ownership, he said that he did not see why the state did not have as much duty to take charge of telephones as it did the post office.²¹

At the initial meeting of the Committee, Mulock stated that people in urban and rural areas had justifiable grievances regarding telephone service. He placed top priority on devising "a scheme that will enable the isolated individual in his country home to secure the benefit of the telephonic communication at a cost within the means of the average resident in the outlying district." For preliminary consideration he proposed a "rough idea" of a decentralized system of municipal ownership of telephone systems, in which The Dominion Government issued operating licences and rates were collected by municipalities in conjunction with taxes.²²

Use of Expert Witness

The Committee relied primarily on expert witness Francis Dagger for information regarding telephone service in Canada, Europe and the United States.²³ Based on an extensive investigation of telephone service in these countries, Dagger found four major problems in Canada: 1) high rates in large cities; 2) disproportionately high rates in cities from 25,000 - 60,000 inhabitants; 3) high long distance rates; and 4) lack of rural communication. He presented

statistics showing that, relative to other countries, the ratio of telephones to people in Canada was low. For instance, in Norway, Sweden and Denmark, the ratio was one telephone to every 14 people. The best ratio in Canada was in British Columbia, with one telephone for every 63 people. He noted that the best record was held by a province with municipally operated telephones that was "free from the influence of the Bell Telephone Company," but conceded that the province had no long distance communication.

Dagger argued that high rates were due to overcapitalization on the part of the Bell Telephone Company of Canada. The American Telephone and Telegraph Company held a sizeable proportion of shares in Bell of Canada which it received in exchange for giving Bell Canada the rights to certain fundamental telephone patents that had expired as of 1905. Although the patents had expired, AT&T still held the stock, on which dividends were paid out of charges to Canadian subscribers.

Dagger also believed that the way in which Bell had responded to changes in the state of the art of telephony had contributed to higher rates. The state of the art was advancing at such a rapid pace that at each stage of change the equipment in use became obsolete "rendering it necessary in the larger exchanges for the company to partially reconstruct their system and install improved plant". As Bell did not maintain a depreciation fund adequate to cover the cost of reconstruction, ". . . the expenditure upon this work has been charged to capital account, thereby increasing the amount upon which dividends had to be earned, with the result that to-day (sic) the plant of the local systems could be duplicated for about one-third of the total capitalization and bond issues." He argued that due

to these changes, if some form of public ownership were to come into being, the telephone system could provide service at lower rates "because their capital outlay would be very much less than the amount upon which present telephone users have to pay dividends."²⁴

Dagger then addressed the question of what form of public ownership would be successful in Canada. He argued that state ownership had proved successful only in countries encompassing a relatively small geographic area, noting that "centralized management may be practicable in a small area, it is not so in a large one." He believed that the only satisfactory method of dealing with the telephone problem in Canada would be Government ownership and control of long distance telephone and telegraph lines and municipal, cooperative or local independent control of the local systems. In the event that long distance lines were not acquired by the Government, "legislation should be enacted compelling existing telephone and telegraph companies to give service to all local telephone systems over their lines upon the latter providing at their cost the switching apparatus and wire necessary to make such connection, and further that all telephone companies shall be compelled to give such connections as will enable their subscribers to converse with whomsoever may call them up without regard to the exchange where the call originated." He believed that it would be fair for municipal systems receiving calls from other systems to charge subscribers from other systems for use of facilities, with the fee regulated by the Government to prevent discrimination. ²⁵

The Committee heard testimony from municipalities and boards of trade who were concerned about the state of telephone service in Canada. For instance, the representative of the Retail Merchants Association of Toronto stated that the Association's concerns regarding telephone service were such that a committee had been established to investigate alternatives to receiving service from Bell. Retailers desired to reach customers by telephone but could not because high telephone rates precluded customers from subscribing to service. The Association believed that the Government should own long distance lines and interconnect with any local companies.²⁶

The cities of Montreal, represented by a city attorney, and Toronto, represented by the mayor, registered complaints about high telephone rates. The representative for the city of Montreal argued that the telephone was no longer a luxury; but, due to high rates, only the wealthy could afford telephones. In a city of 300,000 residents, there were 16,000 telephones. From 1891-1896 Toronto had a contract with Bell for provision of service at a fee of \$25 per year for residential service and \$45 per year for business service. When the contract expired, the city began receiving complaints from citizens regarding rates proposed by Bell. A city council committee appointed to investigate telephone service found that Bell had asked different subscribers to pay different rates, ranging from \$35 to \$150. In addition, Bell attempted to force subscribers to obtain long distance telephone sets, for which they would be charged five dollars more per month. Some members of the city committee, with the mayor concurring, believed that Toronto should have a municipally owned system. ²⁷

The Committee examined Bell Telephone Company of Canada president C.F.

Sise at length regarding Bell policy for setting rates. Sise testified that exchange rates were based on the number of telephone subscribers within a given community. As the number of subscribers increased, both the value of telephone service to subscribers and the costs of providing service increased. Thus, it was Bell policy to base rates on the number of subscribers per community, with communities with roughly the same number of subscribers assessed the same rate. Nonetheless, Sise admitted that Bell had given subscribers in at least one town free telephone service. Sise's testimony demonstrated that Bell had, in effect, engaged in discriminatory rate practices through giving some subscribers long distance telephone sets at no extra charge, while charging subscribers in other communities an additional \$5 per year. In addition, Committee members reviewed Bell exhibits listing the rates charged for various communities. They found instances of different rates being charged to communities with comparable numbers of subscribers and cases where communities paid higher rates than others with more subscribers. Generally, different rates were charged to residence and business subscribers, but no explanation was offered for this differential.²⁸

At this point in time, long distance telephony was in its infancy in Canada. This is illustrated by the fact that Ottawa and Toronto were linked by one direct telephone wire, over which one conversation could be conducted at any given time. Sise estimated that a single telephone conversation would consume ten minutes of time, including the time needed for the telephone call to be put through. He estimated that, at most, five people could complete telephone calls within the span of one hour.²⁹ Rates were based on the general principle of

charging one-half cent per mile, based on wire mileage and reconciled as closely as possible with railway mileage. Due to decreased demand for service at night, a night rate was established to be one-half of the day rate. Sise stated that the one-half cent per mile rate was calculated based on the earning capacity of the line.

Members of the Committee raised the question of whether Bell's long distance rates were too high. They cited statistics showing that long distance rates in European countries were lower than Bell's. They expressed doubt about Sise's belief that rates set at the level of those in Europe must be a losing proposition. In response to Sise' assertion that Bell could not afford to reduce long distance rates, Mulock responded that if long distance rates were reduced Bell would receive more business and could thus afford to expand long distance facilities. In discussing the example of long distance service from Ottawa to Toronto, Sise argued that Bell could not afford to increase the number of transmission lines. Mulock responded by suggesting that "the high rates and the delay to the public (due to lack of capacity) must have a material bearing on the volume of business" and argued that business could be increased if rates were lowered and an additional line was constructed.³⁰

Property Rights and the Public Interest

A major issue for municipalities was the question of control over use of streets. Bell's charter contained provisions granting the company the right to install facilities such as wires on local streets. A representative of the Union of Municipalities testified to complaints about utilities ripping up pavement without

consulting municipal planners, the possibility that insurance rates would increase due to the fire hazards posed by wires and poles, the monopolization of limited street space by utilities -- thereby hindering competition -- and interference with attempts by cities to beautify streets.³¹

At the heart of the matter was the issue of whose property rights took precedence: those of a municipality or those of a private corporation acting under the sanction of a federal charter. The Union of Municipalities representative stated that "the absolute control of the streets of a municipality, particularly of those which are large and complex, is an enormously important right affecting the lives, the rights and so forth in many ways of the citizens of these great communities." Bell's attorney, A.B. Aylesworth, argued that Bell had a "contract with Parliament" -- its charter -- to operate a service deemed to be for the general advantage of Canada and that in such instances the powers of the federal Government should prevail over those of municipalities regarding the use of roads:

The Dominion Parliament may exercise its powers, where it is legislating in regard to something that is for the general benefit of the whole Dominion, and the provinces in regard to local or provincial purposes, so the Dominion undoubtedly has jurisdiction to legislate in regard to these local roads for the general Dominion purposes, and for all cognate purposes also, for the transmission of traffic, whether it be the traffic that is tangible and that we see conveyed upon wheels, or the traffic in messages from man to man.³²

He argued that Bell should not be deprived of rights previously granted by Parliament. Mulock stated that "the Committee and everyone realizes to-day the importance, the almost supreme importance, of a municipality controlling its own

streets." He argued that the task at hand was to develop alternatives for rectifying the situation with regard to telephone systems.³³

The discussion about disputes over street rights shifted to a broader discussion of alternatives for dealing with telephone service in general and their implications with regard to the rights of the public versus the rights of the Bell Telephone Company of Canada. A suggestion that the Dominion government should acquire and operate all trunk lines, with local service being provided by municipalities, co-ops and independent systems was endorsed by some members of the Select Committee and the Mayor of Toronto.³⁴ Bell's attorney argued that the telephone system "must be one system, one owned and one connecting system . . ." and suggested that dividing ownership between municipal and trunk systems would impede provision of telephone service. He argued that granting municipalities the right to purchase local systems from Bell would harm Bell as a business because it would be serving "the refuse" while the municipalities had the more lucrative business.³⁵

In addition to hearing testimony from municipal representatives, the Committee received correspondence from municipalities and boards of trade. The correspondence summarized the state of telephone service in different communities and stated the views of these regions regarding public policy regarding telephone service. Most of the correspondence advocated public control of telephone service either through nationalization of telephone systems or Government ownership of long distance lines with local public or private control of municipal systems. Those calling for public ownership included municipalities who indicated that Bell provided satisfactory service.³⁶

Municipal Telephone Systems

When the Select Committee on Telephones was established, there were four municipally owned systems in Canada. They were located in Fort William and Port Arthur, Ontario, Neepawa, Northwest Territories, and a system in Edmonton established shortly before the Committee was convened.

Representatives from Port Arthur and Fort William testified that Bell undertook a deliberate campaign to discredit municipal ownership in general and their systems in particular.³⁷ The municipalities constructed telephone systems in 1902, after requests for improvements in the service provided by Bell were not granted. The mayor of Fort William testified that a man hired by Bell started a petition calling for the provincial government to audit the finances of both municipalities, that Bell had engineered the publication of an Ottawa Citizen article misrepresenting the financial state of utilities owned by the municipalities and that Bell placed advertisements in newspapers such as the Globe and the Mail and Empire attacking the credibility of the municipalities' finances. In addition, Bell provided free telephone service to residents of Fort William and Port Arthur. The towns had received no long distance connection from Bell for their municipal systems and were precluded from placing telephones in Canadian Pacific Railway offices due to the railroad's contract with Bell.

Lack of Service for Rural Areas

The Committee heard testimony from a number of witnesses regarding a lack

of willingness on the part of Bell to provide service in rural areas. In some cases, Bell refused to provide telephone connections to people in small towns through which its trunk lines passed. In other cases, Bell was willing to provide service but at a rate which subscribers were either unable or unwilling to pay. In testimony before the Committee, Bell president C.F. Sise indicated that Bell's policy had been to concentrate on serving urban areas.

We want to get all the business we can, but we are restricted to a very great extent because of the difficulty of carrying on all these smaller lines. If it is a question of erecting an exchange in one large place and of giving a service needed by 1,000 people we certainly, and quite properly, in doing that give the preference to the needs of a large number rather than to a lot of farmers' lines. There is a much better return from the expenditure of money on that work than there will be from the expenditure of the same money on smaller lines. On the same principle, if a line is required from Toronto to Montreal to give a service to the business men, to the mercantile community of Montreal and Toronto, and on the other hand the same amount of money is required for farmers' lines that will give little or no return, on any proper business principle anyone would say: Build the long line, and give the service to the greatest number of people to whom it is of the greatest value. ³⁸

Bell General Superintendant Lewis B. McFarlane testified that Bell wanted to serve rural areas but lacked capital. In response to McFarlane, Mulock stated that he interpreted Sise's testimony as meaning "in so many words that it was not convenient for the company to meet the demands from the rural districts, because of more paying demands absorbing their available capital."³⁹ McFarlane argued that Bell had attempted to extend service to rural areas to increase business, but that early attempts to interest people in rural Quebec to subscribe were unsuccessful because people didn't appreciate the value of telephone service. He

presented statistics showing subscribers served by Bell in urban and rural areas. Mulock established that Bell service penetration among rural subscribers was low and questioned the prices charged for rural service:

Q. I have been handed these figures: The rural population of Ontario, Quebec and Manitoba is put down as 2,493,471 people. I understand you to say there are about 4,000 farmers' telephones now in use?

A. 2,000 farmers' telephones.

Q. Then that would be about one telephone for every 1,250 people?

A. Or thereabouts.

Q. That is the extent to which you have met the demand for rural telephones in these three provinces?

A. We have also found that in canvassing for telephones not more than 20 per cent of those canvassed evinced the slightest desire to have a telephone.

Q. Well, at what prices?

A. Paying Prices.⁴⁰

McFarlane argued that the rates charged by systems established by farmers were lower than Bell's rates due to inferior construction and lack of maintenance. When presented with testimony regarding the establishment of independent systems by people who did not have telephone service from Bell, McFarlane responded that as Bell was one of 100 telephone companies in Canada it should not be expected to shoulder the blame for lack of rural service.⁴¹

By the Chairman:

Q. I understand it to be your contention that your company cannot supply rural telephones at less rates than you are asking at present?

A. Not profitably.

Q. And not being able to do so directly is not your policy?

A. Except in so far as it will aid us to get business indirectly, which is always a good thing to do.

Q. For the sake of the business itself cannot you establish rural telephones? You are not prepared to go into that on a large scale to meet the wants of 2,000,000 odd people except at the present rates?

A. I think we are doing all that we can do physically and financially, and if we were to supply the demands which you and the other gentlemen speak of, it would need at least another \$10,000,000 of capital to do it.

Q. You think also, do you, that local or rural telephone services can be better supplied by the local people -- more cheaply?

A. I think they can in a great many cases.

Q. That is the people having the telephone largely under their own control will be contented with a species of service that they would not be satisfied with if supplied by you?

A. That is the reason why they can do it cheaper.

Q. It is no doubt a reason.⁴²

Mulock noted that the number of telephones in use in the U.S. increased 1,500 per cent following the expiration of the telephone patents controlled by American Bell in 1895. Most of the new telephones were installed by independent telephone companies. The increase in telephones meant that in the U.S. there was one telephone for every eleven people, while in Canada the ratio was about one telephone for every 70 people. Mulock raised the question of why such expansion did not occur in Canada after the expiration of the patents:

Q . . . Since the expiry of these patents in 1895, your number has increased from 29,000 to 69,000, not a bad increase I will admit, 40,000,

a little over 100 per cent or rather nearly double. But in the same period they have increased 1,500 per cent. Now how is that. You have been in possession of the field and now you have told us that as to nearly one-half the population it will not pay you to put in the telephone to supply it at a rate that the people seem to be able to pay. Do you not think you could have done better than this for the people?

A . . . All the answer that I can make to you is that the Bell Telephone Company have done everything possible to furnish telephone facilities wherever the terms, the physical conditions and the monetary condition would allow. . . .

Q. Your company has been given great facilities, the greatest of all facilities in Canada, and you have done nothing in the way of your own development. You have been at liberty to burrow your way into every municipality and yet here to-day the total number of telephones in Canada is only 90,000.⁴³

Mulock argued that the lack of expansion was due to high rates charged by Bell.

Independent Telephone Systems

The Committee heard testimony from proprietors of several independent telephone systems, including companies and cooperatives. The Committee's questions covered a wide range of areas, including in-depth examination of finances, construction and relations with Bell. Members of the Committee stated that they were interested in finding ways of establishing telephone service in rural areas. They endeavoured to ascertain the costs of constructing rural systems and the role of members of the public in constructing and maintaining rural service.⁴⁴

A theme which emerged from questioning of people who built their own systems was that building a local telephone system, providing a generally satisfactory service between rural communities and surrounding farms, was easy

and inexpensive. Independent systems were generally started by farmers, doctors and businessmen. The quality of construction, and hence the quality of service, varied. In some cases, in areas where Bell did not provide service, independent systems cooperated to extend service throughout wider regions.

The desire for service grew from economic and social needs. Operators of independent systems testified as to the usefulness of the telephone in cases of sickness. The importance of having a telephone in the railway office and postal station was often stressed, as these offices were the center of economic and social activities in most rural communities. The telephone provided a quick and efficient means for merchants to communicate with customers, suppliers and shippers. A typical example of the growth of a rural system is found in testimony describing how the desire of one man to communicate with his son led to the construction of a telephone system connecting subscribers in several small towns:

A. In 1892 or 1893 I had a son a doctor who started business in Brighton. Of course, I wanted telephone connection with him. I applied to the Bell agent there in the village to get connection, as their line ran past my house, and the best I could do with them was \$40 a year. Well, of course, that did not suit me. I went at it and built a line, put it up, and it did not cost me much more than that, to connect my house with my son and with my son-in-law.

Q. What length of mileage? --A. Three miles.

Q. What did it cost you? --A. About \$25 a mile.

Q. Go on with your story. --A. Then, when I got it there the people in the section of Hilton, near by, one and a half miles north, almost insisted that I should run it out there, it was so convenient to call a doctor. I had it then in doctor Dean's, so I ran on to Hilton, about one and a half miles. Then they were very anxious that I should go on to Newcombe's Mills, now Holland. Then the people of Wooler were

very anxious. The Bell was not in there, so I ran my line down to Wooler. Then they were very anxious to get it at Stockdale, in the township of Murray. That was 7 miles further, so I contracted for poles at 30 cents a pole, delivered on the road, as quick as I could get the poles on the road. The Bell started up and came in for nothing at Wooler. I suppose they thought they would stop me from going on, but my line went on. Then there is a section in the township of Murray four miles away, where there is no connection with the post office or in any other way. They were very anxious I should put a line up there. I said, 'you get up the poles and I will run my line up there.' They have a post office there called Maple View, I think. I rent it out, and since that I put a 'phone in a cheese factory, and at Powell's Corners, so that line has three 'phones. Then I built a line to Codrington and Warkworth, then I ran a branch from my place to Edville, where Mr. Cochrane lives, or 20 rods from his house, and put it in the post office. Then I put a button switch in my own house, and I have an extension bell, and whenever they want to connect with the main line, all that they have to do is to call me up at my place and I switch them on just by turning a little switch, when they call the main line to call the doctor or anyone they want. ⁴⁵

There were a variety of methods of charging for service. With cooperatives, each subscriber made an initial contribution and then payed a small fee, perhaps \$2 to \$5 per year, to sustain the system. In some cases, local service was provided for a flat fee, while subscribers were charged based on mileage for each toll call outside a town. Generally, independent companies which were not cooperatives established yearly charges; while, in a few cases, subscribers were charged on a per-call basis for local service, with the yearly bill not exceeding a set amount. In most cases a different rate was charged to different classes of subscribers -- e.g., residence, business and farmer. Residential subscribers paid from \$10 to \$15 per year. Farmers often had a special rate, ranging from \$12 to \$15 per year. Businesses paid rates ranging from \$15 to \$25 per year. ⁴⁶

The Committee investigated the relationship between independent telephone systems and the Bell Telephone Company of Canada. Some independents had

satisfactory arrangements with Bell. Invariably, these were companies which had agreed to interconnect with Bell with the understanding that they would not attempt to expand their systems and would not cooperate with other independents to provide service. These companies indicated that they had no need or desire to connect with other small telephone systems.⁴⁷

Most independent telephone system representatives testified to disputes with Bell. These included denial of access to railway stations, undesirable terms demanded by Bell for interconnection and attempts by Bell to drive them out of business. Independents operating in the territory of other larger telephone companies such as the New Brunswick Telephone Company and the Nova Scotia Telephone Company expressed similar complaints.⁴⁸

The organizational meeting of the Canadian Independent Telephone Association was held 6 September 1905. Resolutions were passed calling for Dominion ownership of long distance lines, requesting the Government to enact legislation preventing exclusion of independents from railway stations and urging municipalities not to enter into lengthened exclusive franchises with telephone companies until the report of the Select Committee on Telephones was presented.⁴⁹

Members of the Committee viewed the issue of independent telephone system access to railroads as a question of public interest, given that the railway was central to the lives of people living in rural areas. Parliament had deemed exclusive access for Bell to be contrary to the public interest and empowered the Board of Railway Commissioners to approve independent telephone company applications for access. Nonetheless, the contracts between Bell and the CPR and

Grand Trunk Railways for exclusive access were still in force and railways were not voluntarily allowing independent telephones into railway stations. The spokesperson for the CPR indicated that the company would not allow independent telephones in stations upon request but would comply with any order issued by the Board of Railway Commissioners compelling them to do so. He stated that while he had "no objections to any telephone company getting into our stations, I would allow all telephone companies in," the contract with Bell precluded allowing independents access.⁵⁰ In examination on this matter Bell president C.F. Sise argued that Bell had only relied on such contracts during the period in which they were legal. Following the action by Parliament to preclude exclusive access, any refusal by railways to allow independent lines into railway stations was the initiative of the railways, not Bell.⁵¹

The Committee's concern with public interest considerations associated with railroad station access was evident during examination of the representative from the Grand Trunk Railway. The railway spokesperson argued that allowing independent lines into telephone stations would inconvenience employees and he stressed the need to protect the property rights of railroads. He stated his belief that a monopoly telephone service was in the public interest; and was queried by Mulock as to whether the railway had taken it upon itself to further this approach to public policy by precluding access by telephone companies other than Bell. Mulock took issue with the assertion that the public interest was served by denying access, grilling the railway spokesperson about the company's refusal to provide access to an independent telephone system in Montreal:

Q . . . They have 1,516 subscribers. Is this a case that would involve, as you spoke of just now, a staff to answer several telephones, on different lines as you have spoken of, say three? Surely 1,516 persons should be a sufficient business factor to justify you in putting your officers to a little inconvenience if necessary?

A. There is no reason, if you will permit me to say so, why the railway company should put its servants at the disposal of the telephone company.

Q. At the disposal of 1,500 subscribers?

A. This telephone company is not there for purely benevolent or charitable purposes, or for the benefit of the community. They are there for the money.

Q. The Grand Trunk is there for the public benefit?

A. Just the same as we are. The greatest asset that the telephone company gets is the communication with the railway company's stations. They are not working for the benefit of the public particularly, except insofar as it puts them in a position to obtain additional subscribers. . . .

Q. Well, the state of affairs exists that to-day 1,500 people who are subscribers to the Merchants' Telephone Company want to communicate with your offices. Will you allow them to do that?

A. That is a question for our counsel to advise us on.

Q. I am not asking that; I am asking if you will allow them to telephone to your offices?

A. We have not the slightest objection.

Q. They are at liberty to do so?

A. If we have the legal right to make that arrangement.

Q. Well, we will have to try and give you that right.⁵²

In several cases Bell agreed to interconnect with independent companies provided the independents agreed to terms stipulated by Bell. These included agreeing to not compete with Bell in providing service in a given territory, to

curtail further expansion of their systems and to refuse interconnection with companies competing with Bell.⁵³ Bell president C.F. Sise testified that Bell would interconnect with companies which agreed not to compete.

Sise objected to compulsory interconnection on two grounds. First, he argued that competing firms should not be able to use facilities which were constructed by Bell. Second, he testified that some independent systems were of inferior construction and would provide poor transmission, which would reflect badly on Bell.⁵⁴

In fact, a review of the testimony and evidence submitted to the Select Committee on Telephones indicates that in some cases Bell's facilities were superior to those of independents and that in some cases the facilities of independents were superior to Bell's. In the early days of telephony, telephone communication was initially transmitted over a single strand of iron wire, known as a grounded circuit. Transmission quality was adequate for communication within cities and towns and for calling over relatively short distances. Transmission quality deteriorated on grounded circuits over longer distances. For telephonic communication over longer distances a circuit comprised of two strands of copper wire was necessary to ensure clear transmission; and circuits comprised of a pair of copper wires became the standard transmission medium for local telephone service and have remained so to this day. Telephone systems tended to be constructed on a piecemeal basis, with new facilities added to the system as service was extended to new subscribers and districts. Thus, in the early 1900s, many telephone systems, including those constructed by Bell and by smaller independent telephone companies, incorporated both grounded and

metallic transmission lines.⁵⁵

The question of interconnection was debated further on in the proceedings, in the context of a discussion between the Committee, representatives of the Union of Municipalities and Bell counsel A. B. Aylesworth regarding possible provisions to be contained in general legislation regarding telephone service. The Committee raised question of how to provide a fair interchange of traffic between different telephone companies. The option of enacting legislation which would compel telephone companies to interconnect was raised. Aylesworth argued that this would, in effect, be compelling Bell to allow competitors to use its property and that this would be unacceptable regardless of any compensation provided to Bell. He stated that allowing competing companies to interconnect with Bell could result in Bell subscribers being unable to telephone because the capacity was being used by subscribers to competing systems:

But is not the connection of these companies or individuals by agreement very different from such a condition as imposing legislation upon a company or an individual against his will? I fully grant the supremacy of parliament. I am trying to urge why in my humble opinion it would not be a just or right thing. Would anybody propose that to accommodate the traffic of any rival railway company another company should be ordered by Parliament to duplicate its railway? Wouldn't it be a monstrous suggestion? And yet it is urged that if our line is not sufficient for our own traffic and the other line we must duplicate it.⁵⁶

Members of the Committee stressed the fact that Bell had received a charter to provide service to the public and pointed out that Bell's refusal to interconnect with competing companies caused inconvenience to the general public. They noted that interconnection with competing firms would generate more traffic,

thus increasing Bell's business. The conflict between the Bell's interest and the public interest is illustrated in this exchange between Mulock, acting as Chairman, and Counsel for Bell:

The Chairman.--I understand that in the interests of the Bell Telephone Company you are objecting to any proposition that will bring any more business or money to the Bell Telephone Company?

Mr. Aylesworth.--I am objecting to any compulsory legislation. I am urging that the shareholders of the Bell Telephone Company, whose money has been put into it just as legitimately as any man's money has been put into his farm, want and are entitled to manage their property according to their own best interests. Those interests are identical with the best interests of the public. They are doing it to the satisfaction of the public. . . .

The Chairman.--Your company have collected such rates as are sanctioned by the government and have refused the traffic, you have by doing that compelled the construction of independent lines or systems requiring the duplication of the outlay of capital, you cannot complain if the provisions of this Act are enforced? -- A. I am making no complaints of the provisions of this Act being enforced. I am asking you to take no right from me which was given to me by Act of Parliament.

The Chairman.--But you take an unwise stand in regard to your rates.

Mr. Bergeron.--But there is nothing to prevent any competing line from building long distance lines.

The Chairman.--And there is nothing to compel the state or the country to have the Bell.

Mr. MacLean.--There is nothing to prevent the state coming in and building a competing line.

Mr. Bergeron.--That power is in the state all the time.

Mr. MacLean.--Yes, but we have not used it. We may use it.

Mr. Aylesworth.--I may have my property taken from me by the state, but I rely upon the infallible justice of the Crown that it will

not take away my property without compensation.⁵⁷

Government Action following the Committee

The Mulock Committee never submitted a report. In the final stage of the hearings, ill health prompted Mulock to leave the Government to accept a post as Chief Justice of the Exchequer Division of the Supreme Court of Ontario.⁵⁸ A.B. Aylesworth, the prominent attorney who had represented Bell Canada before the Select Committee on Telephones, was appointed to succeed Mulock as Postmaster General. In speeches made during his bid to secure a seat in the House of Commons, Aylesworth is reported to have promised to support Mulock's views regarding the desirability of creating a publicly owned and operated telephone system.⁵⁹

Nonetheless, a policy of public ownership was not pursued. While the Committee reported to Parliament, a formal report containing a discussion of the issues and recommendations was never published and the recommendations of the committee were not debated in the House of Commons. In subsequent House debates regarding telephone service, it was implied that Mulock left at least partly because he supported legislation providing for public ownership and other reforms and was not supported by others in the Government.⁶⁰

In 1906, Aylesworth introduced legislation to amend the Railway Act, which included provisions giving the Board of Railway Commissioners the authority to regulate the rates of federally-chartered telephone companies. The legislation did not address controversial aspects of Bell's operations such as interconnection, attempts by Bell to drive alternative systems out of business or extension of

service. Nor were broader policy issues, such as the question of national objectives for telephone service and the alternatives for achieving such objectives, addressed in detail by the Government.

Conclusions

This chapter examined the 1905 House of Commons Select Committee on Telephones. It identified early disputes regarding the best means of serving the public interest with regard to telephone service. Bell possessed a federal charter and provided a service deemed by Parliament to be for the general advantage of Canada. The Select Committee on Telephones was established in response to public dissatisfaction with Bell. There was a general consensus on the part of politicians and the public that telephone service was important and should be supervised to some extent by the government. Disagreement arose over the scope and character of Government supervision.

The options discussed covered a spectrum ranging from public ownership to the status quo -- i.e., minimal supervision of Bell's activities. Within these parameters the range of options for Government supervision included supervision of Bell by Government departments or Cabinet, enacting legislation compelling Bell to interconnect and supervision of Bell by a regulatory agency such as the Board of Railway Commissioners, which had already been empowered to deal with the issue of telephones in railway stations. A regulatory agency could have a variety of responsibilities, encompassing more or less supervision. For example, regulators could be empowered to monitor services, rates, discrimination and interconnection, or any combination thereof. The regulators could be

empowered to initiate action to deal with areas of concern identified by the tribunal or the public, or its role could be limited to addressing matters raised in applications submitted by telephone companies and their subscribers.

Objections to reforming the existing system were generally couched in terms of protecting the rights of federally-chartered private firms. Bell and sympathetic members of Parliament argued that major reforms, such as giving municipalities more control over use of streets by utilities and Government ownership of trunk lines would, in effect, retract rights granted to Bell and the railroads in their charters. Legislation compelling Bell to interconnect with independent telephone companies was viewed as a transgression of Bell's property rights. This was seen as unfair to federally-chartered companies and their investors.

Coupled with the argument regarding property rights was the assumption that the public interest would best be served if telephone service were provided by large private telephone companies, cooperating to form a single telephone system providing trunk and local exchange service. Proposals to introduce various forms of public ownership were labeled "socialism" by a minister involved in drafting legislation governing telephone companies and railways. In speeches stressing the need to protect rights of established companies, the rights of subscribers to independent systems which were denied interconnection or precluded from access to railway stations were never mentioned. While it was generally conceded that service should be extended, actual reforms that would have helped attain that objective were superceded by the desire to protect the rights of Bell.

The extent of debate in the House of Commons regarding issues such as railway contracts and the record of the Proceedings of the Select Committee on Telephones make it quite clear that the notion that telephone service should be provided primarily by private monopolists comprising a single telephone system was not enshrined as public policy. The extent of the complaints against Bell shows that this notion was viewed with skepticism by the public. Even many communities which were generally satisfied with Bell's service believed that telephone service should be publically owned and operated.

The measure used to gauge the success of private ownership was the results of Bell's performance. Bell had carte blanche "to burrow its way into every municipality" in Canada. Yet the company made minimal inroads into providing service to rural areas; and in the cities of Montreal and Toronto high telephone rates had discouraged subscription to service. Mulock indicated that the lack of progress in extending service to Canadians was due to Bell's policies for providing service. He argued that Bell could have, if it chose, extended service through lowering rates and constructing more telephone lines.

Moreover, Bell's attempts to hinder the development of independents, as the company pursued its objective of a single, monopolistic telephone system, hurt the public. More often than not, independent telephone companies, co-operatives and municipal systems were created to serve people who either did not have service or who were dissatisfied with Bell. When independent systems were denied interconnection or access to railway stations, members of the public suffered because they relied upon alternatives to Bell for telephone service, either as a matter of choice or of necessity.

On the face of the evidence presented to the Select Committee on Telephones, Bell's argument that it denied interconnection to independents because they had inferior facilities does not hold up. The state of the art was changing and many telephone systems, including Bell's, were comprised of both grounded and metallic circuits. Moreover, Bell had agreed to connect with independent telephone systems which used grounded circuits, provided they agreed not to compete with Bell and not to interconnect with Bell's independent competitors.

The evidence presented to the Committee indicates that rate discrimination most often occurred in cases where Bell responded to the establishment of alternative systems by offering service at rates lower than those of competitors and lower than prices which were believed by the company to cover the costs of providing service. Thus, while Bell executives argued that they lacked capital to extend service to rural communities, the company apparently possessed sufficient resources to construct systems in areas served by alternative systems and to offer service at prices which did not recover costs. The result was that while some areas of the country did not have telephone service at all, Bell utilized its resources to duplicate facilities in areas already served by independent systems.

Proposals for reform were a response to the results of Bell's efforts to establish a monopoly in the telephone field. Members of Parliament and members of the Committee, especially Mulock, viewed the telephone as an essential facet of rural life. Bell's activities, justified on the basis of the company's possession of a federal charter, served to restrict rather than to extend service. The questions asked by the Committee regarding construction and financing of independent telephone systems were intended to generate the information necessary to

formulate proposals for alternative institutional arrangements for providing telephone service.

During this period of time, calls for public ownership were concomitant with calls for competition. "Competition" in providing telephone service generally referred to the development of locally based alternatives to large telephone companies such as Bell and New Brunswick Tel. Had Bell been required to interconnect with other local systems, subscribers to competing lines would have been able to communicate with each other without having to have multiple telephones placed in homes and offices. The structure of public ownership generally supported by members of the Committee, small telephone companies, municipalities and boards of trade, was federal ownership of trunk lines which would connect with a variety of local systems owned by municipalities, co-operatives, small independent systems and larger systems such as Bell.

Why, then, did not the Government respond by introducing public ownership at that point? Information regarding internal Government debates on public ownership is sketchy and does not provide a definitive answer to the question. Nonetheless, it is likely that the failure to pursue public ownership can be attributed to the departure of Mulock, the influence of politicians who were either connected to the larger telephone companies or acted based on the assumption that telephone service should be provided by private companies and the tenacious efforts by the Bell Telephone Company of Canada to consolidate its control of the field.

The Government's decision to deal with telephone service issues through amending railway legislation was a piecemeal approach to a complex policy area

and left major federal policy positions open to the imagination. With ample evidence to support the need for public ownership of telephone service or, at least, comprehensive supervision of Bell's activities, the Government opted to pursue a fire-fighting approach to telephone policy through periodically amending the Railway Act to grant the Board of Railway Commissioners limited powers intended to snuff out specific problems that occasionally flaired up. When the Select Committee on Telephones was established, it was clear that Parliament intended for the results of the Committee's efforts to provide a basis for a comprehensive telephone policy which would establish national objectives for telephone service and clearly examine the respective roles of the federal Government and private sector firms in achieving such objectives. Because the Committee's findings were never debated in the House of Commons, the Committee never developed formal recommendations and the Government chose not to enact comprehensive telephone legislation, national telephone policy objectives were never spelled out and the alternative means of attaining such objectives were not considered in the House.

While there was no explicit telephone policy, the Government's piecemeal approach amounted to policy by default. In ignoring the evidence generated by the Select Committee on Telephones, declining to enact comprehensive telephone legislation and opting for an arms-length relationship with Bell through regulation by tribunal, the Government tacitly supported the approach favoured by those who believed that the public interest would be best served by endowing the Bell Telephone Company of Canada with the right and power to control the development of telephone service in Canada.

Footnotes

1. S.C. 43 Vic C67, 1880, Royal Assent 29 April 1880. Cited by Robert E. Babe, "Telephone Interconnection: Bell Canada 1880-1920," paper prepared for the Ministry of Transportation and Communications, Province of Ontario (December 1975), p. 5.
2. Babe, "Telephone Interconnection," p. 2, 9-10.
3. Law Reform Commission of Canada, The Canadian Radio-television and Telecommunications Commission (Ottawa: Supply and Services, 1980), p. 8.
4. See for example Dominion of Canada, Official Report of Debates (Commons) 9th Parliament, 3rd Sess., 26 June 1903, p. 5513-5549.
5. Debates, 9th Parliament, 2nd Sess., 17 February 1902, p. 66-68 (Remarks of W.F. MacLean, MP for East York).
6. Ibid., 6 March 1902, p. 787
7. Ibid., p. 787-788
8. Law Reform Commission of Canada, p. 8
9. Debates, 9th Parliament, 3rd Sess., 24 June 1903, p. 5347 (Remarks of W.F. MacLean, MP).
10. Ibid., p. 5349-5350 (Remarks of the William Ross, MP).
11. Ibid., 26 June 1903, p. 5524-5549 (Remarks of the Hon. A.G. Blair, Minister of Railways and Canals).
12. Ibid. (Remarks of W. F. MacLean, MP, Haughton Lennox, MP and Edward Frederick Clarke, MP)
13. Ibid., p. 5527-5536 (Remarks of W. F. MacLean, MP and the Hon. A.G. Blair).
14. Ibid., p. 5546.
15. Debates, 9th Parliament, 4th Sess., 23 March 1904, p. 325 (Remarks of W.F. MacLean, MP).
16. Ibid., p. 325-330.
17. Ibid., p. 326-327.

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18. Ibid., See also, The Globe, "Judgement in the Telephone Case," 16 March 1904.
19. The Globe, "Mr. Blair explains his decision in the telephone case," 29 March 1904, p. 10.
20. Debates, 10th Parliament, 1st Sess., 17 March 1905, p. 2681-2682 (Remarks of the Hon. Sir William Mulock, Postmaster General).
21. Canada, Journals of the House of Commons, Vol. 40, 1905, Appendix 1, Proceedings of the Select Committee on Telephones, Vol. 1, p. 2.
22. Ibid., p. 6-43.
23. Ibid., p. 9.
24. In 1906, the governments of Saskatchewan and Manitoba were giving serious consideration to establishing provincially owned telephone systems. Dagger was employed as a consultant by both provinces and again recommended the establishment of a decentralized model of public ownership. His suggestions were not followed and Saskatchewan and Manitoba opted for provincial ownership of local exchange and toll lines. See Dallas W. Smythe, "A Study of Saskatchewan Telecommunications," paper prepared for the Department of Communications, Government of Canada (July 1974) p. 18-21 and James Mavor, Government Telephones: The Experience of Manitoba, Canada (Toronto: Maclean, 1917).
25. Select Committee, p. 955-964.
26. Ibid., p. 696-727, p. 874-887.
27. Ibid., p. 601, 678-682.
28. Ibid., p. 609.
29. Ibid., p. 610-613.
30. Ibid., p. 746-748.
31. Ibid., p. 775.
32. Ibid., p. 757.

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33. Ibid., p. 762-763.
34. Ibid., p. 769-770.
35. Canada, Journals of the House of Commons, Vol. 40, 1905, Proceedings of the Select Committee on Telephones, Appendix "A," Vol. II.
36. Select Committee, Vol. I, p.70-113.
37. Ibid., p.622
38. Ibid., p. 811.
39. Ibid.
40. Ibid., p. 812.
41. Ibid., p. 830.
42. Ibid., p.831.
43. Ibid.
44. Ibid., p. 339-340.
45. Ibid., p. 162, 221-224, 242, 290, 328, 340-41, 371, 509, 632 and 641.
46. Ibid., p. 508-510, p. 528-532, p. 631-640.
47. Ibid., p. 511-526, 361-363, 376-383.
48. Select Committee, correspondance, p. 734-35.
49. Select Committee, Proceedings, p. 399.
50. Ibid., p. 677.
51. Ibid., p. 583-584.
52. Ibid., p. 50-51, 55-56, 317-318, 330-331, 337, 501-505.
53. Ibid., p. 501-505.

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54. Ibid. For discussion regarding use of grounded and metallic telephone lines by independent telephone companies see p. 54-55, 159-166, 242-246 and 315.
55. Ibid., p.783.
56. Ibid., p.785-786.
57. William James Loudon, Sir William Mulock (Toronto: Macmillan, 1932), p. 135.
58. Debates, 10th Parliament, 2nd Sess., 28 March 1932, p. 751-752 (Remarks of W.F. MacLean, MP).
59. Ibid.
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III. Policy through Construction, Regulation and Reaction: 1906-1968

Introduction

Following the Mulock Committee, in the period from 1906 through 1968, the federal Government did not attempt to develop a comprehensive policy for telecommunication services. Federal influence was primarily exercised in three ways. First, the Department of Public Works constructed telegraph and telephone lines to extend service in rural and remote areas, rich in minerals, fish, timber and farm land, as a means of encouraging economic development. Government lines were constructed in British Columbia, Alberta, Ontario, Quebec, the Maritime provinces, the Yukon and the Northwest Territories. Second, in 1906 the Government vested the Board of Railway Commissioners and its successors with the power to regulate the rates of federally-chartered telephone companies. Rates were to be non-discriminatory and "just and reasonable." Government influence was also exercised through the process of considering applications by federally-chartered telephone companies, primarily Bell Canada and the British Columbia Telephone Company (B.C. Tel), for amendments to their charters.

During this period, the federal Government undertook no investigations of telephone service. Regulation under the Board of Railway Commissioners, (1906-1938) and its successor the Board of Transport Commisisoners (1938-1967) focussed on setting "just and reasonable rates." No attempt was made to develop national policy objectives for telephone service or to regulate on the basis of broad policy objectives. Broad policy issues were not discussed in the context of regulatory proceedings. Debate about the principles which should underlie federal telephone policy and about telephone issues took place in the House of

Commons in the course of reviewing Public Works expenditures for constructing and maintaining telephone and telegraph lines and of debating legislation revising the charters of the Bell Telephone Company of Canada and The British Columbia Telephone Company.

A central issue underlying these debates was the question of the role of the Government in ensuring that telephone service was provided in a way that served the "public interest." There was a general consensus that the public interest would be served if telephone service was extended throughout Canada and provided at "just and reasonable" rates. Some argued that telephone service should be provided through some form of public ownership, while others favoured provision of service by large private corporations. There were disagreements on the responsibility of the federal Government in terms of providing service, parliamentary oversight of federally chartered telephone companies and the scope and character of regulation. These issues had been examined by Parliament's 1905 Select Committee on Telephones; but the committee never produced formal recommendations. As of 1906, the proposals for some form of public ownership or broader regulatory supervision were not seriously considered in the House of Commons.

This chapter examines the telecommunication issues which were debated in the House of Commons. The first section considers the issue of the role of the Government in providing telephone service to remote and rural areas. The second section examines issues raised with regard to the activities of federally-chartered telephone companies.

Extension of Service

From the 1890s through the 1950s the Government constructed, maintained and operated telegraph and telephone lines in remote and rural areas, primarily in British Columbia, the Yukon, the Northwest Territories, the northern regions of Alberta and Saskatchewan and the Maritimes. The Government lines were "not built with a view to making a profit but rather to give service to certain sections of country that could not be served by private interests or by those who would take the work up with a view to making a profit."¹ In some cases construction and maintenance proved to be difficult tasks. Material for constructing lines in the Yukon was carried to construction sites by pack mule. Communication was maintained with the Madgdalen Islands, Cape Breton and Prince Edward Island via undersea cables which were prone to damage from storms and entanglement with boats and had to be maintained by specially purchased cable ships.²

Telephone and telegraph service for settlers were primarily provided by the Department of Public Works. Additional telegraph services were operated by the Canadian National Railway (CNR), under the auspices of the Department of Railways and Canals. In addition, communication systems were operated for specialized uses by the Departments of National Defence, Marine and Fisheries and Interior. The mixture of systems operated by the various departments caused concern about "duplication of effort, duplication of expense and overlapping of service" which might result in unnecessary expenditure. Attempts were made to

examine the extent to which coordination of service between Government departments was possible. Due to the special responsibilities of each department, the different systems had been established for specialized purposes and such coordination was deemed impractical.³

Lines were constructed to serve areas in which economic development had occurred and had thus attracted settlers, in some cases at the encouragement of the federal Government. As one Member of Parliament (MP) expressed it, "we do not desire to make money; we want to develop Canada; we want to place in these vast areas the men and women who in the years to come will bring immense returns for what we do."⁴ For example, one factor underlying the desire for increased telephone service in the British Columbia (B.C.) interior was to enable trade in mining and farming to be coordinated in Canada. The Vancouver Board of Trade had strongly urged construction of Government lines in the Okanagan valley because the lack of direct telephone communication with Vancouver meant that the only telephonic communication between B.C. mining centres and Canadian west coast financial centres was through Spokane and Seattle.⁵

Telephone and telegraph services often combined with roads, waterways and plane service to form communication networks that served rural communities. In addition to facilitating economic development, the telephone and telegraph enabled settlers to have better access to essential medical services. Moreover, the ability to receive and transmit news was important to businesses wishing to exchange information with financial centres; and the public, wishing to be kept abreast of national and international events, such as the first world war.⁶ The importance of rural government telephone service is illustrated in this comment

from a B.C. MP speaking on the proposed allocation of funds to rural systems:

On Kootenay lake we have a mining operation which provides a very large payroll and a community of perhaps two hundred people. It has been conducting operations for several years and the property is successful. It is proposed to extend these operations. The community is situated on the banks of the Kootenay Lake and there is not a road nor even a trail from it in any direction. The only means of access to the outside world is by rowboat or launch if you happen to have one. For two years I have been asking the department to provide telephone connection with that section. As was indicated in my communication to the department, such connection could be made at a cost of \$4,000 or \$5,000 covering a distance of not more than 5 miles. So keen have been the operators of the mine to secure that connection that they were even willing to contribute towards the cost of erecting the poles. Just imagine a case of sickness or accident calling for the services of a physician: before a doctor could be reached somebody would have to row three or four miles across the lake and then telephone to the nearest town or city where a physician could be had. Certainly it is unreasonable. . . . Now the government is anxious to have the mineral areas of British Columbia developed and is inviting people to come to the country and settle on the land, yet it does not seem disposed to provide them with the ordinary necessities of life so far as accomodation is concerned. . . . This might be a life or death matter for somebody working in the mine, and only between \$4,000 and \$5,000 is involved. A dozen miners might suddenly require the services of a physician and yet for the sake of a few thousand dollars the government neglects to give us the accomodation asked for.⁷

The importance attached to telephone service in rural areas is illustrated by the fact that telephone service among farmers was cited as an indicator of prosperity by Members of Parliament.⁸ The Government continued to construct lines in remote areas of the West until the late 1950s.

The role of Government in providing telephone service was debated extensively from 1914 through 1958-59, when the last remaining Government lines were phased out. A major issue was the question of the propriety of the Government continuing to operate line in areas served by private companies.

Government communication systems had been established to serve areas not served by the private sector. As the population increased in some areas, private telephone companies began providing service. The Government gradually sold its systems to private companies, or abandoned the lines completely.

The argument was made that since Government telegraph and telephone systems were built to serve areas not served by private companies, the Government lines should be discontinued in areas where private companies were extending service. Some MPs argued that the Government should give or sell its lines to private companies. Some cited the fact that none of the Government lines showed a profit and the high cost of operating and maintaining the systems as reasons for the Government to withdraw from providing service in areas served by private companies. A Minister of Public Works in 1918 argued that unnecessary lines should be disposed of, with remaining lines regarded as public utilities and operated on a "business basis."⁹ The general policy approach, which did not vary significantly with the party in power, was described as follows:

We are conducting these lines as pioneer work, to a large extent, to supply facilities to the settlers in isolated places so they will be in connection with the interior sections of the country. Having constructed them, we think they should be kept up. We are not doing any more than is absolutely necessary, as soon as we can induce commercial companies to take these lines over, we do so.¹⁰

Telephone lines were either sold to telephone companies "at an equitable price" or abandoned if the line was in extreme disrepair. When lines were transferred, the Government attempted to obtain the agreement of the purchasing company to continue to serve existing subscribers. However, the Government found it "very difficult to get the purchasing company to agree to undertake all

the extensions that might be required within a period of say, five or ten years. We do not go so far as that." Future subscribers were given service by the Government "either by making extensions to the line or by some other arrangement as the necessity arises."¹¹

Some Members of Parliament argued that the Government lines were unprofitable partly because private companies chose to serve only the most lucrative areas, leaving unprofitable areas of the country for the Government.¹² In some cases, MPs pointed out that Government lines preceded those of private telephone systems and the extent of capital investment was such that the Government could not afford to curtail service and lose the investment.¹³ In addition, the question of whether a national telephone system should be created out of existing Government lines was a recurring issue. In 1907, the Progressive Conservative Party issued the Halifax Platform, which included nationalization of telephone service as a major plank in party policy. In presenting the platform, party leader Robert Borden argued that a national system should be created out of existing Government lines:

It has been demonstrated in Great Britain that telegraphs and telephones can be successfully operated in connection with the Post Office Department. I see no reason why a similar system should not be inaugurated and carried out successfully in Canada. Few people realize that at the present time Canada owns and operates 6,586 miles of state telegraph lines. These lines have not been remunerative for the reason that they have been established in thinly settled portions of the country where private enterprise could find no adequate return. If we are prepared to invest national capital in thinly peopled and unremunerative localities, why should we hesitate in those portions of the country where operations can be carried out at a profit? I do not forget the necessity that our great railways must be equipped with telegraph and telephone lines, nor do I forget the principle of justice to invested capital which I have already invoked.

Having regard to these considerations our policy should include the establishment, after due investigation, of a system of national telegraphs and telephones under conditions which shall be just to capital already invested.¹⁴

In 1912 a motion, entitled a "National Means of Communication," was introduced in the House of Commons by a member of the opposition. The motion called for an investigation of Government telegraphs, telephone, wireless telegraphs and cable systems and postal service. The data would have been submitted to the Post Office Department, which would have used the information as a basis for improving communication services provided by the Government. The MP who introduced the motion argued that the Government should either assume control of trunk lines owned by private companies or build trunk lines to connect with existing Government systems to connect the different regions of the west.¹⁵

When the issue was raised again in 1929, the Minister of Public Works noted that while there was "perhaps a great deal to be said for nationalization of public telephone and telegraph services," the Parliament would have to decide to enter into the telephone business on a commercial rather than a non-profit basis.¹⁶ While the question of public ownership continued to be raised throughout the years by individual Progressive Conservatives, Liberals and members of the Cooperative Commonwealth Federation/New Democratic Party, no such policy decision was made with regard to Government owned telecommunication lines, and they were gradually abandoned or sold to private telephone companies and the CNR.¹⁷

Over the years, the apparent reticence of major telegraph and telephone companies to serve rural areas was spoken of with concern in the House of

Commons. In the 1912 debate about the motion regarding a National Means of Communication, a Member of Parliament presented data submitted to the Board of Railway Commissioners as a basis for arguing that the large telegraph companies, such as the Canadian Pacific Railway (CPR) and the Grand Trunk Railway, constructed lines to serve only the most lucrative areas, leaving the least profitable areas for the Government to serve at a loss.¹⁸

This was an early version of "cream skimming," instances where providers of service choose to serve only profitable areas, leaving less profitable areas to be served by telephone systems operated by parties which have a "public interest" obligation to serve unprofitable areas. This is a charge currently leveled by private monopoly telephone companies arguing against allowing alternative long distance companies to compete for service in selected areas. This charge was repeated over the years with regard to Bell and B.C. Tel, in debates regarding proposed changes to their charters. Members of Parliament argued that the companies had "the opportunity to skim the cream off the business" by concentrating service on the most populated areas.¹⁹

Policy Issues related to Federally-Chartered Telephone Companies

Means of Policy Influence

The federal Government influenced the activities of federally chartered telephone companies through amending their charters and through regulation. Prior to 1906, rates of federally chartered telephone companies had been regulated by Cabinet. In 1906 the power to regulate telegraph and telephone rates was given to The Board of Railway Commissioners, which had been given

jurisdiction over railway rates in 1903. In 1938, the name of the board was changed to the Board of Transport Commisisoners for Canada, with the powers remaining substantially the same.²⁰

The powers of the regulatory commissions were reactive.²¹ The Board of Railway Commissioners and its successor, the Board of Transport Commissioners, had the power to rule on applications for rate increases presented by federally chartered telephone companies. They did not have the power to regulate the companies' provision of service, nor to investigate aspects of telephone company operations that might influence rates, such as the operations of manufacturing subsidiaries.

Parliament could extensively review public policy issues relating to provision of telephone service in the course of considering proposed legislation. No legislation concerning national policy objectives for telephone companies or substantially revising regulatory powers was introduced in the period from 1906 through 1967, as Parliament apparently lacked the political will to do so. Parliament could initiate action on issues involving federally chartered telephone companies through introducing amendments to private bills introduced on behalf of the companies or through amending the Railway Act to increase the powers of the Board. In practice, Parliament would extensively review public policy issues regarding telephone service in the process of considering private bills introduced on behalf of Bell and B.C. Tel when the companies wished to amend their charters and when considering amendments to the Railway Act.

Parliament could respond to a decision of the Board either of its own volition or in consideration of an appeal to Cabinet and could direct the Board with regard

to a desired course of action, but for the most part chose not to exercise this option. The Government's powers with respect to decisions issued by the Board were described in The Railway Law of Canada, written by counsel for the Board, H.B. Coyne.

52. The Governor in Council may at any time, in his discretion, either upon petition of any party, person or company interested, or of his own motion, and without any petition or application, vary or rescind any order, decision, rule or regulation of the Board, whether such order or decision is made *inter partes* or otherwise, and whether such regulation is general or limited in its scope and application; and any order which the Governor in Council may make with respect thereto shall be binding upon the Board and upon all parties.²²

During the period from 1906 through 1967, the Government exercised the power to vary or rescind an order of the Board on only one occasion. In 1958, Cabinet set aside a January 1958 Board of Transport Commissioners' judgement authorizing Bell to increase rates by 3.9 per cent.²³

Policy Issues and the Changing Telecommunication Environment

The reality of the reactive nature of the federal Government's exercise of power hindered the ability of the Government to respond effectively to the changing telecommunication environment. Since the late 1890s, the telecommunication environment in Canada and the United States has been in a constant state of flux, undergoing changes in industry structure, in the state of the art of telephony and, consequently, in the regulatory environment. During the period from 1906 through 1968 the telecommunication environment changed in at least two significant ways. First, the state of the art of telephony became

increasingly sophisticated, thus providing the means for new services to be offered. Furthermore, provision of telephone service came to be dominated by a handful of telephone companies, with the largest firms either wholly or partially owned by U.S. telephone companies and vertically integrated with manufacturing firms. These two factors combined to put pressure on existing federal policy and regulatory mechanisms.

Policy and the Changing State of the Art

From the early 1900s through the late 1960s, the state of the art progressed significantly. In 1905, long distance communication was provided along wires which connected cities and towns. Over the years, new media, including wireless telegraphy, microwave radio and satellites, were developed and become technically viable transmission alternatives. Since the early 1900s switching systems have evolved from manual systems, in which telephone connections were made by hand, to mechanical systems, electro-mechanical systems and, finally, automatic stored programme control (SPC) switching systems in which the switch is actually a computer. With developments in transmission and switching systems came choices in alternative means of communication, with implications for telephone subscribers, the telephone industry workforce and different segments of the telephone industry.

For instance, the advent of wireless telegraphy in the 1920s sparked debate in Parliament about the advantages and disadvantages of wireless versus wire systems in providing telecommunication service in rural areas and overseas. Today similar debates are taking place with regard to communication by different

types of satellite systems, microwave, HF radio and fibre optics. In each case opportunities for the development of alternative suppliers of transmission facilities have been created and this has led to conflicts between established interests and would be competitors.

In the late 1940s and 1950s, the deployment of microwave radio for civilian purposes led to the provision of new telecommunication services and contributed to shifts in the industry structure for the provision of services over long distances. The Canadian Broadcasting Corporation (CBC) and private broadcasters used the facilities of TransCanada Telephone System Members to carry radio and television signals across the country; and their use of these facilities helped to underwrite the costs of covering the telephone companies' investment. Advances in microwave radio contributed to the development of a fledgling data processing industry. The emergence of new services provided a sufficient market for the establishment of a second national microwave system across Canada, jointly constructed, owned and operated by privately owned Canadian Pacific Railway and crown corporation Canadian National Railways.²⁵

Conflicts between established telephone companies and CN/CP arose when Bell Canada lowered the rates charged for carrying broadcasting signals as a means of enticing the CBC to discontinue utilizing CN/CP's service. Some Members of Parliament charged that the Board of Transport Commissioners had made no attempt to discern whether the rates Bell Canada charged to the CBC actually covered the cost of providing the service.

The gradual shift from manual to automatic switching systems gave rise to questions about the rate of modernization, the impact on labour and purchasing

practices of telephone companies. Automatic switching machines required greater capital investment than manual equipment. Decisions had to be made about factors such as how much capacity was required, which supplier to purchase from, the financial implications of abandoning older equipment that had not yet been fully depreciated and the implications for telephone subscribers in terms of service and in terms of the effect of equipment purchase and depreciation on rates. Installation of automatic switches had implications for telephone industry workers. These switches provided for faster service and had greater capacity than manual equipment. They could be operated twenty-four hours a day without the need to be staffed at night and, thus, eliminated jobs and changed the nature of work for some employees. These concerns were reflected in debates regarding B.C. Tel's 1941 request for an increase in capital:

. . . just as the Bell Telephone Company and other companies have done, this company is going to modernize its service. But all these modernizations of service mean laying off help. Public utilities never modernize their service unless it puts them in a position to make tremendous savings in power, staff and other matters that more than compensate them for the cost of modernizing. Modernizing its service is not going to cost this company anything because in the long run it will make tremendous savings. Throughout Ontario and other parts of Canada telephone companies have modernized their service, and as a result thousands and thousands of employees have been laid off. The same sort of thing happens when an industrial corporation installs new machinery. It means that it is able to reduce labour costs and increase production.²⁴

In House of Commons debates regarding telephone companies' private bills, questions about the role of telephone companies in controlling new means of

telecommunication transmission and new services were raised. Bills introduced on behalf of Bell and B.C. Tel contained sections to amend their charters to permit the companies to utilize developments in wireless radio to transmit new services. B.C. Tel's 1941 request to amend its charter would have given the company the right to "provide service facilities for the transmission of sound pictures, writing or signals" via "any device apparatus system or method of whatsoever nature, whether now in existence or which may be discovered or developed in the future."²⁶ The 1948 bill to amend Bell Canada's charter contained similar provisions. Supporters of the companies argued that the sole purpose of the clauses was to clarify the powers of the companies with regard to the transmission of new services. They argued that the telephone companies were not proposing to enter the broadcasting business.

Other Members of Parliament expressed concerns about the proposed changes. They argued that the revisions would give the telephone companies the ability to control new media and services and that this might be contrary to the public interest. They were concerned about the telephone industry's role in transmitting broadcasting signals and argued that telephone companies should be precluded from controlling broadcasting services, as illustrated by these comments regarding proposed revisions to B.C. Tel's charter:

Under section 6 very far reaching powers are sought by the company. In the discussion on first reading reference was made to radio-telephone, and there was the statement that it was now in operation. If it is in operation, then it is operating under the authority of the charter. That must be so, without question. If they have the power now, then they do not require it through this bill. I believe an important question is raised in section 6, because although the section is made subject to the provisions of The Radio

Act of 1938, and subject to the provisions of other statutes in Canada, relating to radio and radio broadcasting, and to the regulations made thereunder. . . the section goes on to ask for authority to operate "wireless telephones and radiotelephone services, and services for the transmission of sound, pictures, writing or signals by means of any device, apparatus," and so on.

Parliament may want to give the company this right, but I do not think it is part of the business of a telephone company. I should assume that they already have facilities for radiotelephone service; if they have not, they ought to, because telephone companies are the only people who can give that service. But if they are placed in a new field of electrical transmission business, which may be projected in the immediate future, they will claim a prescriptive or exclusive right. They should not have that power.²⁷

The desire of Bell and B.C. Tel to clarify their powers with regard to use of communication innovations corresponded with requests to increase capital. Under their charters, Bell and B.C. Tel were required to receive permission from Parliament to increase capital. Members of Parliament interpreted Bell's plans for expansion and use of innovations as indicative of an overall attempt by the company to expand its influence to cover a larger sphere of the telecommunication field. This is reflected in debates regarding the company's 1957 request for authorization to increase capital:

As a matter of fact I believe that behind the bill is a plan to get control of a much larger field of communication than simply telephone service and not only within two provinces. I believe their aim is nationwide control in some fields of communication which are very important to us. When the president of this company dealt with the matter in a speech about a year ago, as reported in the Financial Post, he indicated a much wider and broader field of expansion than presented this afternoon by the hon. member who is sponsoring the bill. The president of the company indicated pretty clearly what their plans were. He told about what the company was doing in the expansion of what they called the picture-phone. The company's laboratories are now working on a project whereby when you telephone someone and they answer a picture will appear and you will be able to see the person to whom you are speaking.

There is also expansion in the field of long distance dialing. Those who use the long distance services can verify that very quick service is given by means of long distance dialing. Operators in one city can dial almost directly through to other cities in different parts of Canada and give very rapid service.

There is also rapid development in the teletype field and in what the company calls integrated data processing whereby business machinery in an office in one part of the country is connected with mobile radio installations and central control agencies and can receive signals from other offices of the business throughout the whole of Canada.²⁸

In 1967, a comprehensive private bill was introduced on Bell's behalf. The bill was designed to improve the company's ability to repond to the changing telecommunication environment. Among the bills' objectives were revisions to the capital structure allowing the company to increase capital by \$750 million at its discretion and the broad goal of "updating corporate powers." The ability to issue stock would provide the company with the flexibility required to adjust to changing conditions. The change in corporate powers incorporated a provision allowing the company to provide "telecommunications" services and to invest in companies engaged in research and development work.

In debate regarding the bill, MPs expressed concerns about the company's intentions:

What this bill does, if I may summarize it in my own way, is to seek to extend the field of the Bell Telephone Company almost without limit into the entire area of telecommunications. It seeks to extend its field into the broadcasting area. It seeks to give the Bell Telephone Company powers for very widespread vertical integration by giving it authority to acquire companies without limiting it any longer to those which have or use telephone lines, as was the case formerly. Clause 8 of the bill provides that the company can extend its operations, its purchases and acquisitions very widely, so it is

obvious the company can use that power to build an empire of satellite activities, industrial and commercial, almost without limit. Under the bill the Bell Telephone company seeks to get away in part from the regulations to which it is now subject under the Board of Transport Commissioners. Its rates would still be subject to regulation but the issuance of shares would no longer be subject to any investigation or inquiry by the board. The bill seeks to increase the capitalization of the company from \$1 billion to \$1 3/4 billion, which would give it a tremendous base for financial development.²⁹

Policy and the Changing Telephone Industry Structure

In the years following Parliament's 1905 Select Committee on Telephones the structure of the telephone industry in Canada changed significantly. In British Columbia, small telephone companies merged and then began to acquire Government-constructed telegraph and telephone lines. In 1916 the Western Canadian Telephone Company merged with the British Columbia Telephone Company and was granted a federal charter under the name of the British Columbia Telephone Company. In 1937 control over B.C. Tel was acquired by a U.S. corporation, the Associated Telephone and Telegraph Company, through its holding company, the Anglo-Canadian Telephone Company. Anglo-Canadian also controlled four smaller telephone companies in B.C., all of which were absorbed by B.C. Tel during the next ten years.³⁰ According to Moody's Manual of Investments, by 1947 Anglo-Canadian owned and operated over 97 per cent of all telephones in B.C.³¹ In 1947 two independent systems remained, a municipal system owned by Prince Rupert and the Okanagan Telephone Company.

In 1908, Bell Canada withdrew entirely from the West to serve Ontario and Quebec and the Prairie provinces moved to establish publicly owned and operated telephone service.³² There were a large number of small telephone systems in

Alberta and Saskatchewan, generally cooperatives or small systems run by farmers who strung their own telephone lines along fencepoles and trees. In 1947, Saskatchewan had 1,121 cooperative systems and Alberta had 788 cooperatives. In addition, through the late 1940s the federal Government operated and maintained telephone and telegraph lines in the northern areas of Alberta and Saskatchewan, as well as the Yukon and the Northwest Territories.

Bell Canada remained the largest telephone company in Canada, serving Ontario and Quebec. In addition, there were hundreds of small telephone systems in Ontario and Quebec. As the years passed, the number of independent systems in Ontario and Quebec decreased as many companies were acquired by Bell Canada and other larger independent systems. For instance, in 1948 there were a total of 813 independent telephone systems serving Ontario and Quebec with connecting agreements with Bell and 33 non-connecting systems. By 1957, there were 674 independent systems interconnecting with Bell in Ontario and Quebec and two non-connecting systems.³³

Telephone service in each of the ten provinces came to be provided by a dominant company, in some cases in conjunction with small independent telephone companies which did not compete and which cooperated, with varying degrees of willingness, with the larger telephone companies. In 1931, the major Canadian telephone companies formed a consortium, the Trans-Canada Telephone System (TCTS), to coordinate telephone rates and service across provincial boundaries. The members of TCTS included Bell, B.C. Tel, Alberta Government Telephones, Saskatchewan Telephones (SaskTel), the Manitoba Telephone System, Island Tel and Maritime Telephone and Telegraphs. Local municipal and

independent systems, the regional telephone network operated by CN Rail and the private line microwave service offered by CN/CP were not included in the TCTS.

As they grew larger, the corporate structures of Bell and B.C. Tel became more complicated. Both firms were partially owned by large U.S. telephone industry firms with interests stretching around the world. Both firms controlled or merged with several smaller telephone companies. Both firms had close relationships with manufacturing firms. The American Telephone and Telegraph Company controlled about 12 per cent of Bell Canada's common stock in 1949 and Bell Canada had a controlling interest in the telecommunication manufacturing firm Northern Electric. B.C. Tel was affiliated with Automatic Electric through its relationship with its parent company, U.S. based Associated Telephone and Telegraph Company. Ownership of B.C. Tel and Anglo-Canadian was later assumed by General Telephone and Electronics (GTE) of Stamford, Connecticut.

The increasing consolidation in the telephone industry was noted by Members of Parliament who were concerned with the public interest implications of telephone service being provided by large monopolies:

We are passing, Mr. Speaker, gradually from the old competitive systems. The competitive system is yielding to great mergers and combines. When this system was at its height we had competition in services and competition in prices, which was an effective check upon overcharges. I do not wish to return to that old system where we had numerous small businesses trying to compete with each other; I think that day is well past. However, competition did check exorbitant charges, and since competition has yielded to large mergers, interlocking directorates, subsidiary companies, and so forth, there must be substituted some check to take the place of the competitive method which governed charges in the past. We have passed into a condition where monopolies are prevalent.³⁴

Members of Parliament were concerned about the following areas: a) rate increases; b) the relationship between telephone companies and their affiliates; and c) the accountability of Bell and B.C. Tel to Parliament.

Rate Increases

From 1906, when Bell became subject to regulatory jurisdiction, through 1927 Bell had applied for four general rate increases. Judgements were issued in 1919, 1921, 1922 and 1927. During the succeeding 22 year period, through 1949, Bell did not apply for any rate increases and the company's basic rate structure did not change. In the 1950's, Bell submitted four applications for general rate increases, with judgements being rendered in 1950, 1951 and 1958. In 1964, the Board of Transport Commissioners for Canada conducted a review of Bell's operations, revenues and expenses.³⁵

B.C. Tel followed a similar pattern. The first judgement regarding the company's rates was issued in 1921, and the basic rate structure established therein remained intact through 1949. In 1921, 1924, 1925, 1926 and 1937 the Board of Railway Commissioners heard a number of applications and complaints from municipalities and organizations representing telephone subscribers regarding the "application of that rate structure to particular local exchange areas that had been enlarged, divided, or otherwise rearranged by the Company." From 1950 through 1958, B.C. Tel submitted five applications for general increases in rates and levels of earnings.³⁶

Generally, public complaints regarding Bell's and B.C. Tel's rates were voiced

by municipalities participating in hearings as respondents to telephone company applications. A major concern was the reasonableness of Bell's and B.C. Tel's authorized overall gross revenues. The Board relied on the following as a broad principle followed in general rate cases:

Under efficient management tolls and charges should be such that they would normally provide all reasonable and normal expenses including taxes and also a sufficient amount for reasonable dividends and surplus to maintain the credit of the Company so that as and when advisable new capital can be attracted to meet new demands for service and for the modernizing of existing facilities. The interest of management and subscribers run parallel to this point and beyond this the subscriber should not be asked to contribute. With this in view it is incumbent upon the Board in its regulatory capacity to give careful scrutiny to all items of expense . . . and other matters which might reflect themselves in unjust or unreasonable or unjustly discriminatory impositions on subscribers. But at the same time to recognize also that there is a 'reasonable zone' wherein the functions of management should not be usurped.³⁷

A number of complex factors were examined in the course of considering a telephone company's revenue requirement. These included wage rates, depreciation, service contracts with large U.S. affiliates, contracts with affiliated manufacturing firms and financing. Both the municipalities and Bell and B.C. Tel relied on experts to present evidence in the various rate hearings on depreciation, financing, taxes, service contracts and purchasing practices. The municipalities argued that the practices of the telephone companies with regard to these areas contributed to higher rates than those necessary to generate reasonable revenues.³⁸

Members of Parliament were concerned about rate increases in general and about the relationship of increased telephone company capital and increased

rates. Discussions about matters pertaining to Bell and B.C. Tel took place within the context of private bills introduced to amend their charters. Many amendments desired by Bell and B.C. Tel were applications for authorization to increase capital, or for more latitude for increasing capital through amendments allowing the companies to increase capital up to specified limits without requiring Parliamentary approval.

From 1947-1960, Bell and B.C. Tel requested capital increases totaling \$850 million and \$239 million, respectively; and the increases were generally granted. They approached the increases in different ways, with B.C. Tel preferring to get them in small pieces and Bell obtaining larger increases through fewer requests. In 1947 B.C. Tel requested authority to increase capital from \$11 million to \$25 million, to cover expenditures for five years. In 1951 The company requested permission to increase capital from \$25 million to \$75 million. In 1957 the company asked to increase capital from \$75 million to \$250 million.³⁹ In 1948 Bell requested permission to increase capital from \$150 million to \$500 million. In 1957, Bell returned to Parliament requesting the power to create as needed, up to \$500 million in additional capital; which, if granted, would double the company's existing capital to a total of \$1 billion.⁴⁰

Sponsors of telephone company bills argued that such capital increases were necessary for the companies to improve existing service, extend service and remain financially attractive to investors. As noted above, Bell and B.C. Tel underwent a tremendous period of growth following the second world war. Significant capital increases, they argued, were necessary if the telephone industry was to keep pace with the demand for telephones generated through the

rapid growth of industry and population during the post-war era. Furthermore, as the state of the art of telephony changed, some equipment became outmoded and telephone companies moved to upgrade and expand service. This is illustrated by the statement of the Member of Parliament who sponsored Bell's 1948 request to increase capital:

On August 1, 1945, which was just before the war ended, there were 89,000 applications for telephone service which could not be filled on account of lack of facilities. Since that time . . . the company, by the expenditure of about \$89,300,000 capital funds, has been able to provide the facilities required to actually put 293,000 additional telephones in service. But this large increase of twenty-nine per cent of telephones in service, due to the continuing heavy demand, the company is still faced with 94,000 applications for telephone service which it cannot yet provide.

This however is only part of the story. During 1947 there was an average of daily local calls of 8,479,000. The long distance lines are over crowded with messages. In 1939 the company's long distance lines carried an average of 60,000 long distance calls daily. Now they are required to carry 165,000 daily, sixty million in the year as compared with 21,900,000 in 1939 -- nearly three times as much.

The company has done considerable work in providing service in its rural area since the end of the war. As a matter of record, since January 1, 1945, the increase in rural telephones was 28,701, and the money spent to provide them was \$6,738,000. In 1945 thirty-nine per cent of the rural establishments in the Bell area had service. By the end of 1947 it had increased to fifty-five per cent.

The company has not been able to provide adequate facilities properly to carry this increased burden. The providing of the facilities requisite to meet this heavy demand is not merely a matter of providing telephones and stringing wires. Telephones and wires are useless without the involved switchboard and central office equipment necessary to make them function. . . .

The program for the next five years calls for an estimated gross expenditure of \$362 million of capital money. It includes buildings for new dial central office equipment in urban centres, an extension of rural telephone service, the installation of additional long distance switchboards, the extension of multi-channel cable carrier systems, the trial installation of high frequency, point-to-point radio

link for telephone service, experimentation with mobile telephone service, and so forth.⁴¹

Municipalities and boards of trade were ambivalent about requests for capital increases. In some instances, they agreed with the need for increased capital to support improvement and expansion of telephone service, but either believed that the amounts requested were too large or that rate increases might follow on the heels of increased capitalization. Some Members of Parliament agreed that some increase in capital was necessary for the two companies but shared the same concerns.

In 1947, Parliament received B.C. Tel's assurance that a capital increase would not be followed by a rate increase from the sponsor of the bill, the Member of Parliament for New Westminster, in response to concerns expressed by the MP for Vancouver South:

Mr. Green: I think it is essential that some protection should be given to telephone users of British Columbia. I understand that the Hon. Member has been authorized to give assurance to the effect that the company has no present intention of applying for an increase of rates and will not make any such application unless compelled to do so by extensive changes in conditions.

Mr. Reid: That is my definite understanding.

Mr. Green: That assurance is clearly worded and contains a statement to the effect that an application will not be made unless the company is compelled to do so and then only by reason of extensive changes in conditions. If the Hon. Member for New Westminster is prepared to give that assurance on behalf of the British Columbia Telephone Company I for one shall have no objection to the bill passing.

Mr. Reid: I am authorized to do so, and it is my definite understanding.⁴²

In June of 1949, B.C. Tel applied for and received a rate increase which became effective in 1950. This was followed by rate increases in 1951, 1952, 1953 and 1958. Members of Parliament cited the fact that B.C. Tel reneged on its promise as grounds for authorizing less capital than requested by the company in 1951. Nonetheless, the company received authorization for the the full amount requested.

A Bell official offered similar assurances in testimony before a House committee which reviewed Bell's 1948 request for authorization to increase capital. The official's statement was cited by a Member of Parliament, who had opposed the company's bill, as being sufficient assurance that a rate increase would not follow an increase in Bell's capital.⁴³ The increase was granted. The company filed for and received increases in 1950, 1951 and 1958. The contradictions between Bell's statement to Parliament and its subsequent actions were raised in the House of Commons, in the context of debates regarding Transport Estimates and, in this instance, regarding a private bill introduced on behalf of another utility:

I want to remind hon. members about another bill during the session of 1948, that concerning the Bell Telephone Company, which asked for certain rather substantial increases in capitalization. From the floor of the house we tried to get at this stage the assurance that there would not be any increase in rates. Appeals were made to us, just like the one the Hon. Member for Burnaby-Richmond has made, to let the bill go to committee, to let it have second reading, to be fair to the bill and fair to the company. Well, the bill went to committee and a sort of half assurance was given in committee that there would not be any increase in rates. But where are we at the present time? The Bell Telephone Company is not only before the Board of Transport Commissioners in a general application for a substantial increase in rates, but today it filed an interim application with respect to a surcharge.⁴⁴

Relationships with Affiliated Firms

Since the early 1900s, Members of Parliament had voiced concerns about the lack of adequate information for reviewing the operations of telephone companies. In particular, they expressed frustration over the lack of information available to Parliament and to regulators regarding the financial relationships between Bell, Northern Electric and the American Telephone and Telegraph Company and B.C. Tel, its U.S.-owned holding company, Anglo-Canadian and their U.S. parent company, GTE.

Bell's charter contained a clause stipulating that the company could enter into arrangements or acquire shares of any company which operated telephone or telegraphic service:

The company shall also have power to enter into any arrangement with any person or company possessing, as proprietor, any line of telegraphic or telephonic communication, or any power or right to use communication by means of the telephone upon such terms and in such manner as the board of directors may, from time to time, deem expedient or advisable, or to become a shareholder in any such corporation.⁴⁵

This clause was cited by counsel for Bell as the basis for Bell's acquisition of Northern Electric. Northern was covered by this clause by virtue of its operation of 19,000 feet of telephone line between Northern's manufacturing plant in Montreal and one Bell building.⁴⁶

In 1905, the capital stock of Northern Electric totaled \$300,000, of which the Bell Telephone Company of Canada held \$279,000, sharing control with AT&T's subsidiary Western Electric. Bell purchased all of its telephone sets and some

switching equipment from Northern. Most of Northern's directors were also directors of Bell.⁴⁷ Over the years, Bell Canada increased its holdings in Northern. By 1964, Bell executives testified before a committee of the House of Commons that Northern was 100 per cent owned by Bell.⁴⁸

The relationship between Bell and Northern Electric has been a matter of concern for over eighty years. Members of the Select Committee on Telephones questioned Bell executives extensively on Bell and Northern's relationship. Over the years, Members of Parliament raised questions about the implications of Northern's relationship with Bell for smaller manufacturing firms, suggesting that it provided Northern with a base from which to expand its operations and an advantage over smaller firms which would otherwise compete for contracts to supply Bell and other firms.

Concerns were raised as to whether Bell's relationship with Northern adversely affected telephone company subscribers. The issue came up before Bell's 1928 rate hearing. Municipalities opposed to Bell's application asked to review the books of Northern Electric. Some members of the Board of Railway Commissioners wished to investigate whether the prices charged to Bell by Northern were fair and to investigate the financial relationship between the two companies. The Board obtained information comparing the prices charged by Northern with those charged by other companies and concluded that there was no discrepancy. The chairman of the Board of Railway Commissioners ruled that "in point of law the board had no right to ask any questions as to the financial operations of that subsidiary or controlled company." Members of the Board expressed disappointment at not being able to obtain information which they

deemed essential for a thorough assessment of Bell's rates. Portions of the dissenting opinion of Commissioner Oliver were read into the record during the course of debate regarding Bell's 1928 request for authorization to increase capital:

'There was no means of definitely establishing at the hearing whether the prices paid by the Bell were fair and reasonable or not.

'The Bell owns 50 percent of the stock of the Northern Electric. The Western Electric Company of Chicago, which is a subsidiary of the American Telephone and Telegraph Company, owns 43 1/2 per cent. The remaining 6 1/2 per cent is said by counsel for the city of Toronto to be owned in part by the directors of the Bell Company, thus giving that company control of an actual majority of the stock of the Northern Electric. As Northern Electric is a development from the Bell and in its earlier days was owned entirely by the Bell, it can only be concluded that it is now a subsidiary of the Bell company of Canada and that its activities are in fact directed by the management of the Bell.

'The Bell is therefore in the position of being both chief customer of and controlling shareholder in the Northern Electric.'

Further, Commissioner Oliver says:

'The decision not to distribute this among the shareholders, of whom the Bell was chief, but to carry it into the surplus of the Northern Electric Company, was in the hands of the Bell company through its control of a majority of the stock.'

Further he states as follows:

'The only inference I am able to draw from the ascertained facts is that the Bell has made a contract with its subsidiary, the Northern Electric Company whereby unduly high prices have been paid for equipment, and that the Bell, as the controlling shareholder in the Northern Electric, has not permitted itself to benefit from the undue profits reaped by Northern Electric. So long as the situation between the Bell and the Northern Electric remains as it now appears to me to be, I am unable to find justification in the financial position of the Bell Company for an increase in rates over those at present in force.'⁴⁹

Members of Parliament were interested in the relationship between Bell and

Northern for several reasons. First, they argued that the regulatory board should have sufficient information to examine Bell's purchasing practices so that a determination could be made as to whether Bell was paying fair prices. It was noted that if Bell paid high prices, subscribers would suffer; while if Bell paid low prices, Northern could have an unfair advantage in competing with other firms. Questions were raised as to whether Bell Canada was receiving an appropriate share of Northern's dividends. It was suggested that without adequate information it was not possible to ascertain whether the financially successful manufacturing firm was being used as a shield by Bell in the course of justifying rate increases:

The policy appears to have been to keep the profits of the Bell Telephone Company at the very minimum, so that in appearing before the Board of Railway Commissioners the company would find no difficulty in obtaining authority to increase its rates. In that way they could hide their profits and keep them hidden indefinitely. This could be easily carried on so that no profits would be shown. That is, they could pay more for their equipment secured from the Northern Electric Company, leave all the profits there and get them by indirect means. Of course, I do not say that that will be done, but unless something is done to prevent it that remains possible.⁵⁰

G.R. Geary, Member of Parliament for South Toronto, introduced bills during three sessions of Parliament to amend the Railway Act to extend the jurisdiction of the Board of Railway Commissioners to investigate the financial operations of federally regulated telephone company subsidiaries. He explained the legislation as follows:

When an application comes before the Board of Railway Commissioners to fix the rates of a telephone or telegraph company, either by way of reduction or increase of such rates, the financial condition of the company is a matter of which the board must make

itself fully aware, because on the financial condition of the company, its assets and its liabilities, its income and expenditure, is based as a rule the decision of the board as to whether the rates should be increased or reduced. It is suggested that a company such as this may conceal a certain important part of its affairs by the formation of a subsidiary company or the acquiring of another company to which that portion of its affairs may be transferred for treatment.

Under the act there is no jurisdiction in the Board of Railway Commissioners for Canada to investigate the affairs of such a company, that is of a subsidiary or acquired company such as I have described. It is beyond my comprehension why an investigation into the affairs of a company should stop at the point where that company has transferred a part of its affairs to another company which is a subsidiary or controlled company but which in reality is part of itself. The purpose of this bill is to remove what I submit to the house is an absurdity by giving jurisdiction to the Board of Railway Commissioners to inquire into the affairs of such a subsidiary or controlled company.⁵¹

In debates regarding Bell's 1928 request for authorization to increase capital, it was suggested that the capital increase should not be granted until legislation allowing for scrutiny of the operations of telephone company subsidiaries was passed. It was not passed and Bell received permission to increase capital.

The debate was renewed in 1929. A bill to provide for scrutiny of telephone company subsidiaries was introduced. The Government opposed the legislation on the grounds that it singled "out practically one corporation from all corporations now operating under the Railway Act of Canada for special treatment by way of investigation of subsidiaries by the Board of Railway Commissioners."⁵² Through the speech from the throne, the Government had indicated that it would enact legislation empowering scrutiny of the subsidiaries of all companies regulated under the Railway Act. No such legislation was proposed by the Government or enacted. The Bill regarding telephone companies

was referred to the Standing Committee on Railways and Canals, which recommended that it be withdrawn.

The concerns expressed in 1928 were reiterated in debates regarding subsequent bills to amend Bell's charter, in 1947, 1948 and 1964.⁵³ In 1964 Bell requested permission to increase its board of directors from fifteen to twenty members. In the course of exploring the underlying intent of the company, Members of Parliament zeroed in on the scope of Bell Canada's operations. They noted that Northern Electric had grown into "a manufacturing giant, a company which is doing some \$300 million worth of business a year. Half of this business is sales of manufactured products to the Bell Telephone Company itself. The other half is outside, . . . commercial sales to the trade generally."⁵⁴ Some MPs questioned whether the company had the legal right to control Northern. Citing the provision in Bell's charter stipulating that the company could acquire ownership and shares in telephone or telegraph companies, they referred to testimony of Bell executives before the Board of Transport Commissioners:

Many questions were asked during the hearing before the Board concerning Bell Telephone Company's control of Northern Electric. The evidence given under oath and available from the public record, indicates that the president, vice-president and general counsel of the Bell Telephone Company pointed out that they were able to buy the shares of Northern Electric Company because Northern Electric owned a telephone company. Thus, section 4 of their charter allowed them to own another telephone company.

Well, further evidence brought out the fact that there is a telephone line of 19,000 feet in length between the Northern Electric plant in Montreal and one building of the Bell Telephone Company. You and I, being laymen in this telephonic communication business, would think the telephone line owned exclusively by Northern Electric would be a telephone line that you could go out and see with the naked eye, a telephone line over which you and I could talk to one another. . . .

This investment of \$38 million that the Bell Telephone Company has in Northern Electric shows up in their full beauty the two most valuable strands of copper wire in the Dominion of Canada. The evidence before the Board of Transport Commissioners was to the effect that the Bell Telephone Company installed a telephone line for Northern Electric many years ago. After a year or so Northern Electric bought the telephone line from the Bell Telephone and thus became the proprietor of a telephone line.

Now, the charter of the Bell Telephone Company permits the company to buy any company that operates a telephone system. The interesting thing in the evidence was that there were only two strands in the telephone communication system which the Northern Electric Company operates in Montreal. What is further interesting is that these two strands of copper wire are embedded in a major cable.⁵⁵

It was argued that the regulation of Bell was inadequate for assessing the effects of Bell's relationship with Northern on subscribers' rates. It was suggested that Northern should be a separate subsidiary of Bell and that, at the very least, their accounting functions should be segregated.⁵⁶

In addition to examining the relationship between Bell and Northern Electric, throughout the years Members of Parliament have raised questions about Bell and B.C. Tel affiliations with U.S. Telephone industry giants. In debates regarding Bell's 1928 request for increased capital, MPs expressing concern about the bill noted that 32 per cent of Bell's stock was controlled by AT&T, described as a "vast great octopus" stretching out to control the telephone business in North America.⁵⁷ Under a 1923 service contract, AT&T received 1 1/2 percent of Bell Telephone Company of Canada gross revenues. In the course Bell's 1926 rate hearing counsel for the city of Toronto established that if Bell received its proposed rate increase, the service fee paid to AT&T would automatically increase correspondingly, although AT&T was not providing any additional services. Board

of Railways Commissioner Lawrence stated that "there should be an investigation of these companies, for a contract that will automatically without any further growth in business or any extra service, immediately jump the contract expenses up \$30,000 is unfair to the subscribers of the Bell Telephone Company."⁵⁸ Members of Parliament noted that the Board of Railway Commissioners was not empowered to undertake such an investigation.

Over the years, the percentage of Bell stock controlled by AT&T gradually decreased. In 1945 AT&T controlled 21.7 per cent of Bell. In 1948, the percentage had been reduced to 14.8 percent. By 1964, AT&T's interest had been reduced to 2.8 per cent and 93.1 per cent of Bell's stock was owned by Canadian interests.⁵⁹ Nonetheless, MPs continued to express concerns about the implications of Bell's financial arrangements with AT&T for Bell subscribers.

As with Bell Canada, B.C. Tel's relationship with U.S. telephone industry interests was viewed with suspicion by Members of Parliament. MPs expressed concern that the operations of B.C. Tel were being dictated by its U.S. parent company. This is illustrated by the statement of an MP who supported B.C. Tel's 1947 private bill authorizing an increase in capital:

As the hon. member for Broadview said, the British Columbia Telephone Company is controlled entirely by the Anglo-Canadian Telephone Company. And it, in turn, is controlled by the Associated Telephone and Telegraph Company of Wilmington, Delaware. In the last analysis, these are the people who will determine what will be done.

The Bell Telephone Company and the Associated Telephone and Telegraph Company of Wilmington, Delaware, control, between them, the whole of the telephone business on the North American continent. The Bell Telephone Company controls in the United States and in the provinces of Quebec and Ontario, while the Associated Telephone and Telegraph Company controls in British Columbia,

South America and the Philippine islands. This, then, is no small business, and we should keep these things clearly in mind when we are dealing with this matter.⁶⁰

B.C. Tel and Anglo-Canadian had a services contract stipulating that B.C. Tel would make an annual payment to Anglo-Canadian in exchange for "expert advice and assistance in any financing which the British Columbia Telephone Company requires for the extension, development or improvement of its telephone system." The payment was reduced from 1 1/2 per cent of B.C. Tel's gross operating revenues to 1 percent in 1949. In 1948, the payment totaled over \$181 thousand. In 1949, at the reduced percentage, the payment was slightly over \$129 thousand.⁶¹ Members of Parliament cited a brief submitted to the Board of Transport Commissioners by the City of Vancouver, to support the contention that Anglo-Canadian did not provide any "services" in exchange for the payment:

That is a lot of money to be taken out of the people British Columbia and paid to this company in Montreal. But the significant fact is that this holding company or parent company at Montreal has no staff available to render this extensive service that they are supposed to render for this tremendous amount of money that they get. I do not want to weary you too much with figures, Mr. Speaker, but it is a peculiar thing. This company has a staff of only a handful, perhaps about six or seven. They, in turn, get their advice from another company, and, mark you this, it is a company from outside this parent company. We people who pay the telephone bills in British Columbia paid \$181,000 for that advice.⁶²

As was the case with Bell, concern was expressed about B.C. Tel's purchasing practices. The City of Vancouver had appointed a committee to investigate the operations of B.C. Tel, including the relationships between B.C. Tel and affiliated firms including other B.C. telephone companies, Canadian Telephones and

Supplies, Ltd. and the Dominion Directory Company, Ltd. They found that "many of the supplies are purchased from other affiliated companies . . . and in one case purchases pass in turn through two such affiliated companies thus involving three separate commissions or profits."⁶³

Based on evidence presented at a 1953 Board of Transport Commissioners rate hearing, six British Columbia citizens applied to the Government's Combines Investigation Branch to Investigate the operations of B.C. Tel and affiliated companies. The report of the Director of Investigation and Research for the Combines Investigation Act for the fiscal year ending March, 1955, issued when the investigation was in progress, confirmed that B.C. Tel had a supply contract "with a related company whereby the related company served the telephone company in the purchase of telephone equipment, the assembly and installation of switchboard and central office equipment and the storage and warehousing of telephone equipment." The preliminary report indicated that while no specific evidence had yet been discovered of a "combination to set prices in contravention of the Combines Investigation Act, it was nevertheless true that there was an agreement by these interrelated companies to supply equipment to their related company or child in British Columbia under non-competitive rates; that is to say, they were going to make an agreement on their prices."⁶⁴ No further reference was made to this investigation in debates of the House of Commons.

Accountability and the Public Interest

A major concern expressed over the years was that authorizing large capital increases would reduce the accountability of federally chartered companies to the

Government and to the public. Because the Government did not develop national policy objectives or enact telecommunication legislation, the process of considering private bills regarding Bell's and B.C. Tel's charters was, in effect, the sole means of Parliamentary oversight of the activities of these firms. MPs argued that while capital increases were necessary, they should be doled out in small portions to force the companies to return to Parliament for further authorization, thus providing further opportunities for scrutiny of their activities. For instance, the failure of B.C. Tel to fulfill its promise to Parliament was cited as evidence of the need to scrutinize the activities of the company in debates regarding the company's 1951 request for increased capital:

In June of 1949 the company launched its application for an increase in rates. When the representative of the City of Vancouver pleaded before the Board of Transport Commissioners that it should take into consideration conditions only since 1947, and attempted to read this undertaking, he was met by a vigorous protest from counsel appearing for the British Columbia Telephone Company -- a distinguished senator; mind you he was acting for the company, and representing them most efficiently. I have here a quotation from what he said to the Board of Transport Commissioners: 'I didn't know my learned friend was appearing on behalf of Parliament.' The company took the position that what was said in Parliament had nothing to do with the situation and that it was not any of the Board's business. The deputy chief commissioner of the Board, who was presiding, took the same position, and simply brushed aside the representations made by the city, and the undertaking which had been given in the House of Commons. Therefore I repeat that I for one think there should be some fairly definite curb on this company in that they should be required to come back here at frequent intervals so that the people of British Columbia will at least receive that amount of protection.⁶⁵

MPs who supported telephone company requests for increases in capital responded to such criticism by noting that the companies had an obligation to

extend service and could only do so if sufficient financing was available. The rationale for requesting large capital increases was that public demand had increased significantly and would continue to increase. Increases in capital were necessary for the companies to be able to meet the current backlog of demand and to plan for future construction. Such expansion was viewed as being in the interest of the company, of telephone subscribers and the nation.

It was argued that the telephone companies were subject to scrutiny by regulators who would ensure that the interests of subscribers would be served. This point of view is illustrated by the response of the sponsor of Bell's 1948 request for an increase in capital to concerns that Bell possessed monopoly power in the telephone industry in Ontario and Quebec:

. . . it is a monopoly that is fully and completely controlled by the Board of Transport Commissioners. Its rates have been subject to regulation since 1892. It has been subject to all pertinent provisions of the Railway Act and the regulatory jurisdiction of the Board of Transport Commissioners since 1906. The issue of capital stock has been subject to the jurisdiction of the Board since 1929, or for the past nineteen years. No other private company in Canada is so well controlled by the Board of Transport Commissioners.⁶⁶

Others argued that Parliamentary oversight was necessary due to deficiencies in the regulatory structure. The powers of the Board of Railway Commissioners and the Board of Transport Commissioners for Canada were limited to supervising rates and tolls to ensure that they were just and reasonable and did not discriminate. They had no power to investigate aspects of telephone company subsidiaries that affected rates, supervise the operations of the companies and could not order the companies to extend service or improve the quality of service.

For instance, MPs from rural districts in British Columbia argued that B.C. Tel used its additional capital to improve services in urban areas, to meet the needs of business and ignored the rural areas of the province which were badly in need of service. Bell and B.C. Tel, unlike some telephone companies in the Prairie provinces and the Maritimes, were not subject to provincial jurisdiction and their provision of service could not be examined at that level. This concern is reflected in debates regarding B.C. Tel's 1951 request for an increase in capital:

I am opposing the bill in its present form for several reasons. I believe that the people of British Columbia are not getting a fair deal in so far as telephone rates are concerned; that the telephone users in our province are not adequately protected now, and that their position will be worse if the bill passes in its present form. Parliament has a responsibility to protect the people of British Columbia, and I ask for the most careful consideration of the bill by my fellow members. . . .

. . . the increase they are now asking would be good for from fourteen to twenty years. I would point out that in addition there is approximately \$17 million in a depreciation reserve, which would also be available for capital expenditures. I say that fourteen to twenty years is too long a time for the company to go, without being required to come back to Parliament.

And it is so important that Parliament should have some check on companies of this kind. There is no check by the provincial government. The company is incorporated under a Dominion act, and is not subject to regulation by the provincial utilities body. The only groups which have any power of regulation are right here in Parliament and also in the Board of Transport Commissioners. So I say there is great value to the people of British Columbia in the requirement that the company must come before Parliament at fairly frequent intervals.⁶⁷

Over the years it was suggested that the increasing size of the companies and complex relationships with affiliated firms made it difficult, if not impossible, to effectively regulate large private telephone companies. It was generally

acknowledged that advances in the state of the art were helping to stimulate the development of new telecommunication services. As Bell and B.C. Tel grew and expanded their operations, questions were raised regarding the extent to which the interests of the telephone industry in securing a strong position in providing new services coincided with the interests of the general public.

These concerns were evident in debates regarding Bell's 1964 request to increase the membership of its board of directors from fifteen to twenty. Members of Parliament from all parties expressed dissatisfaction with the explanation for the desired increase, arguing that Bell was a powerful company and aspects of its operations, such as its relationships with affiliated firms, required scrutiny by Parliament. Due to numerous interlocking directorships, Bell and its affiliated firms were described as the "largest family compact in Canada." It was argued that Bell was practically "a state within a state" and the question of whether the company had any accountability to the public was raised. It was argued that the intent of the company was to extend its operations into new areas and consolidate its hold on Northern Electric.⁶⁸

On the other hand, it was argued that Bell's size enabled the company to provide and extend an essential service, provided a basis for research and development which would benefit telephone subscribers and the nation and which provided thousands of jobs. Bell was a highly successful Canadian controlled corporation which contributed to the economic health of the country. Bell was described as "a perfect example of what we like to think should be a large corporation, one that spends its money in this country, one that is owned by the people of Canada, one that operates as fairly and squarely as it can under the rules

specified by the Board of Transport, one whose financial balance sheet can stand the close scrutiny not only of the Members of the House but of those watchdogs who at all times are looking for abuses of the rules and regulations which permit the company to operate."⁶⁹

In debates over the years, various means of increasing the accountability of federally regulated telephone companies were suggested. These included proposals to extend the scope of regulation through giving regulators the power to investigate telephone company subsidiaries and financial regulations, to amend Bell's charter to force the company to include government appointees representing the public on its board of directors and public ownership. These proposals reflected different assumptions about how telephone service should be provided in Canada.

For some, essential services, provided for the good of the public at large, should be publicly owned. This is illustrated by the following statement made in the course of debate regarding Bell's 1948 request for an increase in capital:

I thank God that their enterprise is an enterprise of public utility. If it had not been that, it would have been my privilege to have fought tooth and nail against this legislation from the very inception of it, even though in the same sentence I say to you that I am a private enterprise man. I feel that way about it, never for a moment setting aside in my own mind the fact that, being a private enterprise man, I am also one of those who believe that public utilities for the general welfare of our fellowman are something that should receive the support of all of us, but at the same time all of us should be left free to develop private enterprise, initiative and industry as it moves forward, as it is bred in the heart and soul of the average Canadian to do, and as you and I like to do.

As to public ownership across the board, I say 'No'; but as to public ownership for the great and necessary public utility enterprises, I say 'Of course.'⁷⁰

Others pointed out that public corporations such as the CBC and the CNR had been subject to a great deal of criticism and questioned whether Bell would provide better service if it were a crown corporation:

So far as I am concerned, it is simply a matter of philosophy as to whether this type of operation is best administered through crown corporations or is best left in the hands of private industry. I respect people whose views differ from mine in this regard, except that I cannot see, if the Bell Telephone Company were made a crown corporation, that it would be any smaller, any more efficient or any more Canadian than the 93 per cent content it has at the moment.⁷¹

Others acknowledged that there were problems with the activities of Bell and B.C. Tel, but argued that they could best be dealt with through strengthening the powers of the regulatory commission rather than through public ownership or public appointees to Bell's board of directors:

A long time ago it was established that the Board of Transport Commissioners would be the body which would oversee the operations of the telephone company. They have certain terms of reference for doing that job. Now I suggest, and I think a good case could be made out, that the present powers of the Board of Transport Commissioners are not sufficiently strong to enable them to do as efficient a job of overseeing this particular monopoly. . . . I would certainly conclude from the experience I have had that the Board of Transport Commissioners does not have sufficient power to oversee the operations of the Bell Telephone, particularly in relationship to the ownership of Northern Electric by that company. The remedy therefore lies in legislation to change the position of the Board of Transport Commissioners and give them the power to carry out this function.⁷²

As of 1967 the powers of federal regulators had not changed. The Board of Transport Commissioners did conduct two major proceedings to "expose to public scrutiny and examination all the changes which have occurred" since the Board last passed judgement on Bell and B.C. Tel in 1958. The purpose of the proceedings was to determine "what is now, under currently prevailing circumstances and

conditions, a just and reasonable permissive level of earnings."

The Board did not investigate provision of service by the companies. Bell's relationship with Northern was examined with respect to comparing Northern's rate of return with that of other manufacturing companies and on prices paid by Bell to Northern. No investigation was made of cross subsidies or of the quality or type of equipment purchased. Thus, while the Board's hearings into Bell's and B.C. Tel's revenue requirements were more exhaustive than most telephone company regulatory proceedings held to that date, they were limited in scope when compared with the types of investigations considered by many to be necessary for adequate supervision of telephone companies.

Conclusions

Since the turn of the century, there has been a consensus on the part of Parliamentarians that telephone service is an essential part of life in Canada. There has, however, been disagreement as to how best to provide service. Historically, there have generally been two views as to how telephone service falling under federal jurisdiction should be provided. Some have argued that essential services deemed to be public utilities should be publicly owned and operated. Others have argued that such great undertakings should be within the purview of large private sector firms which possess the resources to operate large systems.

The institution of public ownership would have required the Government to assume a proactive stance on telephone issues. While the Government did devote significant resources to constructing and maintaining telephone service in

remote and rural regions, it was assumed that the private sector would eventually provide service to these regions when such services were deemed to be profitable undertakings. Creating a public telephone system was proposed in debates in the House of Commons on several occasions over the years but the step was never taken. In the meantime, by the early 1920s large federally-regulated private telephone companies were firmly entrenched in Ontario, Quebec, the Maritime provinces and British Columbia. Through a combination of Government inertia and the private sector's perpetual motion, the view that telephone operations in areas falling under federal supervision should be provided by large private companies became entrenched in the thinking of federal policy makers.

Large private monopolies being a fact of life, the question then became how to ensure that these firms served the public interest. Again, there were two recurring views on the matter. One position was that private sector monopolies had a tendency to charge high rates and were not accountable enough to the federal government and the public. They argued that regulators should be charged with carefully monitoring the activities of telephone company activities to ensure that service was extended to rural areas and was of good quality, that rates were fair and non-discriminatory and that telephone companies could not use their monopoly power to eradicate small alternative telephone systems.

The alternative view was that the public interest would best be served by encouraging the growth of large private telephone companies. Regulatory supervision should be adequate to ensure that rates were fair, but should not be structured in such a way that the rights of these companies were infringed upon or which interfered with attempts of private telephone companies to expand the

scope of their operations.

Parliament had opted to supervise these companies via rate of return regulation, an approach which was inherently reactive. Despite numerous charges of creamskimming, anti-competitive practices and unfair rates, Parliament was unable or unwilling to alter regulatory powers.

Members of Parliament employed lengthy debates regarding requests for amendments to telephone company charters as levers to persuade Bell and B.C. Tel to improve their treatment of the public. Critics of Bell and B.C. Tel agreed with the need to expand, but disagreed with the way in which the companies employed additional resources authorized by Parliament. One justification for relying on large private monopolies was that their vast resources would enable these companies to provide service on a large scale. Critics pointed out that these resources often were not utilized to extend service, but to expand the scope of the companies' power.

Changes in the telecommunication environment rendered effective regulation of these firms difficult. The increasing consolidation and growth in the telephone industry meant that regulators and Parliament were dealing with complex corporate structures which were difficult to untangle for the purpose of ensuring that the public interest was being served. From providing a relatively simple service -- switching and transmitting telephone calls -- Bell and B.C. Tel began moving into the "telecommunication" business. Telephone networks were modified to enable the companies to transmit radio, television and data. Measures which would have ensured effective regulation to protect subscribers were proposed but never enacted. Had the government given regulators a mandate and

the powers to review the relationships between monopoly telephone companies and firms with which they were affiliated, quality of service and interconnection, regulators would have been in a better position to ensure that the "public interest" was served.

Discussion regarding the option of public ownership moved to a rarified altitude during this period. Proponents of public ownership based their case on the general proposition that a large public monopoly would be inherently more benevolent than a large private monopoly. Criticism of the performance of large crown corporations such as the Canadian National Railway was seldom responded to in the course of debating alternatives for providing telephone service. The level of discussion never reached the point of considering practical proposals based on a serious review of the industry, the state of the art and a review of the progress of public and private telephone systems in other countries, as was the case during the investigation carried out by the 1905 Select Committee on Telephones. If public ownership was to be seriously considered, it would have required an examination of telephone systems operated by the prairie provinces and in Europe. Instead, the debate moved to general level of reciting the litany of telephone company abuses with little in the way of constructive proposals.

During the period from 1906 through 1968, Government policy toward telephone service evolved on an implicit, ad hoc basis. Formal policy objectives for telecommunication were not developed. Regulators were not given the mandate or the powers required for effective regulation. By design or default, the approach of the Government was to allow the private sector to set the agenda for telecommunication policy in Canada.

Footnotes

1. Dominion of Canada, Official Report of Debates (Commons), 14th Parliament, 3rd Sess., 18 July 1924, p. 4831, (Remarks of the Hon. James H. King, Minister of Public Works).
2. Ibid., 14th Parliament, 3rd Sess., 11 May 1923, p. 2683 (Remarks of the Hon. James H. King); 17th Parliament, 5th Sess., 22 February 1934, p. 864. (Remarks of Charles Stewart, MP). For an examination of Government policy objectives for the Yukon and Northwest Territories see Robin E. Mansell, "Telecommunication Subsidy Policy in Northwest Canada and Alaska: A Comparison," M.A. Thesis, Simon Fraser University, Burnaby, B. C., 1979.
3. Ibid., 14th Parliament, 3rd Session, 18 July 1924, p. 4831-4832 (Remarks of the Hon. James H. King).
4. Ibid., 16th Parliament, 4th Sess., 11 April 1930, p. 1479, (Remarks of James Brady, MP).
5. Ibid., 12th Parliament, 7th Sess., 5 September 1917, p. 5402.
6. Ibid., 12th Parliament, 6th Sess., 27 April 1916, p. 3326.
7. Ibid., 16th Parliament, 2nd Sess., 22 March 1927, p.1463-1464 (Remarks of the Hon. James H. King).
8. See for example Debates, 16th Parliament, 1st Sess., 21 February 1927, p. 509 (Remarks of James Malcom, MP); and Debates, 14th Parliament, 4th Sess., p. 2500 (Remarks of George Coote, MP).
9. Debates, 13th Parliament, 1st Session, 4 April 1918, p. 1172 (Remarks of the Hon. Frank Broadstreet Carvell, Minister of Public Works).
10. Ibid., 16th Parliament, 2nd Sess., 26 May 1928, p. 3414 (Remarks of the Hon. John Campbell Elliott, Minister of Public Works).
11. Debates, 16th Parliament, 4th Sess., p. 1476, (Remarks of the Hon. John Campbell Elliott).
12. See for example, August 1907 statement of Progressive Conservative leader Robert Borden, cited in Debates, 12th Parliament, 1st Sess., 31 January 1912, p. 2252; and Ibid., p. 2252-2276 (Remarks of J.E. Armstrong, MP).
13. See for example Debates, 14th Parliament, 3rd Sess., 13 June 1924, p. 3197, (Remarks of the Hon. James H. King).
14. Statement by Progressive Conservative leader Robert Borden in 1907 Halifax Platform, read into record in Debates, 12th Parliament, 1st Session, 31

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- January 1912, p. 2252, (Remarks of J.E. Armstrong, MP, moving a motion entitled National Means of Communication).
15. Ibid., p. 2254-2258.
 16. Debates, 16th Parliament, 3rd Sess., p. 3158, 3 June 1929 (Remarks of the Hon. John Campbell Elliott, Minister of Public Works).
 17. The major sales of government telephone and telegraph lines were in the west. Telegraph systems in the Yukon and Northwest Territories were purchased by CNR and CPR. Telephone systems were acquired by B.C. Tel, Okanagan Telephone Company, Alberta government Telephones and Saskatchewan Telephones. See for example, Debates, 16th Parliament, 2nd Sess., 26 April 1928, p. 2393.
 18. Debates, 12th Parliament, 1st Sess., 31 January 1912, p. 2252-2274 (Remarks of J.E. Armstrong, MP).
 19. See for example Debates, 12th Parliament, 1st Sess., 31 January 1912, pp. 2252-2274 (Remarks of J.E. Armstrong, MP); 20th Parliament, 4th Sess., 23 April 1948, p. 3278, (Remarks of Alexander Nicholson, MP); 23rd Parliament, 5 November 1957, p. 780, (Remarks of H.W. Herridge, MP); 23rd Parliament, 29 November 1957, p. 1695, (Remarks of Douglas Jung, MP).
 20. Law Reform Commission of Canada, The Canadian Radio-television and Telecommunications Commission, (Ottawa: Supply and Services, 1980), p. 8.
 21. Richard Schultz and Alan Alexandroff, Economic Regulation and the Federal System, research report prepared for the Royal Commission on the Economic Union and Development Prospects for Canada (Toronto: University of Toronto Press, 1985), p. 63-181.
 22. H.B. Coyne, The Railway Law of Canada (Toronto: Law Book Comp., 1947) p. 95-97.
 23. Archibald W. Currie, "Telephone Rates in Canada," in Canadian Issues: Essays in Honour of Henry F. Angus, ed. Robert M. Clark (Toronto: University of Toronto Press, 1961), p. 243.
 24. Debates, 19th Parliament, 2nd Session, 2 May 1941, p. 2509, (Remarks of K. Homuth, MP).

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25. Ibid., 24th Parliament, 5th Sess., 29 March 1962, p. 2283; 26th Parliament, 2nd Sess., 20 March 1964, p. 1295 (Remarks of Gerald W. Baldwin, MP).
26. Ibid., 19th Parliament, 2nd Session, 16 May 1941, p. 2891-2892, (Remarks of G.G. McGeer, MP).
27. Debates, Ibid., 2 May 1941, p. 2514, (Remarks of the Hon. Richard Burpee Hanson).
28. Ibid., 23rd Parliament, 8 November 1957, p. 933-934
29. Ibid., 27th Parliament, 2nd Session, 16 February 1967, p. 13129-13130, (Remarks of David Lewis, MP).
30. Ibid., 19th Parliament, 2nd Session, 29 November 1957, p. 2501.
31. Ibid., 20th Parliament, 3rd Session, 2 May 1947, p. 2720-2721 (Remarks of William Irvine, MP).
32. Ibid., 20th Parliament, 4th Session, 28 April 1948, p. 3280, (Remarks of Edouard Rinfret, MP); Dallas W. Smythe, "A Study of Saskatchewan Telecommunications," paper prepared for the Department of Communications, Government of Canada (July 1974).
33. Debates, 20th Parliament, 4th Session, 28 April 1948, p. 3280; Debates, 23rd Parliament, 8 November 1957, p. 2501; Thomas Grindlay, The Independent Telephone Industry in Ontario (Downsview: Ontario Telephone Services Commission, 1975).
34. Debates, 2nd Session, 12th Parliament, 16 May, 1928, p. 3083, (Remarks of William Irvine, MP).
35. Board of Transport Commissioners for Canada, Judgement Orders, Regulations and Rulings, "In the Matter of the review respecting the Bell Telephone Company of Canada set forth in the Board's Notice dated September 22, 1964, Case 955.176," May 4, 1966, 56 B.T.C., p. 537-38.
36. For a review of Board of Railway Commissioners for Canada and Board of Transport Commissioners for Canada rate decisions through, see Currie.
37. Bell v. Toronto [1950] J.O.R.R. at p. 5; C.R.T.C. at p. 7. See also Bell v. Montreal [1927] J.O.R.R. at p. 231; C.R.C. at p. 3. Cited in Currie, op. cit. p. 235.

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38. Currie, p. 231-24.
39. Debates, 20th Parliament, 3rd Sess., 19 March 1948, p. 2425- 2433; 21st Parliament, 9 March 1951, p. 1105; 24th Parliament, 3rd Session, 14 March 1960, p. 2048.
40. Ibid., 20th Parliament, 4th Sess., 23 April 1948, p. 3276-3283; 23rd Parliament, 5 November 1957, p. 779-786.
41. Ibid., 20th Parliament, 4th Sess., 27 February 1948, p. 1701, (Remarks of Edouard Rinfret, MP in support of a bill to amend Bell Canada's Charter).
42. Ibid., 20th Parliament, 3rd Sess., 2 May 1947, p. 2718.
43. Ibid., 20th Parliament, 40th Sess., 21 May 1948, p. 4623.
44. Ibid., 21st Parliament, 1st Sess., 18 November 1949, p. 1972-73, (Remarks of Stanley Knowles, MP).
45. Ibid., 26th Parliament, 2nd Sess., 10 September 1964, p. 7846, (Remarks by Ralph Cowan, MP).
46. Ibid., p. 7847, (remarks by Colin Cameron, MP).
47. Canada, Journals of the House of Commons, Vol. 40, 1905, Appendix I, Proceedings of the Select Committee on Telephones, p. 472-477.
48. Debates, 26th Parliament, 2nd Sess., 10 September 1964, p. 7847.
49. Cited in Debates, 16th Parliament, 2nd Sess., 16 May 1928, p. 3089, (Remarks by Milton N. Campbell, MP).
50. Ibid., p. 3090.
51. Ibid., 16th Parliament, 2nd session, 9 March, 1928, p. 1152 (Remarks of G.R. Geary, MP).
52. Ibid., 16th Parliament, 3rd Session, 14 February 1929, p. 120, (Remarks by G.R. Geary, MP).

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53. See, for example, Debates, 20th Parliament, 3rd Session, 24 March 1947, p. 1648, (Thomas Reid, MP moved First Reading of Bill No. 59, respecting the British Columbia Telephone Company); 20th Parliament, 4th Session, 27 February 1948, p. 1699-1708; 26th Parliament, 2nd Sess., 18 June 1964, p. 4454-4463; 30 July 1964, p. 6184-6193; *Ibid.*, 27 August 1964, 7346-7355.
54. Debates, 26th Parliament, 2nd Sess., 16 July 1964, p. 5569.
55. *Ibid.*, 26th Parliament, 2nd Sess., 10 September 1964, p. 7847, (Remarks of Ralph Cowan, MP).
56. *Ibid.*, p. 5570.
57. *Ibid.*, 16th Parliament, 2nd Sess., 16 May 1928, p. 3103, (Remarks by John Evans, MP).
58. *Ibid.*, p. 3135-3136.
59. *Ibid.*, 20th Parliament, 4th Sess., 27 February 1948, p. 1706, (Remarks by Edouard Rinfret, MP).
60. *Ibid.*, 20th Parliament, 3rd Sess., 2 May 1947, p. 2723, (Remarks by Donald MacInnis, MP).
61. *Ibid.*, 21st Parliament, 4th Sess., 16 May 1951, p. 1340, (Remarks of G.A. Cruickshank, MP).
62. *Ibid.*, p. 1340-1341.
63. *Ibid.*, 27 April 1951, p. 2476.
64. *Ibid.*, 23rd Parliament, 5 November 1957, p. 781-782, (Remarks of Colin Cameron, MP).
65. *Ibid.*, 21st Parliament, 4th Sess., 3 April 1951, p. 1596, (Remarks of Howard C. Green, MP).
66. *Ibid.*, 20th Parliament, 4th Sess., 23 April 1948, p. 3280, (Remarks Edouard Rinfret, MP).
67. *Ibid.*, 21st Parliament, 4th Sess., 3 April 1951, p. 1595-1596, (Remarks by Howard C. Green, MP).

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68. Ibid., 26th Parliament, 2nd Sess., 18 June 1964, p. 4454, (Remarks by L.J. Pigeon, MP).
69. Ibid., 3 December 1964, p. 10,817, (Remarks by Lucien Plourde, MP).
70. Debates, 20th Parliament, 4th Sess., 28 May 1948, p. 4520-4521, (Remarks by Joseph Henry Harris, MP).
71. Ibid., 26th Parliament, 2nd Session, 3 December 1964, p. 10817, (Remarks by Bryce Stuart Mackasey, MP).
72. Ibid., 22 October 1964, p. 9337, (Remarks by Gerald A. Regan, MP).
73. Board of Transport Commissioners for Canada, Judgement Orders, Regulations and Rulings, "In the Matter of the review respecting the Bell Telephone Company of Canada set forth in the Board's Notice dated September 22, 1964, Case 955.176," May 4, 1966, 56 B.T.C., p. 537-538.

IV. 1968-1987: Conflicting Approaches to Current policy Issues

Introduction

Beginning in 1968 the federal Government set out, for the first time, to develop a comprehensive approach to communication policy, treating broadcasting and telecommunication issues as being interrelated. This effort was inspired by the belief that the development and application of communication media, such as microwave radio systems, satellites and electronic switching, and the merging of computers and telecommunication networks would precipitate fundamental social, cultural, political and economic changes in Canada and throughout the world. Policy makers argued that Canada would have a comparative advantage in the computer-communications field because Canadian firms and government research agencies had achieved considerable success in developing communication hardware. It was believed that the proliferation of new media was triggering an 'information revolution' which would result in an 'information society,' with most economic activity derived from the generation, storage, processing, distribution, reception and use of information. The 'information revolution' was viewed as technologically driven and inevitable, something to which Canada must adjust.¹

The 'information revolution' afforded an opportunity to strengthen Canada's industrial base through promotion of research, development and marketing of communication goods and services by the private sector and, at the same time, to attain traditional communication policy objectives such as extension of television and telephone service. A successful adjustment to the 'information society' would require the combined efforts of industry, educators and government, with the

federal government acting as coordinator.

The telephone industry, especially Bell Canada, was perceived to be an important component in Canada's leap to the forefront of the 'information revolution.' The public telephone network was envisioned as providing the basis for new services. Telephone company research and development and manufacturing subsidiaries were expected to compete in international markets. As discussed in the previous chapter, Bell and B.C. Tel had modified their charters to better position themselves to take advantage of the changing environment through expanding the scope of their activities. They received more corporate flexibility to increase capital and served notice that they intended to expand the scope of their operations through incorporating innovations such as satellites and electronic switching into the public telephone network. In 1973, Bell Canada took the further step of reorganizing the management of Northern Electric and changing the name of the company to Northern Telecom.

To facilitate the coordination of communication policy, the federal Government created the Department of Communication (DOC). The DOC was established in 1969 and was given responsibility for developing policy regarding telephone service, computer-communication, broadcasting, cable and the development and application of communication innovations such as satellites and video-text. The DOC also played a significant role in researching and developing communication hardware. For instance, the DOC's Communication Research Centre (CRC) contributed to the development of the Telidon videotext system, fibre optics and high frequency (HF) radio; and, with the Ministry of State for Science

and Technology (MoSST), participated in research and development projects leading to the transfer of technology to the private sector.²

The Government made changes in the regulatory structure as well. Telecommunication regulation was placed under the auspices of the Telecommunications Committee of the Canadian Transport Commission in 1967. In 1968, the Government enacted the Broadcasting Act and established the Canadian Radio-Television Commission. In 1976 regulation of broadcasting and telecommunication was combined under a single regulatory agency, the Canadian Radio-television and Telecommunications Commission (CRTC).³ Concern had been expressed over the years that federal regulators did not have adequate power to supervise telephone company operations. In 1976, the CRTC began exercising a broader interpretation of statutes governing telephone company regulation and took a more proactive role in encouraging extension of service and in considering aspects of telephone company operations which affect rates.

This chapter examines the changes that occurred in the policy and regulatory environment since 1968. It identifies contemporary manifestations of historical conflicts regarding the question of how the public interest can best be served through federal policies regarding federally chartered telephone companies. A case study of the issues surrounding Bell Canada's multi-billion dollar contracts to provide and operate a telephone system for the Government of the Kingdom of Saudi Arabia is presented as a means of illustrating the conflicting views that exist with regard to communication policy objectives and the compromises reached in the process of balancing these objectives. The chapter argues that while historical proposals for increasing the power of

regulators have come into effect, regulators still lack the ability to regulate effectively, due to conflicting policy and regulatory objectives for federally-chartered telephone companies.

Policy Objectives and the 'Information Revolution'

Communication Policy and Regulation

High-technology Problem Solving

The new media are viewed as a solution to some old problems. For years, the Government had encouraged the extension of telephone and telegraph service to the rural and remote regions of Canada through constructing and operating communication facilities in areas where private enterprise would not provide service. The new media were viewed by federal policy-makers as an instant solution to the problem of extending service.

For the most part, Canada's economy has been based on resource exploitation. Efficient communication was crucial for business operations in rural and remote areas. For people who had been encouraged to settle in those regions telephone and telegraph service were an essential means of receiving information about national and world events and an important ingredient in social service systems. Construction, operation and maintenance of communication links within these regions was difficult and expensive.

Satellite communications offered an instantaneous means of transcending vast distances, provided the capability to extend broadcasting and telecommunication service to remote regions, and had the capacity to support

simultaneous broadcasting in both official national languages. Moreover, the prospect of instantaneous transmission of information from different regions of the country was seen as a means of eliminating regional economic disparities that had traditionally existed. The new media provided a means of transmitting distance education programming. Further benefits were perceived in the potential for computer-communication to increase the information and services available to people, through activities such as two-way interactive communication participation in public debates and long distance access to library material.⁴

Changes in Policy and Regulation

The changing telecommunication environment required changes in the Government's approach to communication issues. An indication of the increasing importance of communication in the Government's view was the establishment of the Department of Communication in 1969. Communication was described by the first Minister of Communication, Postmaster General Eric Kierans, as "a field of activity that is relatively new in terms of its importance to national affairs, which is undergoing rapid and decisive change and which has, quite aside from its scientific and industrial importance, profound implications, social, cultural and political."⁵ The role of the DOC was to coordinate Government policy and participation in the various facets of communication.

In its first Annual Report, the DOC was described as a "fusion of administrative and research units drawn mainly from the Department of Transport and the Department of National Defence." The elements which the Government attempted to fuse together were diverse. The Communications

Research Centre was formed from a branch of the Defence Research Board, the Defence Research Telecommunications Establishment. The Operations and Regulation section, with responsibility for administering the Radio Act, was formerly the Telecommunications Policy and Administration Bureau of the Department of Transport. A third section of the Department would be responsible for Policy and Plans. The intention of the Government was to . . .

. . . evolve a national communications plan and a national communications policy to integrate and rationalize all systems of communications whether those of today such as telephones, microwave relays, telex, TWX, telegraph and the Post Office, or those of tomorrow: communication satellites; sophisticated information retrieval systems linking computers which exchange information retrieval systems linking computers which exchange and store information of all kinds; waveguides, lasers, and on up to the 'wired city' of tomorrow.⁶

The Minister of Communication was given responsibility for several existing or proposed Government entities. These included The Canadian Overseas Telecommunication Corporation, Telesat Canada and the Post Office. In discussing the role of the Minister of Communication, Kierans stated that the Government intended to view the Post Office "not as an organization in the business of moving mail but as an organization in the business of communications -- that is, of print communication as opposed to audio or visual communication as with the telephone and with television -- and hence as an integral part of a total national system of communication."⁷

The Government spelled out proposals for a comprehensive communication policy in a 1973 Green Paper and an 1975 Grey Paper. The Green Paper stressed the urgency of establishing and following "a communications policy which is national in scope, which will have the support of all Canadians," and which would

contribute to the sharing of knowledge of the diverse cultures and regions of Canada. The paper argued that due to Canada's unique geographic situation, "a deliberate effort is required to counteract the natural force of economic gravity which operates on north/south lines and is being re-inforced by technological advance." Such an effort would "serve to promote Canadian unity, to develop the diversity of Canadian social and cultural values, to foster the Canadian economy, and to satisfy the needs of all Canadians to the greatest possible extent."⁸

A major theme of the paper was that the various facets of communication -- e.g., telecommunication, broadcasting and computer-communication services -- exhibited a growing tendency to become "interconnected, more integrated, and more powerful." The "growing interaction of broadcasting with other forms of telecommunication" and the "rapid integration of the technology of computers and communications" were cited as examples of this tendency. It was noted that the changes had generated economic benefits and that the consumer market for electronic audio and visual equipment was growing rapidly. At the same time, concern was expressed about potential adverse implications of the merging of formerly distinct communication systems and services. For instance, the merging of computers and communications gave rise to questions as to the safeguarding of information regarding Canadians stored in databanks which might be accessible by computers, such as information maintained by banks and insurance companies; and whether Canadian data would be controlled by those operating large foreign databanks. ⁹

The paper contained two major provisions with regard to federally-regulated telecommunication carriers. First, the paper dealt with the

powers exercised by telecommunication regulators. Second, the Government proposed that regulation of broadcasting and telecommunication should be combined under a single authority.

It was noted that, unlike broadcasting, telecommunication regulation was not "related to any statutory national policy and objectives, such as the vital importance of east/west communications to the sovereignty and economic prosperity of Canada, and to the preservation of its social and cultural identity." The paper stated the Government intended to work with the provinces to develop a statutory declaration of national communication objectives. This has yet to be achieved. ¹⁰

Further, it was stated that the powers of the CTC were "suitable only for the broad economic regulation of a particular corporate entity," and were insufficient for effective regulation, given the increasing complexity of the field. The paper suggested different powers that could be bestowed upon the regulatory agency to improve the effectiveness of regulation.

For instance, it was suggested that a system of continual financial reporting be developed as a means of ensuring that the regulator could conduct comprehensive reviews of carriers' finances. This would allow rate hearings to be "expedited accordingly, while giving full weight to consumer interests." If a regulatory agency was to deal effectively with cross-subsidy, it should have the power to establish accounting practices, uniform methods of cost accounting and depreciation, cost-separation formulas and to exclude expenditures that are not in the public interest from the rate base. It was noted that the CTC had initiated an inquiry into costing and accounting procedures of telephone companies (The Cost

Inquiry). Likewise, suggestions were made regarding means of ensuring adequate regulatory supervision of interconnection and entry into telecommunications markets.¹¹

The second major proposal was that the regulation of telecommunication and broadcasting should be carried out by a single agency. It was noted that while cable television was an integral part of the broadcasting system, "the coaxial-cable systems that distribute the broadcast signals are technically capable of being developed so as to carry other services, of a closed circuit nature, involving computers, databanks, and sophisticated display devices, which might otherwise be handled by telecommunication carriers." Given the tendency of the various communication systems and services to merge, it was argued that decisions made regarding broadcasting matters might have a significant impact on telecommunication matters, and vice versa. It was argued that a single agency with jurisdiction over both fields would be better positioned to take account of the increasing interaction between broadcasting and other forms of telecommunications.¹²

Following the publication of the Green Paper, a Federal/Provincial Conference on Communications was held in Ottawa in November 1973. This was followed by a series of meetings between the federal Minister of Communication and individual provincial ministers responsible for communication. In April 1975 a Grey Paper, entitled Communications: Some Federal Proposals, was issued which outlined the general intentions of the federal Government. The Grey Paper was intended to provide a basis for further consultation and revision of federal communication legislation.¹³

The paper proposed two stages of federal legislation. The first stage would establish a single regulatory body to oversee broadcasting and telecommunication, The Canadian Radio-television and Telecommunications Commission. The Commission would inherit the powers and functions of the Canadian Radio-Television Commission and the Telecommunications Committee of the CTC.

The second stage of legislation would "entail a complete revision of existing statutes with a view toward clarifying their application to contemporary and future modes of telecommunications, to rationalizing the roles of the Federal Government and the regulatory body, to providing for more effective collaboration with the Provinces, and generally to establishing a coherent body of federal law on communications." Phase two would include a statement of general communication policy objectives and provisions giving the Governor in Council the power to issue formal directions to the Commission "on the interpretation of statutory objectives and the means for their implementation." Matters of broadcast programming would not be subject to Cabinet direction. Phase two legislation would also give the regulatory agency increased powers for regulating telecommunication. For instance, the Commission would have the power to order carriers to extend service and to establish and enforce quality of service standards.¹⁴

Phase one was completed in 1976, with the creation of the Canadian Radio-television and Telecommunications Commission (CRTC). The Government introduced phase two legislation on three occasions -- Bill C-43, introduced on March 22, 1977, Bill C-24, introduced on January 26, 1978 and Bill C-16, introduced

on November 9, 1978. All three bills died on the Order Paper.¹⁵

The powers attributed to the federal regulatory agency were not substantially revised through legislation. The CRTC, nonetheless, assumed a more active role in regulation of telecommunication than its predecessors. The Commission exercised a broader interpretation of its mandate to ensure that rates were "just and reasonable" and service was provided in a non-discriminatory manner.

For instance, the Commission began encouraging the provision of "universally accessible" telephone service to Canadians. This policy was pursued through attempting to assure the affordability of telephone service to people on low and fixed incomes by establishing low rates for two-party service. The Commission also encouraged Bell Canada to extend service to native communities in the north.¹⁶

Another example of increased CRTC supervision of telephone companies is the fact that the Commission established Quality of Service guidelines for Bell and B.C. Tel. The performance of the companies was measured by several criteria and the quality of service was a factor taken into account by the Commission in rendering decisions regarding applications for rate increases.¹⁷

The Commission also took a more active approach to examining aspects of corporate activities that might affect the rates and services of the regulated telephone companies. For instance, the Commission investigated the relationship between the British Columbia Telephone Company (B.C. Tel) and its U.S. parent company, General Telephone and Electronics (GTE), when B.C. Tel wished to acquire two research and manufacturing firms from GTE.

A further example of the CRTC's more energetic approach to regulating is the Commission's decision to apply a deemed rate of return to Northern Telecom's revenues.¹⁸ Historically, Canadian regulatory tribunals have regulated telephone companies on the basis of rate of return on investment. This involved determining which telephone company expenses, revenues and capital investment should be considered in setting rates for telephone services (the rate base); determining a "reasonable rate of return" which would generate sufficient revenues to cover the costs of providing service and provide a reasonable return on investment, making telephone companies attractive to potential investors; and setting a rate structure which would produce the desired revenues. This method of rate making was intended to generate "just and reasonable" telephone rates for subscribers, while ensuring that telephone companies could attract capital.

In the case of Northern Telecom, the CRTC ruled that a certain percentage of the company's profits would be considered as part of Bell Canada's rate base, while any revenues over and above this percentage would accrue to shareholders. As Northern Telecom was a very successful company, the inclusion of the company's revenues in Bell Canada's rate base would reduce the amount of revenues to be recovered through telephone rates. At the same time, the company had an incentive to continue its success because additional profits above the deemed rate of return would belong to shareholders. In establishing a deemed rate of return on Northern Telecom revenues, the Commission ensured that Bell Canada monopoly telephone service subscribers benefitted from the success of Northern, just as Northern benefitted from its cozy relationship with Bell Canada.

Three major factors accounted for increased zealotry on the part of

federal regulators. First, the Government had emphasized the importance communication policy and regulation and had noted the need for increased regulatory powers. While regulatory powers were not significantly altered in the statutes governing broadcasting and telecommunication regulation, the Government's policy positions provided a political environment conducive to increased activity on the part of the CRTC.

Second, changes made in regulatory process served to encourage public participation. Canadian Radio and Television Commission broadcasting hearings did not have formality of telecommunication hearings, in that interested parties could present their views to Commissioners without being subject to cross examination by attorneys representing applicants or intervenors to the proceeding. While telecommunication hearings retained a court like atmosphere, when the Canadian Radio-television and Telecommunications Commission assumed regulation of federal telephone companies in 1976 telecommunication rules of procedure were established which encouraged increased public participation. The Commission decided to award costs to intervenors to the proceeding who raised points not raised by other participants and contributed to the Commission's understanding of the issues.

A third factor was the composition of the Commission itself. Salter has noted that the CRTC has passed through several distinct phases.¹⁹ When the CRTC was created to regulate broadcasting in 1968, the Commissioners took a proactive approach to meeting the objectives embodied in the Broadcasting Act. The CRTC continued to take this approach when it assumed regulation of telecommunication. As the political climate of the country has changed and the

political party in power has changed, so, too, has the composition of the CRTC.

In recent years, the Commission has assumed a more reactive stance and has opted more and more for regulation by supervision. In previous years, the CRTC would actively monitor the activities of broadcasters, cable companies and telephone companies; create incentives for the private sector to meet policy objectives as interpreted by the Commission, such as conditions of licence and content quotas for broadcasting, radio and pay television; and actively investigate activities of communications companies that affected the public, such as ownership of the national satellite system by telephone companies. Through regulating by supervision, the Commission has reverted to a reactive role in which it largely grants the private sector free reign and responds to public complaints on a case by case basis. This is exemplified by the Commission's decisions to reduce content quotas for pay television, eliminate hearings for renewal of some cable companies' licences and to consider a Bell Canada application to rearrange the telephone rate structure prior to receiving the results of a major proceeding to determine the actual costs of local and long distance telephone services.

Economic Opportunities and the 'Information Revolution'

The Canadian Government eyes the 'information revolution' with a mixture of apprehension and anticipation. On one hand, the proliferation of computer-communication technology is viewed as threatening. It has led to increased integration of the national communication infrastructure with those of other countries, of which the U.S. is dominant. This has induced fears about

declining cultural and economic sovereignty. It has also raised the spectre of Canada becoming an industrial backwater, content to hew wood and draw water while nations with more advanced high-technology industrial sectors reap the benefits accruing from the 'information revolution.' Should Canada fail to adapt quickly to the changing international conditions, the result would be reduced economic prosperity and a lower standard of living for all.

On the other side of the coin rests the enticing potential for Canadian firms to cash in on the 'information revolution.' Federal policy makers believe that this could occur in several ways. First, the integration of new technology into traditional manufacturing and resource industries might increase the efficiency of their operations, thereby enabling Canadian firms to compete successfully with those from newly industrializing Less Developed Countries (LDCs) in the world market economy. Moreover, the synthesis of computers with the domestic telephone system might enable business transactions to be conducted more efficiently throughout the country, thereby helping to mitigate regional economic disparities. In addition, the computerized telephone system should pave the way for a host of new service industries which are expected to provide domestic jobs. Finally, there should be opportunities for innovative Canadian high-technology firms to compete successfully in the world market. All Canadians could benefit from such activity because successful companies will provide employment and their success in international markets should improve Canada's balance of payments situation, thus improving the overall economic climate of the country.

The situation is portrayed as a choice about the future of Canada. Canadians

can be content to remain hewers of wood and drawers of water, in which case they can expect to see a general decline in the state of Canadian society. The alternative is to coordinate public and private resources to fuel a quantum leap to the forefront of the 'information society,' thereby ensuring that the changes in the state of technology would generate economic, social and cultural benefits.²⁰

In order to increase the likelihood of Canada's successful adjustment to the 'information revolution,' the Government provides support to numerous firms engaged in the research, development, manufacture and use of computer-communication hardware and software. The Liberal Government began providing such support in the early 1970s, in a variety of forms. These included direct subsidies to firms, including both low-interest loans and grants; transfers of technology developed in Government laboratories to the private sector; tax initiatives intended to increase private sector investment in research and development; and support from Government departments in paving the way for international contracts.²¹

As discussed by Mansell, a premise underlying Government aid to industry is that Canada's domestic market is too small to enable firms to exploit economies of scale. Thus, firms which are located in Canada and produce solely for the Canadian market are "perceived to be both inefficient and incapable of supporting innovative product development." Hence, a main objective of Government programmes is to encourage firms to aim their research, development and production activities toward international markets. According to Mansell,

The penetration and exploitation of selected international markets has been accepted by most government officials and researchers as

the major prerequisite for the domestic growth and development of the communication/information sector within the global information economy.²²

Therefore,

In response to these economic conditions, government policies have promoted large firms in key markets in the information sector. These firms are expected to have a better chance of exploiting export markets because of their secure market base.²³

Government promotion of communication/information sector firms, especially large companies which operate in international markets, is perceived as being "synonymous with the public interest."²⁴ In theory, it will lead to improved economic conditions. Moreover, the products and services developed by the Government and private industry will help mitigate any adverse side-effects of the 'information revolution,' such as unemployment resulting from increased automation. In addition, the new innovations can provide solutions to traditional transportation and communication difficulties concomitant with Canada's unique geographic and climactic conditions.²⁵

Mansell, however, has argued that the incentives of the firms which receive Government support are such that their products and services are designed for international markets rather than for the domestic market.²⁶ Hence, the benefits of Government support for these firms go to the firms and its shareholders, and are not necessarily realized by the general public. In some instances, the actual results have been diametrically opposite those envisioned by policy makers. For instance, despite substantial Government support to establish SPAR Aerospace as a domestic satellite contractor and to promote Northern Telecom as a manufacturer of sophisticated telecommunication terminal and switching equipment, there still is no adequate telephone service provided in many remote and rural regions of

Canada.²⁷ Moreover, some firms which have received government funding have either reduced the number of their employees and/or shifted their manufacturing operations to countries other than Canada.²⁸ Thus, she has raised questions as to what benefits are actually attained by the Canadian public as a result of those policies.²⁹

Telephone companies, including Bell Canada and B.C. Tel, are among the firms which have received Government support for research and development.³⁰ Moreover, as domestic monopolies, they provide a base for affiliate companies engaged in research and development and manufacturing of sophisticated communication hardware and software. In addition, telcos are encouraged to pursue international contracts.³¹

The Perceived Role of Telephone Companies in an 'Information Economy'

Telephone companies are key elements in Canada's quest for a leading role in the 'information revolution.' First, they combine to form the central nervous system of the telecommunications infrastructure, the foundation of an 'information economy.' This was noted in the Department of Communications (DOC) report The Information Revolution and its Implications for Canada, co-authored by Shirley Serafini and Michel Andrieu:

Information technology is, in large part, based on the convergence of communications and computer technology. In order to achieve the benefits offered by this new technology, we must build on our strength in telecommunications, the infrastructure of the information economy. In order to achieve competitive efficiency for our production process in an information economy, we must have economic efficiency in the underlying communications system. An efficient communications infrastructure is also fundamental to developing the market for goods and services.³²

The telecommunications infrastructure is comprised of terrestrial communication networks, including common carriers such as telephone and cable companies; communication satellite systems, such as Telesat Canada; the computer services industry; and telecommunication and space hardware manufacturers.

For several reasons, telephone companies are, collectively, the heart of the telecommunications infrastructure. First, they are the means by which computer service industries supply their services; and the telephone companies provide such services as well. For instance, Bell Canada Enterprises and Telecom Canada (formerly TCTS) have combined to provide computer communication services through the Computer Communications Group.³³ Moreover, through their membership in Telecom Canada and their close to 50 per cent holding in the national satellite system, the major telephone companies are in a position to exercise influence on the operations of Telesat Canada. Finally, in the cases of Bell Canada and B.C. Tel, telephone companies are affiliated with telecommunication terminal and switching equipment manufacturers.³⁴

In addition to being important to federal industrial objectives by virtue of their position in the telecommunications infrastructure, telcos are also important because they are encouraged to develop and utilize innovations in telecommunication hardware and software and to penetrate international markets.³⁵ During the period between 1977/78 through 1981/82, three telephone companies and firms affiliated with them received Government support. These are Bell Canada, B.C. Tel and the Manitoba Telephone System (MTS). Moreover, Bell Canada's affiliate companies, Bell Northern Research, Northern Telecom and Bell

Canada International; and B.C. Tel's manufacturing subsidiary, AEL Microtel Ltd. also received funding.³⁶ Thus, telephone companies have been endowed with federal aid intended to enhance Canada's presence in foreign markets.

Potential Conflicts in Communication Policy

The primary objective of Government industrial policies in the communication/information sector is to encourage firms to penetrate international markets. As outlined above, telephone companies, of which Bell Canada is the largest, are key actors in the Government's attempt to encourage high-technology industrial activity. Success in international markets by such firms is seen as being in the public interest by virtue of the benefits that will theoretically flow to Canadian society.

At the same time, the provision of basic telephone service at affordable prices and the extension of this service throughout Canada remain fundamental communication policy objectives.³⁷ The Government has historically pursued these objectives through rate of return regulation by semi-independent regulatory tribunals.

For years, it was argued by regulators and Members of Parliament that regulatory commissions did not have sufficient powers to effectively regulate Bell Canada and B.C. Tel. Proposals to enact legislation compelling Bell to interconnect and to give regulators the authority to investigate the operations of Northern Electric were viewed as infringements on the rights of the company. Concerns were expressed about the size of requests for increased capital, the possibility of Bell and B.C. Tel expanding the scope of their control to encompass new

innovations and services which might better be supplied by alternative means, the difficulty of protecting telephone subscribers from being charged unjust rates and the need to ensure that Bell and B.C. Tel used their ever increasing resources to improve and extend service. It was argued in response that the relatively unfettered growth of these companies was for the good of the nation.

The sentiment that the interests of the public could best be served by large, private corporations operating under the auspices of a federal charter was expressed in debates preceding Parliament's Select Committee on Telephones, when it was argued that the rights of private railroads and telephone companies should take precedence over the rights of the public to receive extension of service to rural communities. This view was evident in debates regarding the proper role of the public and private sectors in providing service to remote and rural areas gradually being settled in the west; and in debates regarding Bell Canada and B.C. Tel proposals to amend their federal charters in the 1920s, 1940s, 1950s and 1960s.

The increasing emphasis on promoting industrial success based on high-technology, in which large, federally-regulated telephone companies play a key role, coupled with attempts by the regulatory agency to increase the scope of its supervision of these companies, created the potential for conflicting interpretations of how the public interest might be served with regard to the regulation of telephone companies. Namely, measures deemed essential for protecting the interests of telephone subscribers might be seen to hinder activities of telephone companies that are in accordance with national industrial policy objectives.

The following section provides a case study illustrating the manifestation of these conflicts in current telephone policy issues: the debate surrounding the public interest implications of Bell Canada's contract to provide a telephone system for the Government of the Kingdom of Saudi Arabia.

Issues Surrounding the Bell Canada Saudi Project

The Importance of Bell Canada to Industrial Policy

Bell Canada is the largest telephone company in Canada, supplying service in Ontario and Quebec. Bell's parent company, its former subsidiary Bell Canada Enterprises, either owns outright or has significant holdings in several provincially regulated telephone companies. Moreover, Bell Canada controls 24.6 per cent of Telesat Canada, making Bell the second largest interest in the satellite system after the federal Government. Thus, Bell Canada and its affiliated companies are the dominant industrial force in the telecommunications infrastructure, "the infrastructure of the information economy."³⁸

Moreover, Bell's manufacturing affiliate, Northern Telecom, is the "largest Canadian Company engaged in research, manufacturing and sales of telecommunication equipment and electronic office systems,"³⁹ the hardware which the Government considers to be the driving force behind the 'information revolution.' As the Restrictive Trade Practices Commission (RTPC) observed, Northern's success is largely due to its snug relationship with its former parent, Bell Canada.

. . . Bell has been Northern's most important customer. While its importance has been declining as Northern achieves sales outside Canada and enlarges the scope of its operations, Northern's manufacturing sales to Bell in 1979 and 1980 nonetheless equaled almost one third of its total manufacturing sales. Manufacturing sales to Bell are virtually all sales of telecommunication products, and the Bell market accounted for 36 per cent of such sales in 1980 and over 40 per cent in 1979. Bell was, of course, even more important to Northern in earlier years. Bell also serves as a 'showcase' for other markets.⁴⁰

As observed by the RPTC, Northern is increasingly turning to international markets. The U.S. market has been significant in this regard, accounting for 52 per cent of total sales in 1982.⁴¹ Thus, Bell Canada has provided a solid base from which Northern Telecom could extend its operations internationally.

Moreover, Bell Canada itself has done well in the international arena; for instance obtaining successive billion dollar contracts from the Government of the Kingdom of Saudi Arabia, which will be examined in detail. Thus, Bell is not only important as a common carrier which provides a network for services which are provided by others, but also contributes to industrial policy goals by virtue of its relationship with Northern Telecom and other Bell companies, and through its international operations. Thus, Bell Canada is viewed by the Canadian Government as a main actor in the effort to catapult Canada to the forefront of the 'information revolution.' This was well illustrated as early as 1978 in an article in the Last Post:

Canadian Government officials are attracted by the home grown image, the power wielded and high technology success stories of the Bell system. Madam Sauve, (then) the minister of communications and a supporter of Canadian-based communications industries, likes to talk of Bell as the 'nervous system of an entire economic order.' The government, in its desire for a high-powered telecommunications system complete with satellites, advanced digital transmission centres and instant data transactions, views Bell as the most appropriate force.⁴²

Not surprisingly, Bell Canada officials share this assessment of the

importance of the company. In his remarks to shareholders during Bell's 1982 annual meeting, Bell's president, James Thackary, expounded upon Bell's role in developing and promoting telecommunication hardware and services:

You all appreciate how rapidly the world of telecommunications is changing and how the Bell Canada enterprises have been leading the way. This leadership is evident in many ways -- whether in terms of products, such as Northern Telecom's digital and 'OPEN' worlds; in terms of business services, such as the wide range of data services developed and introduced by Bell Canada; or in terms of telecommunications managerial knowhow, as exemplified in our widespread overseas operations.

Thackary stressed the importance of a strong domestic base to support international operations:

With our growing international stature, we will continue our efforts to bring the benefits of modern telecommunications to people around the globe.

In doing so, we have to remember that a strong domestic base is essential. We can't be weak at home and strong abroad. At Bell we put first priority on domestic capability. We need to maintain financial strength, strength in human resources, strength in the quality of our service. We need strong domestic suppliers of equipment and systems to enable us to maintain our lead position.⁴³

Thus, Bell views its domestic operations as a launching pad for international endeavors. The strong domestic base provided by Bell Canada, the large, monopoly telephone company, has enabled Bell Canada the international telecommunication competitor to obtain large contracts. A major international endeavour for Bell was the procurement of two successive contracts, both worth over \$1 billion, to construct and operate a telephone system for the Government of the Kingdom of Saudi Arabia.

In 1978, Bell Canada applied to the CRTC for a general increase in rates. A main issue considered in the hearing was the question of appropriate allocation of revenues from contracts for the installation and maintenance of a telephone system for the Government of the Kingdom of Saudi Arabia.

In January 1978, the Saudi Arabian Government awarded two contracts for the extension, modernization, operation and maintenance of its telephone system. The first contract was with a consortium of firms, including Bell Canada, N.V. Philips of the Netherlands and L.M. Ericsson of Sweden. The contract was described by the CRTC as being a "general agreement" which outlined "the framework of the project and under which the consortium undertook to coordinate their functions to achieve the best performance of the telephone system."⁴⁴ The second contract was perceived by the Commission to be of more direct importance to Bell Canada, and thus to the hearing. This was a separate five-year contract, valued at approximately \$1.1 billion. Bell agreed to operate and maintain the Saudi telephone system, and to construct facilities and purchase supplies (motor vehicles and a computer) required for the system's operation.⁴⁵

As noted earlier, the key issue surrounding this project was the appropriate treatment of the profits. Bell had devised a scheme wherein the bulk of the profits would not be included in the revenues upon which the Commission calculated the company's proposal, as follows:

The Company decided that it was reasonable to treat this venture as a 'profit-centre' so that the bulk of the revenue and expenses associated with the venture would not be considered, for regulatory purposes to be part of the revenue and expenses arising out of the provision of telecommunications service in Canada.

Bell Canada proposed to account for the Saudi Arabian project profit-centre by dividing revenues (and the expenses associated with them) into two categories: service agreement revenues and all other revenues from this profit-centre.

Service agreement revenues from the contract comprise that portion of the total revenues which are derived from the supply of technical and managerial know-how normally provided under a service agreement. It was proposed by the Company that for regulatory purposes, all of these revenues would be treated as are all other service agreement revenues from Canadian companies. The net amount after taxes of the service agreement revenues associated with the Saudi Arabian contract over its 5-year term was estimated to be some \$25 million. These revenues, according to the Company's proposal, represent the direct monetary benefits of the Saudi Arabian contract to Bell Canada subscribers.

It was proposed that the balance of the revenues from the contract would not be included in the revenues of the Company for regulatory purposes but would be a direct benefit to actual and prospective shareholders. It was estimated that these revenues would result in a net profit of approximately \$140 million over the 5-year term.⁴⁶

Thus, the direct benefits of this contract would go mainly to Bell's shareholders.

Moreover, since the contract was signed in early 1978, the revenues anticipated by the company had not been included in the forecasts submitted to support Bell's contention that a rate increase for subscribers was necessary. Therefore, the company's estimate of the necessary rate increase was based on fewer revenues than it actually anticipated; meaning that if those figures were accepted, any rate decision affecting subscribers would not take into account revenues from the Saudi project.

The company put forth several arguments to support its case, two of which relate directly to considering conflicting policy objectives. Bell argued that since its "operations in Saudi Arabia are outside of its serving territory and do not involve the provision of telephone service, they are either beyond the Commission's jurisdiction or beyond what is appropriate for the Commission to

take into account." Moreover, the company warned that if the Saudi project revenues were subject to regulation, "this might . . . dull management initiative in opening up new fields of profitability for the Company."⁴⁷

The Commission did not sustain Bell's arguments. While expressing agreement with the contention that it had no authority "to regulate the activities of Bell Canada in another country that do not involve the Company's tolls, services, tariffs or traffic," the CRTC indicated that this point was not at issue. Rather, the question at hand was whether the Saudi project was integral to Bell's Canadian telephone operations. The Commission concluded that this was the case.⁴⁸

This judgement was based on three considerations. First, the Commission noted that the project was undertaken by Bell Canada, and not Bell Canada International; and that Bell Canada would control and direct the work. Second, and more important, was the fact that employees working on the Saudi project were trained by Bell Canada at the expense of telephone subscribers:

More important, however, in the Commission's view, is the fact that the majority of the employees to be assigned to the operation are Bell Canada employees who have been trained at the Company's expense, and who are expected to return to Bell Canada after their tour of duty. What they bring to Saudi Arabia is their knowledge of how to run a telephone company, which they have gained at Bell Canada.⁴⁹

Finally, the Commission observed that the revenues from previous similar projects had been included in the rate base.

In the course of considering Bell's Saudi contract, the Commission neglected to explore two potential channels of public support to Bell Canada. First, through

paying telephone rates subscribers contributed not only to the training of employees working on international contracts, but also helped finance the research and development work carried out by Bell Northern Research and Northern Telecom. Second, some firms bidding for international contracts, such as SPAR Aerospace, had received support from the Department of External Affairs. The question of whether Bell might have received similar support was not raised by the Commission.

In response to the Company's assertion that the decision could "dull management initiative," the Commission agreed such international contracts are desirable, but pointed out that the evidence presented by the company did not justify the exclusion of the Saudi revenues from the rate base.

The Commission shares the Company's view that the Saudi Arabian contract presents a great challenge and a great opportunity for Bell Canada. The winning of the contract and its eventual successful completion should be beneficial to the Company, its subscribers, its employees and its shareholders. It should also enhance the prestige of Canada in the competitive world of international communications. The Commission will be pleased to discuss with the Company the methods by which these potential benefits can be ensured. At this time, however, the Commission finds that there is no reasonable conclusion on the evidence in this case but that all the revenues from the Saudi Arabian contract be treated as part of the Company's ordinary revenues for regulatory purposes.⁵⁰

Dissatisfied with the Commission's decision, Bell requested that the CRTC review the ruling. The Commission did so and upheld its original decision. The committee that reviewed the case noted that Bell did not present sufficient evidence to support its contention that the company was facing changed financial circumstances since the decision. Indeed, the committee noted that . . .

. . . Bell Canada's stock has recently traded at an all time high and that other indicators of its financial performance are showing

improvement. The Committee recognizes the vital importance to Canada of a healthy Bell Canada. On the facts, that health has not been negatively affected by the decision.⁵¹

Bell then petitioned the Governor in Council to review and vary the decision, pursuant to section 64 of the National Transportation Act.⁵²

Bell applied to the CRTC for another rate increase in 1980. The issue of the allocation of Saudi contract revenues was again considered. In this instance, Bell offered what it referred to as a "'compromise solution' or a '50 - 50 split' of profits: 50 per cent going to the regulated revenues of the Company for the purpose of calculating just and reasonable rates, and 50 per cent taken into the Company's income without forming part of the calculation of the revenue requirement for regulatory purposes."⁵³ Again, the company contended that such an arrangement was necessary to provide incentive for Bell to pursue similar contracts.

In support of the company's position, Bell's counsel submitted a letter from Communications Minister Francis Fox. While indicating that he did not intend to recommend that the Governor in Council take action on Bell's petition, Fox stressed the importance of international, high-technology contracts such as the Saudi project.

. . . you asked for my views on the Government's plans to encourage Canadian firms to pursue international contracts. I want to make it clear that my colleagues and I view trade initiatives such as the one taken by Bell Canada as of vital importance to Canada's economic growth. The need to encourage initiatives, particularly in the high-technology areas, was referred to recently in the Speech from the Throne, and it is the view of the Government that this objective is of very great importance to the country. Bell Canada was successful in winning this substantial contract against very stiff international competition. I am optimistic that Bell Canada and other Canadian telecommunications carriers will continue to be able to market successfully our expertise abroad, thereby contributing positively to

Canada's current account balance, giving Canada a strong presence in world markets, and perhaps most importantly, creating new jobs in Canada. At the same time, recognizing the interests of your subscribers, I believe it is preferable to make every effort within the regulatory process to develop guidelines for participating in those ventures. In this way, the rules of the game will be clarified and will be available for application in any future case.⁵⁴

In its conclusions, the Commission noted the desirability of encouraging companies such as Bell Canada to develop and export communication technology. Nonetheless, the CRTC again concluded that Bell simply had not presented enough factual evidence to support the contention that the Saudi profits should not be included in the rate base.⁵⁵

The chairman of the hearing, R.A. Faibish, issued a dissenting opinion and cited the concern that the decision might discourage future contracts as his reason for doing so. He cited two possible consequences of the Commission's decision:

Such a lack of incentive to pursue similar contracts abroad has two major consequences. First, insofar as such projects do make a positive contribution to the Company's revenue requirement, they lower the rates which must be paid by the domestic telephone subscribers. Conversely, loss of such contracts will eventually lead to increases in rates over and above what they might otherwise be.

The second consequence is larger in scope, extending to the public interest and general utility of all citizens of Canada. I believe that it is in the interest of this country to encourage exports, especially of sophisticated services and highly specialized equipment. The beneficial effects are two-fold: such projects encourage the creation of jobs; and they help to improve the country's balance of payments.⁵⁶

Faibish noted that the Saudi project could have been contracted by one of Bell's arms-length subsidiaries. If this were the case, a "modified equity method" of treating the project's revenues, such as that employed in dealing with Northern Telecom would have been appropriate. In that instance, the Commission

would impute a return on Bell's investment in its subsidiary, at a rate high enough to ensure that telecommunication subscribers are not disadvantaged by that investment." With a deemed rate of return, a set percentage of the subsidiary's revenues would accrue to the rate base, while any revenues over and above the deemed rate of return would accrue to subscribers. Thus subscribers would benefit from the subsidiary's profitability and the company would have an incentive to pursue more contracts.⁵⁷

The Bell Canada Reorganization

In Telecom Decision CRTC 81-15 (Bell Canada, General Increase in Rates), the CRTC dealt with the question of how to treat the relationship between Bell Canada and its affiliated firms. The Commission issued an interrogatory asking Bell to "explore a number of different approaches to regulatory treatment of subsidiaries." In its discussion of the issue, the Commission noted the difficulties of applying rate of return regulation to Bell's diversified operations.

It is apparent that Bell Canada's investments have now diversified to the extent where the present regulatory treatment of subsidiaries and associated companies is no longer an appropriate method of dealing with the many problems that arise in this area. For instance, the Commission has taken the position that the rate of return on investment should be commensurate with its risks. However, it is obviously impractical to attempt to determine an appropriate return on such a basis for each of Bell's subsidiaries and associated companies. The Commission has concluded that it is appropriate to consolidate all of Bell's investments not deemed integral to the provision of basic telephone service and to deal with them as a single entity for regulatory purposes.⁵⁸

In previous decisions, the issue of integrality had been extended to include

Tele-Direct Ltd. (publishing) and Bell Canada International Management, Research and Consulting Ltd. (Bell Canada International -- BCI).⁵⁹

In June 1982, Bell Canada announced it was planning a corporate reorganization, to be achieved through a share transfer. Under the terms of the proposal, Bell Canada would retain holdings in three of its nine related companies: "minority interest in Telesat Canada and Bell Northern Research Ltd. (of 24.6 per cent and 30 per cent, respectively) and 100 per cent ownership of Tele-Direct (publications) Inc. (TDP), a company incorporated in 1979 to take over the publishing of Bell's telephone directories. All other Bell interests, including Northern Telecom Ltd. and Bell Communications Systems Inc., would be transferred to Bell Canada Enterprises Inc. (BCE), which would also become the parent of Bell itself."⁶⁰ While the Saudi project was not mentioned specifically in the sections of Bell's proposal which were cited by the CRTC in its public notice on the matter, the reorganization had significant implications for the future treatment of such contracts.

In the proposal the company stressed the importance of being able to coordinate its diversified operations. To this end, the company argued that the reorganization would allow for greater managerial flexibility and would "provide a more flexible corporate structure to respond to the emerging competition in the telecom business."⁶¹ Moreover, the stated intent of the proposal was to separate Bell Canada and those businesses which the CRTC had deemed integral to Bell's operations, from those which were not. Thus Bell Canada would become "almost exclusively a telecommunications operating company, rather than continuing as both a holding and operating company." In the company's view, following the

reorganization Bell would no longer have an interest in those companies which were not considered integral to its operations, and which, therefore, were subject to the 14.5 per cent deemed rate of return -- i.e., Northern Telecom. Therefore, the deemed rate of return would no longer apply to Northern Telecom.⁶²

In discussing the proposal, the Commission noted that it raised questions regarding the current method of regulation. These questions included the issue of whether the reorganization would "inhibit the future application of the principle of integrality" under which the Saudi revenues had been assigned to the rate base. In examining this point, the Commission outlined the considerations on which previous decisions were based:

. . . In determining the matter of integrality, the Commission has examined not only the nature of an activity in relation to the operation of the regulated telecommunications business, but also whether the effective conduct of the activity in question depends upon the utilization of resources from within the telephone company, whether in the form of expertise, goodwill, or otherwise.⁶³

The Commission then reiterated that these considerations were the basis of its decision to deem the Saudi profits integral to Bell's operations.

On 25 October 1982, Communications Minister Francis Fox announced that the CRTC would conduct an inquiry into the proposed reorganization. The announcement indicated that Fox felt the reorganization was in line with the Government's industrial policy goals of promoting export activity on the part of communication/information sector firms.

. . . the general form of the reorganization is consistent with the Government's attitude towards increased competition and industrial development in the high-technology telecommunications sector. He stressed that, in fact, the Government has been indicating for some time that all Canadian companies should make changes to enable them to be more competitive in foreign markets.

The news release cited Fox:

'The Bell Canada group of companies forms a vital part of the telecommunications sector in Canada. While Bell is most readily identified with the provision of telephone service in Ontario and Quebec, the Bell group is also involved in many other activities, the most significant of which is the manufacturing operations of Northern Telecom. A major corporate reorganization of this important groups of companies is obviously of great interest to the government.'

The news release concluded,

. . . the proposed reorganization has raised questions and concerns regarding the impact on Bell's subscribers and on the ability of the CRTC to regulate Bell's telecommunications services, and the Government must be satisfied that the reorganization is in the overall public interest.⁶⁴

The CRTC hearing on the reorganization was held in February 1983. The Commission submitted its Report to Cabinet in April 1983. In the introduction to the Report, the Commission outlined the conflicting policy considerations underlying the issue: namely, the desirability of encouraging Bell as a strong international high-technology competitor and, at the same time, ensuring that basic telephone service does not suffer as a result.

As Canada proceeds into the information age, its future as an industrialized state will depend heavily on high quality managerial, technical and research skills such as those found within the Bell group of companies. As reflected by the evidence given by Mr. A.J. de Grandpre', Bell's chairman and chief executive officer, these companies have not only themselves achieved substantial success in world markets but have developed personnel and technological resources which have accrued to the benefit of many other Canadian high technology firms.

However, the desire to achieve industrial development goals must not cause us to abandon the necessary aspects of public utility regulation. While a regulated carrier should have the flexibility to innovate and improve its commercial prospects, that flexibility should not enable it to subsidize competitive activities from monopoly

subscriber revenues; While such a balance is not easily achieved in the complex and rapidly evolving telecommunications industry, the Commission considers that its findings and recommendations in this report will permit the realization of the potential benefits of Bell's proposed reorganization while providing safeguards for the protection of subscribers and the public interest generally.⁶⁵

Two sections of the Report are directly relevant for examining implications for Saudi-type contracts. First, is the matter of the Commission's access to information concerning the activities of Bell Canada and its affiliated companies. The Report noted that following the change in Bell's status after reorganization, the Commission "could well lack the legal power to compel information to be produced in a prescribed form." If this were the case, it would be "practically impossible for the Commission to discharge its statutory mandate."⁶⁶ The Commission therefore recommended that. . .

. . . there be legislative clarification of its power to compel the production of such documents and information from BCE and the other Bell affiliates as the Commission considers it relevant to enable it to carry out its statutory mandate. This power should also enable the Commission to require that such documents or information be organized, analysed and presented in such form as the Commission may determine.⁶⁷

The Report also addressed the implications of the reorganization for the continued applicaiton of the principle of integrality, under which the Saudi revenues were assigned to Bell Canada's rate base. Noting that the 1978 Saudi contracts had expired, the CRTC stated that the contracts were "not expected to provide any further contribution to the Company's regulated revenues."⁶⁸ Bell's position on any such future contracts was summarized by the Commission, as follows:

. . . Bell indicated that future Saudi-type contracts would not be entered into by Bell itself after the reorganization. Rather, BCE, or one of its subsidiaries other than Bell, would undertake such

contracts. To the extent that such future contracts might require the input of Bell's personnel or other resources, Bell would be compensated for such resources, the Company suggested, on the basis of their fully loaded cost plus some reasonable royalty or premium, and such revenues would then be included in the operating revenue or the Company for regulatory purposes.⁶⁹

The Director of Investigation and Research under the Combines Investigation Act argued that. . .

. . . any Saudi-type contract signed by Bell or another BCE subsidiary should be subject to examination by the Commission in order to determine whether there had been such a material change from the original contract that it should not be treated as integral.⁷⁰

In considering this issue, the Commission noted that its power to apply the principle of integrality under the current legislation had not been tested in the courts; and that if the power was tested in the future, legislative clarification of that power would be necessary "in order to safeguard the subscriber interest." In this regard, the Commission concluded:

With regard to future Saudi-type contracts, whether and to what extent, if at all, such contracts would be deemed integral by the Commission would depend upon the circumstances of the case, including the nature and extent of Bell's involvement in the performance of the contract.⁷¹

The CRTC forwarded its Report to Cabinet, recommending approval providing that the legislation was altered to include "regulatory safeguards," including assured access to relevant information required for effective regulation.⁷² The reorganization came into effect on 23 April 1983. Legislation was tabled in the House of Commons on 8 February 1984, by Francis Fox, as part of an omnibus bill. According to the Globe and Mail:

That portion of the bill relating to Bell Canada basically reaffirms the provisions in the existing Bell Canada Special Act and eliminates the possible conflicts within the legislation.

The provisions prevent BCE, the deregulated parent company, from selling its shares without CRTC approval. They also give the CRTC the same access to information held by BCE as it has to that held by the telephone company.

The CRTC will also be allowed to regulate the activities of affiliated companies, if it thinks that such activities are not subject to enough competition.⁷³

The legislation died on the order paper.

In May 1983, Bell Canada International signed a new five-year contract, retroactive to December 1982, with the Government of Saudi Arabia. The contract was for the provision of operation and management expertise, with an estimated value of \$1.6 billion. Issues associated with Bell's Saudi contract were raised in a CRTC proceeding which set Bell's revenue requirement for 1985, 1986, and 1987. The Commission ruled that the contract should not be deemed integral to Bell Canada because the contract was signed by BCI. Moreover, the contract did not "engage Bell's financial responsibility" and was not controlled by Bell and BCI bore "all of the risks of the contract."⁷⁴

The Consumers Association of Canada argued that the contract should be deemed integral to Bell's operations because the "majority of employees assigned to the operation are Bell employees who have been trained at subscriber expense and are expected to return to Bell after their tour of duty" and further argued that subscribers are bearing the risk of re-employment guarantees. Bell stated that under the terms of the 1983 contract, for each employee temporarily transferred BCI paid Bell "a one-time fee of \$700 to cover the costs of selecting candidates and arranging for their placement on return" and an "annual disruption fee is also paid to Bell by BCI for each employee temporarily

transferred." The Commission summarized Bell's position, as follows:

Bell argued that fair market value for the temporary transfer of employees to BCI is fully covered when both the amounts paid and the obligations assumed by BCI are taken into account, together with the following considerations:

i) the employees are granted a special leave of absence and do not remain on Bell's payroll;

ii) all remuneration and incidental expenses associated with the transferred employees are processed and paid by BCI;

iii) Bell assumes no risk with respect to the contracts between BCI and third parties;

iv) Bell is able to take advantage of additional opportunities to deploy its human resources; and

v) Bell employees who accept an international assignment with BCI gain valuable experience which can be an important positive element in their carrier development and also a benefit to Bell by virtue of their experience and development.⁷⁵

Bell argued that compensation through profit sharing would not be appropriate "since Bell assumes none of the retail market risks and is not responsible for the use of people."⁷⁶

The CRTC did not accept Bell's contention that the \$1000 per year disruption fee provided sufficient compensation. The Commission ruled that compensation should include costs, plus an additional 25 per cent markup usually employed by Bell for intercorporate transactions.⁷⁷

Bell officials were dissatisfied with the decision and they raised the matter with Minister of Communications, Flora MacDonald, with whom they appear to have discussed the possibility of a Cabinet review of the CRTC decision, Telecom Decision CRTC 86-17. In a letter written to A.J. de Grandpre, chairman of Bell Canada Enterprises, the Minister refers to a meeting between herself and Mr. de

Grandpre which took place on 23 December 1986.⁷⁸ The letter states that following this meeting, "there have been several discussions between BCE and BCI executives and Department of Communications officials, in an attempt to achieve a satisfactory resolution to this problem." The letter notes that the CRTC has scheduled a public hearing for October 1987 to establish Bell's revenue requirement for 1988, and suggests that "the forthcoming proceeding, rather than revisions to 86-17, provides the opportunity to reach a final resolution to this problem. She suggested that Bell might "file additional substantive evidence, such as an audited report verifying that the costs associated with the temporary transfer of employees are recovered by Bell Canada."

The letter, submitted as an exhibit in Bell Canada's memorandum of evidence for the revenue requirement proceeding, spells out the government's dual objectives of support for Bell Canada Enterprises' international contracts and the protection of telephone subscribers:

I would like to assure you that, as a matter of policy, the Government of Canada strongly supports the activities of firms such as Bell Canada International in seeking overseas contracts and appreciates the contributions that such endeavours make towards job creation, maintaining a positive trade balance, and promoting Canadian technology and expertise abroad. In the government's view, and as provided for in Bill C-13, the shareholders of Bell Canada Enterprises should accept the risks and obtain the rewards of these activities. At the same time, the government supports the role of the CRTC in ensuring that Bell Canada subscribers are not called upon to subsidize directly or indirectly, or be subsidized by, the unregulated and competitive activities of affiliated companies.

In accordance with this policy, and provided that Bell Canada submits, as evidence, an audited verification that the costs associated with the temporary transfer of its employees to BCI are recovered fully by Bell Canada, I would be prepared to review any future decision of the CRTC, which failed to reflect these principles. So, for example, were the Commission to establish or impute a level of

compensation from BCI to Bell Canada that exceeded the audited costs directly and indirectly associated with these transfers, I would be prepared to recommend to the Governor in Council, appropriate action to ensure that BCI can continue to compete effectively in international markets and thus maintain its valued contribution to Canada's export earnings and overall economic prosperity.⁷⁹

This correspondence is significant in several respects. First, a Government minister has informed a regulated company that it is prepared to review a federal regulatory commission decision before a proceeding has even been held. A Minister of the Government and company representatives reviewed a course of action with respect to a future decision which will be issued following consideration of evidence in the course of a public hearing. The Minister has set criteria which the company must meet to receive cabinet support. No other intervenors to this upcoming proceeding were parties to the discussion. No other intervenors had the opportunity to learn what they must present in order to receive government support for their positions on the matters to be considered by the Commission. In the U.S., under anti-trust law, this action could constitute grounds for conspiracy charges in civil litigation.

Bell's inclusion of this letter in its memorandum of evidence produced for this proceeding could be construed as a thinly veiled threat to the CRTC. On paper, the CRTC is a semi-autonomous agency charged with regulating to protect the public interest. In this instance, the CRTC is being told what the Minister of Communications believes is in the public interest before the proceeding has commenced.

From a "public interest" perspective, this is problematic in three further respects. First, what of the criteria that Bell must meet to satisfy the Minister's

that the public interest is being served? Bell, it is suggested, should submit an independently audited report "verifying that the costs associated by the temporary transfer of employees to BCI are recovered by Bell Canada." By what criteria are these costs to be determined? There are many different ways of assessing the "costs" of telephone company operations. In many proceedings over the years, another Government official -- the Director of Research for the Combines Investigation Act -- has demonstrated the deficiencies of telephone company assessments of financial relationships with affiliated and subsidiary companies. The Minister's letter makes no reference to plausible critiques by intervenors to the proceeding. It is sufficient for Bell to tell the Commission what the costs are and to have the results of the study blessed by an independent auditor. There is no mention of a Government review of the assumptions that underlie such a study.

Moreover, the legislation giving the CRTC the power to assess the operations of Bell Canada affiliates has never been enacted. The CRTC indicated in its report on the Bell Canada Reorganization that such legislation was a prerequisite for effective regulation of Bell Canada. Thus, the Commission is not guaranteed access to the information required to assess Bell's proposals.

The third problem is that the principle of integrality is ignored. Employees that are essential for Bell Canada Enterprises to obtain and carry out international contracts are trained through working for the Bell Telephone Company of Canada. Without Bell Canada, BCE could not undertake these contracts. These people are trained at the expense of telephone subscribers. Yet, when employees are fully qualified, they are temporarily transferred to an affiliated company for the "cost"

of temporary replacement. No mention is made in the letter of the cost of training replacements. Subscribers have paid for the training of these people to provide the expertise for large contracts, but do not reap the financial gains associated with them. Such contracts are viewed as an investment for shareholders in BCE, who are guaranteed profits from the monopoly telephone company, but not for the telephone subscribers who contribute considerably to the company's success.

Conclusions

There are a number of conflicts inherent in the Government's policy objectives regarding federally regulated telephone companies, particularly Bell Canada. The Government and the semi-autonomous regulatory agency have expounded upon the desirability of promoting large private sector firms to aim product development at international markets. Such operations are deemed to be in the "public interest" because it is believed that they will create an improved economic climate which will support jobs and social programmes.

Mansell's investigation of the performance of firms which receive government research, development and manufacturing support indicates that the performance of firms receiving Government support often does not generate the results envisioned by the Government. For instance, Northern Telecom has been appointed as an industrial policy instrument and has found success marketing its equipment abroad. At the same time, Northern has laid off significant numbers of Canadians and has opened up new manufacturing facilities in countries other than Canada. Moreover, the international success of telecommunication firms

such as Northern and SPAR Aerospace has not lead to provision of telephone service desired by native peoples in the northern portion of Bell Canada's territory. Nonetheless, the assumption that such activities are in the "public interest" has not been critically assessed by either Cabinet or the CRTC in deliberations concerning Bell Canada.

The CRTC has demonstrated that it accepts the premise that Bell Canada's international operations are in the "public interest." At the same time, the Commission is mandated to safeguard the 'public interest' through ensuring that Bell Canada, the operating company, charges "just and reasonable rates," that Bell's complex corporate arrangements are not masking the channelling of telephone company revenues to support the activities of affiliated firms and, to the extent that Bell telephone subscribers support the operations of affiliated firms, they benefit from Bell's success. Thus, the deliberations over proper treatment of Saudi contract revenues and compensation to Bell for use of its employees by BCE were, in effect, an exercise in rationalizing these two public interest objectives, to reach some sort of compromise.

The CRTC is operating at a distinct disadvantage. The Commission lacks the power to obtain information about the operations of Bell affiliates, because legislation allowing the regulators to compel Bell to provide information about its affiliates has not been enacted. Moreover, the federal Minister of Communication has, through the aegis of Bell Canada, determined the "public interest," with regard to compensation for use of Bell employees, before a hearing in which the matter is to be reviewed has commenced. Thus, the ability of the Commission to effectively regulate is constricted.

Previous chapters identified concerns about inadequate federal telephone regulation. On the surface, the CRTC's assertive approach toward regulating has rectified historical problems associated with conflicting objectives regarding telephone policy issues. The Commission assesses quality and extension of service and has delved into complex matters, such as the costs of providing service and the relationships between telephone companies and their subsidiaries. The examination of the debates about Bell's Saudi contracts indicates the historical conflicts remain, are more explicit than ever and that the ability of regulators to effectively carry out their mandate is compromised as a result.

Footnotes

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3. Law Reform Commisison of Canada, The Canadian Radio-television and Telecommunications Commission (Ottawa: Supply and Services, 1980), p. 8.
4. See for example Department of Communications, Instant World,
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9. Ibid., p. 4.
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11. Ibid., p. 14-17.
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15. Law Reform Commission of Canada, p. 9.
16. See for example CRTC Telecom Decisions 1977-5, "British Columbia Telephone Company: Increase in rates," Ottawa, 17 May 1977; 78-7, "Bell Canada, Increase in Rates," Ottawa, 10 August 1978; and 82-5, "British Columbia Telephone Company, General Increase in Rates," Ottawa, 3 May 1982.
17. See CRTC, Telecom Decision CRTC 82-5, "British Columbia Telephone Company, General Increase in Rates."
18. CRTC, Telecom Decision CRTC 80-14, "Bell Canada, General Increase in Rates," Ottawa, 12 August 1980, 6 C.R.T.
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21. Ministry of State For Science and Technology, Towards 1990.
22. Robin E. Mansell, "Industrial Strategies and the Communication Information Sector: An Analysis of Contradictions in Policy and Performance," unpublished Ph.D. Thesis, Simon Fraser University, 1984, p. 9, 361.
23. Ibid., p. 361.
24. Ibid., p. 46.
25. See for example, Department of Communications, Instant World.
26. Mansell, "Industrial Strategies," p. 464.
27. See for example, Telecom Decision CRTC 80-14, "Bell Canada General Increase in Rates," 6 C.R.T., 12 August 1980, p. 230-234.
28. Mansell, "Industrial Strategies," p. 113.
29. Ibid., p. 454-484.
30. Ibid., p. 91-92.

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31. See for example, Department of Communications Annual Report 1980-81 (Ottawa: Supply and Services, 1981) p. 18.
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33. Mansell, "Industrial Strategies," p. 203.
34. See for example, Bell Canada Enterprises, Shareholder Newsletter, First Quarter, 1983, p. 6-7; W.H. Melody, Testimony to the CRTC: British Columbia Telephone Company proposed acquisition of G.T.E. Automatic Electric, 13 June 1979.
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37. See for example, CRTC Telecom Decisions CRTC 77-5, "British Columbia Telephone Company: Increase in Rates;" 78-7, "Bell Canada, Increase in Rates;" and 82-5, "British Columbia Telephone Company, General Increase in Rates."
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V. Conclusions

This study examined historical issues raised in debates regarding federal telecommunication policy. The study reviewed the issues through considering three case studies: the 1905 Parliamentary Select Committee on Telephones, chaired by Postmaster General Sir William Mulock; House of Commons Debates from 1906-1967; and recent debates regarding Bell Canada's contract to construct and operate a telephone system for the government of the Kingdom of Saudi Arabia.

Historically, there have been conflicting assumptions about the respective roles of the Government and the private sector in providing telephone service. These conflicts have been at the heart of debates regarding the best means of ensuring that telephone service is provided so as to best serve the public interest. The conflicts have become manifest in debates regarding recurring telephone issues. These issues include the scope and character of regulation, extension of service, telephone rates, competition and the corporate relationships of Bell Canada and B.C. Tel.

In the early 1900s, the options for government supervision of telephone service ranged from public ownership to minimal supervision of Bell's activities. This period was unique in that public ownership was considered by a large segment of the public and some powerful politicians to be the best means of ensuring that telephone service would be extended throughout Canada at affordable rates. The numerous complaints about Bell's reluctance to provide service to rural areas, high rates and attempts to eradicate alternative systems

generated skepticism about the wisdom of entrusting telephone service to large private corporations. Thus, the view that the public interest could best be served by provision of telephone service by monopolistic large private corporations was far from being entrenched in the minds of the public or policy makers.

Most advocates of public ownership favoured a decentralized system of trunk lines, owned and operated by the federal government, which would interconnect with local municipal, cooperative and independent telephone systems. Members of the Select Committee on Telephones compiled extensive information on the materials used in constructing small telephone systems and the costs of doing so. Had the Government chosen to pursue this option, the Committee's material would have provided a basis for developing a plan of action.

The Government chose to ignore the efforts of the Committee and the overwhelming evidence indicating that the self-serving activities of Bell Canada did not serve the public interest. The Government systematically supported the efforts of Bell Canada to consolidate control of the field through appointing telephone industry advocates to key regulatory and policy posts and through refusing to enact legislation addressing extension of service, attempts by Bell to eradicate competition and the regulators' ability to deal with vertical integration.

In this period, proponents of competition advocated supporting the rights of people who had constructed telephone systems, either because Bell Canada refused to provide telephone service or charged rates which potential subscribers believed to be too high. Thus, the competition that existed was compatible with the concept of public ownership supported by Postmaster General Mulock and numerous contributors to the Select Committee.

In instances where competitive systems were difficult to sustain, the difficulty came not from inherent economic or technical problems with establishing service, but from the systematic efforts of the Bell Telephone Company of Canada to consolidate its control over the telephone field in Canada. Bell employed propaganda, predatory pricing, refusal to interconnect and exclusionary contracts with the major railroad companies to eliminate alternative telephone systems.

Bell's policy was to concentrate its resources in urban areas. Service was extended to rural areas grudgingly, often at rates which potential subscribers could not afford. The Company made exceptions in cases where municipal, cooperative or independent telephone systems had been established, offering incentives such as free telephone sets and selectively reduced rates to lure subscribers to Bell.

Bell admittedly followed a policy of selective interconnection, providing service to companies which agreed not to expand their systems or to interconnect with other independent companies. While Bell argued that interconnection was denied to telephone systems containing grounded circuits which provided inferior service, the evidence submitted to the Select Committee on Telephones shows that Bell's system and the systems of companies which interconnected with Bell also contained grounded circuits.

Bell representatives argued that mandatory interconnection would force the company to allow competitors to utilize its facilities. Had the company provided, or been required by the government to provide, interconnection to municipalities, cooperatives and independent systems, all subscribers would have

been able to communicate with one another without requiring multiple telephone sets individually wired to different telephone systems. Companies could have compensated each other for use of competitors telephone plant. As evident in the examination of witnesses before the Select Committee, such an arrangement would have greatly benefitted the public. The sole obstacle to this means of extending and improving telephone service to rural areas was the opposition of the Bell Telephone Company.

During the period from 1906 through 1967, the notion that federally supervised telephone service should be provided by monopolistic large private corporations became accepted as conventional wisdom. Despite the wealth of information generated by the Select Committee on Telephones, no attempt was made to develop formal policy for telephone service. The Government opted to place responsibility for regulating telephone companies under the jurisdiction of the Board of Railway Commissioners/Board of Transport Commissioners through modifying the Railway Act.

Regulators during this period interpreted their mandate as being solely to regulate the rates of federally-chartered telephone companies. The regulatory boards did not attempt to encourage telephone companies to extend service or improve the quality of service. Issues were considered on a case by case basis. Broad issues such as national objectives for telephone service were not discussed in the course of regulatory proceedings.

The limited powers of the regulatory boards precluded thorough assessment of whether telephone rates were "just and reasonable" because regulators could not explore the effects of vertical integration on telephone rates. The Boards

lacked the power to investigate the operations of Northern Electric. Commissioners who issued dissenting opinions regarding regulatory decisions and skeptical Members of Parliament argued that this provided a means for Bell to conceal telephone company profits by funnelling them through to Northern Electric. Similarly, the regulatory Boards lacked either the power or the will to investigate the service contracts between AT&T and Bell and The Associated Telephone and Telephone Company/GTE and B.C. Tel, despite arguments by intervenors and some Commissioners that the "services" received for these payments were negligible.

During this 60 year period, there was no consistent Parliamentary oversight of telephone service. With the exception of one decision to set aside a Bell rate increase in 1958, the Government did not exercise its power to set aside regulatory decisions. Proposals by individual Members of Parliament to investigate public ownership or to strengthen and broaden the powers of regulators were ignored. Extensive debates regarding telephone service issues were conducted only in the course of considering amendments to Bell's and B.C. Tel's charters. While it was generally agreed that extension of telephone service was desirable and that telephone service was important socially and economically, no attempt was made to develop a comprehensive communication policy incorporating telephone service policy.

Telephone and telegraph lines constructed by the Government in rural and remote areas were viewed as stopgaps which would be replaced by private telephone company systems at such time as these companies believed rural service would be profitable. While converting existing Government lines into a

public system was suggested on several occasions over the years, it was recognized that this decision would require a change in the Government's view of its role in supervising telephone service. This step was never taken. When arguments were made that public ownership was necessary due to a poor performance on the part of the private sector, the invariable response was that since the regulatory Boards had been given responsibility for telephone service, the proper means of solving problems was to refer matters to the Boards or strengthen the Boards' powers.

During this period, with the exception of the years immediately following the Select Committee on Telephones, proponents of public ownership seldom addressed the way in which public ownership might be achieved. Mulock's arguments in favour of a decentralized form of public ownership were largely forgotten. The words "public ownership" conjured up a vision of a large public monopoly which, it was assumed, would be inherently more benevolent than a private corporation because it was owned by the federal Government. Proponents of public ownership seldom responded to questions regarding public criticism of crown corporations such as the CBC or CNR. Unlike during the years surrounding the Select Committee on Telephones, public ownership during this period was debated mainly as an idealistic proposition, which could be attained in a better world, rather than as a practical proposition.

In the existing world, alternatives to Bell and B.C. Tel diminished rapidly. Despite the material gathered by the Select Committee on Telephones, which demonstrated that municipal, cooperative and independent telephone systems had served rural areas much more conscientiously than Bell, the Government took no

steps to protect these companies from Bell's effort to drive them out of business. Nor did the Government encourage the development of alternative local systems as did the United States with the creation of the Rural Electrification Administration (REA). No legislation was enacted compelling Bell to interconnect with these companies and no attempt was made by the Government to prevent the larger companies from engaging in predatory pricing. Alternative telephone systems were gradually starved out if they refused Bell's terms for interconnection.

The composition of the TransCanada Telephone System (TCTS)/Telecom Canada demonstrates the exclusionary approach to providing service taken by the dominant telephone companies. TCTS/Telecom Canada membership has never included local municipal, cooperative or independent telephone systems. The CNR's regional system has been excluded, as is the national microwave system operated by CN/CP. Small local systems interact with TCTS/Telecom Canada through the dominant telephone company in their province. CN/CP has historically been viewed as an emerging rival for the new telecommunication services which TCTS members, most notably Bell Canada and B.C. Tel, have wished to control.

Historically, Parliamentarians had agreed on the economic importance of telephone service. Through the late 1930s, telephone service was viewed as important to the economy because it provided a basis for the extension of economic service into remote and rural areas. The telephone allowed businesses to communicate quickly with suppliers, shippers and customers, thereby increasing the efficiency of operations. The desire for Canadian control of

communication systems was evident in the construction of Government operated telephone lines in Okanagan Valley as a means of ensuring that communication between British Columbia farmers and Canadian West Coast financial centres was provided over Canadian telephone facilities.

Beginning in the 1940s, conflicting views emerged regarding the proper role of telephone companies, especially Bell Canada, in the telecommunication field and in society. Some members of the Government began to emphasize the importance of Bell Canada to the Canadian economy. Bell was viewed as a major corporate player that contributed to the health of the Canadian economy, not only by providing an infrastructure service, but through its size, the numbers of people employed by the company and the role of the company's manufacturing subsidiary in producing products that could potentially be exported. Others expressed fears that Bell's expansion signalled a move by the company to expand the scope of its operations to control new telecommunication services and innovations. Bell was described as both "a state within a state" and as "a perfect example of what we would like to think should be a large corporation."

This difference of opinion about Bell's role was at the heart of disagreements regarding the depth of regulatory scrutiny of Bell's rates, the role of telephone companies in providing new services and in utilizing new communication media, the implications of vertical integration and the extent of federal Government supervision of telephone company activities. There was a general consensus that broadcasting and telecommunication were important to Canadian society. Disagreement over how to ensure that society would best be served by communication policy remained and was evident in debates regarding subsequent

efforts to develop comprehensive communication policy and revise the regulatory structure.

The recognition of the potential importance of new communication media for society has set the stage for subsequent efforts to develop comprehensive communication policy during the period from 1968 through the present. The Government's objectives are two-fold. First, deployment of new communication media are seen as a means of attaining the traditional communication policy objective of extending basic telephone and broadcasting service. Moreover, the Government believes that telecommunication can play a fundamental role in Canada's economy and has enacted policy measures to achieve this end. In the past it has been assumed that telephone service was a fundamental element of developing Canada's resource based economy. During the past twenty years, telecommunication and the telephone industry have been seen as fundamental to supporting an economy based on high-technology industrial development.

As the Government moved to establish a policy structure capable of responding to the rapid changes in the telecommunication field, policy makers stressed the importance of altering the regulatory structure to enable regulators to cope with the changing environment. In the early 1970s the federal Government announced that legislation would be introduced to give the regulatory agency more power and to provide for Cabinet direction to the regulators. The legislation was introduced but never enacted.

Despite the fact that federal statutes pertaining to telephone companies were not revised substantially, the Canadian Radio-television and Telecommunications Commission (CRTC) has employed a broad interpretation of its mandate since

assuming responsibility for regulating telecommunication in 1976. The Commission has established and attempted to enforce quality of service guidelines, encouraged improved provision of service in remote and rural regions and established low two-party rates as a means of pursuing the objective of universally accessible telephone service. The Commission has investigated the implications of monopoly telephone company relationships with affiliated firms and introduced measures intended to ensure that monopoly telephone service subscribers benefit from the activities of affiliated firms deemed integral to telephone company operations.

On the surface, the historical concern that regulators lacked the means to effectively regulate Bell and B.C. Tel would appear to have been resolved in light of the CRTC's ambitious approach to regulation. Yet, the case study of Bell Canada's contracts to construct and maintain a telecommunication system for the Government of the Kingdom of Saudi Arabia shows that the historical problems continue to exist.

Two factors contribute to the continuing ineffectiveness of federal regulation. First, although the CRTC has interpreted its mandate broadly, The Commission's initiative has never been supported through the enactment of legislation embodying specific telecommunication policy objectives and providing the Commission with broader powers necessary to regulate effectively. At the same time, some of the responsibility for ineffective regulation can be laid at the door of the Commission itself. The CRTC has increasingly chosen to regulate through monitoring telephone company operations rather than assertively investigating regulatory issues. This has become evident with the Commission's

decision to proceed with major regulatory proceedings prior to concluding other proceedings which have a bearing on current issues.

The problems resulting from insufficient regulatory powers are evident when one considers the Bell Canada reorganization. In its report regarding the reorganization, the CRTC admitted that unless legislation is passed allowing the Commission access to information about the operations of Bell Canada's affiliated firms, effective regulation will be difficult if not impossible. As the legislation has not been enacted, the Commission is in a position of having to render decisions without the power to request information necessary to consider the issues at hand. Thus, while the Commission has taken a much more assertive approach toward regulating Bell, Bell has shielded itself from effective regulatory scrutiny with its new corporate structure. The reorganization is considered to be in the public interest in terms of industrial policy objectives. If considered in light of the need to protect the interests of subscribers to basic telephone service, the reorganization hinders the ability of regulators to ensure that the public interest is served.

In addition to contributing to ineffective regulation, the failure of the federal Government to develop statutory telecommunication policy objectives has contributed to an atmosphere of confusion. As representatives from federal and provincial governments have laboured unsuccessfully to develop recommendations for a comprehensive national telecommunication policy, the CRTC has proceeded to rule on fundamental telecommunication issues, such as interprovincial long distance telephone service competition and revising the rate structure for public telephone services. At this point, the regulatory agency is

able to respond to policy issues more rapidly than the federal Government and it is questionable whether the federal Government is in a position to respond effectively to changing conditions.

This has engendered frustration on the part of provincial governments as they attempt to cooperate in the development of a national telecommunication policy. Federal regulators are issuing decisions which affect the largest telephone companies in Canada and, thus, affect telecommunication service across the country. The telephone systems in Alberta, Saskatchewan and Manitoba are owned by their respective provinces. These provinces are in the position of negotiating with the federal government to develop policy objectives; while the CRTC, which is not party to the negotiations or accountable to provincial governments, is rendering decisions on important issues.

Moreover, confusion exists regarding the interpretation of those objectives that have been agreed upon. Fundamental questions, such as what constitutes "universal service," who does not have telephone service, the implications of proposed changes in the rate structure for small business, the validity of telephone company assumptions underlying proposed rate structure changes and the role of a telephone in providing social services have not been addressed.

A research team in the Department of Communication, Simon Fraser University, conducted a study examining the implications of changes to the pricing of telephone services provided by federally regulated carriers. The study incorporated over 50 interviews with representatives of telephone companies, competitors, regulators, provincial governments, business users, consumer groups, farmers and community organizations. The results of the interviews

show that there is no consensus as to the definition of general policy objectives often cited by proponents of rate structure changes -- e.g., "universally affordable service" and an "economically efficient public telecommunication system."

The lack of consensus about the meaning of stated policy objectives has meant that there is currently no common ground for proceeding to deal with fundamental policy issues. In the meantime, decisions which have a major impact on the way in which these objectives are pursued continue to be made by the CRTC, often on the basis of insufficient or inaccurate information.

Part of the blame for ineffective regulation can be laid at the door of the CRTC itself. In opting for a supervisory approach to regulation, the Commission is currently issuing decisions on important regulatory matters on a piecemeal basis, often without considering information necessary for a thorough consideration of the issues at stake.

A case in point is the CRTC's approach to the issue of restructuring the rates charged for local and long distance telephone service. "Rate Rebalancing" is a term, coined by Bell Canada, which refers to altering the telephone rate structure to reduce rates charged for long distance telephone covering more than 200 miles (long-haul) and raising rates for long distance calls over shorter distances and, especially, local rates. Bell Canada first suggested that rate restructuring would be desirable during a 1985 CRTC hearing to consider an application by CN/CP to offer competitive long distance service.¹

Bell Canada and other telephone companies, with the support of some economists, argue that rate restructuring is necessary if the telephone network

is to be economically efficient. Due to its central importance to Canadian business, an efficiently priced telephone network will contribute to greater efficiency throughout the entire economy. Therefore, rate rebalancing would be an important step in achieving the general policy objective of an efficient telephone network, if one accepts the assumptions upon which Bell bases its argument.

The fundamental assumption underlying Bell's argument is that long-haul telephone rates have historically been set far above the actual cost of providing service as a means of subsidizing services that are more expensive to provide, especially local telephone service and service to rural areas. Bell argues that artificially high long distance rates have created the opportunity for competitors, who do not have the social policy obligation, enforced by regulation, to serve expensive areas. High rates have also provided an incentive for telecommunication users to utilize telecommunication systems other than those of the public telephone network, thus "bypassing" the telephone system. As "bypass" is taking place because telephone system rates are artificially high, use of alternative facilities is economically inefficient. Thus, Bell argues that if the telephone network is to be priced efficiently, the telephone rate structure will have to be altered.

Bell's arguments rest on the proposition that long distance service is subsidizing local telephone service. In order to examine this proposition, it is necessary to consider the question of how telephone company costs are allocated. Telephone companies are multiproduct firms and provide a number of services over common facilities. The majority of telephone company costs are costs

incurred to construct local telephone plant which is used to provide all public services and most private line business services. To reach the conclusion that long distance is less expensive to provide than local service, Bell Canada relies on a costing methodology that allocates the majority of the costs incurred for common telephone plant to local service.²

This approach to cost allocation has been called into question. Studies which have examined the construction of telephone systems have found that the local telephone exchange has been constructed to meet the transmission requirements of services such as long distance and data. As the Select Committee on Telephones discovered, transmitting voice communication over long distance requires more stringent engineering standards and involves the use of different materials than does the provision of local telephone service. A stand-alone cost study sponsored by the Kansas Corporations Commission found that a local telephone system constructed solely to transmit local telephone service would cost less to construct than a local system engineered to carry long distance traffic.³ Given this evidence, the allocation of the majority of common costs to local service does not reflect cost causation. If one allocates common costs on the basis of cost causation, then it is clear that long distance service does not subsidize local telephone service and that Bell's proposal to restructure telephone rates is not justified on economic efficiency grounds.

Federal regulators have been grappling with the issue of telephone company service-by-service cost allocation since 1972, when the Canadian Transport Commission (CTC) initiated the "Inquiry into Telecommunications Costing and Accounting Procedures," generally referred to as the Cost Inquiry.

Phase III of the Cost Inquiry dealt with the question of allocating local exchange costs, the central issue in assessing proposals to restructure telephone rates. Phase III has yet to be completed as of May 1988.

During the course of the Interexchange Competition (IX) proceeding, the Commission stated that rate restructuring would be considered in a future proceeding rather than as part of the IX hearing. Nonetheless, the Commission did decide to freeze long distance rates on the grounds that they were too high. The first step toward restructuring telephone rates had been taken by the Commission. The second step was taken shortly thereafter, when the CRTC ruled that Bell Canada had reaped excess profits and would refund subscribers through reducing rates for all telephone services. The Commission stated that future refunds would be granted in the form of reduced long distance rates. This would further shift the balance in the rate structure.⁴

The Commission's decision to freeze long distance rates was based on the conclusion that long haul long distance rates were too high. This conclusion could be based on several factors, including: 1) the conclusion that changes in the state of technology have brought long haul costs down; 2) the rates were set during a period of higher interest rates, which have since declined; or 3) Bell Canada and B.C. Tel assertions that long distance service has been subsidizing local service, based on allocating the majority of common costs to local service. In reaching its decision, the Commission did not mention changing technology as a factor in reducing long distance costs or interest rates and these factors were not emphasized by participants in the proceedings. The only evidence put forth by the telephone companies to support reduced long haul rates was the material filed

to support the contention that long distance subsidizes local service. Thus, the Commission appears to have based its decision on at least partial acceptance of this argument. This supported by the Commission's decision that future refunds to subscribers would be in the form of reduced long distance rates. The decision was reached before the Commission had determined guidelines for Bell and B.C. Tel costing methodologies; and despite the fact that the Commission had explicitly rejected the preferred costing methods of Bell and B.C. Tel because they relied heavily on computer modeling and were not easily audited.

Similarly the Commission's decision to have future refunds to Bell subscribers issued through reduced long distance rates reflects acceptance of the notion that long distance service subsidizes local service and was reached while Bell and B.C. Tel were in the process of carrying out costing studies based on the CRTC's guidelines. In Fall 1987, the Commission ruled that it was not necessary to delay considering Bell Canada's rate rebalancing application until Bell and B.C. Tel had submitted their Phase III cost studies and the studies had been reviewed by the Commission and the general public. The CRTC decided to proceed with considering a proposal which could have a profound effect on telephone service in Canada -- prior to receiving material which is essential to assessing the evidence presented to support Bell's proposal.

Moreover, it is debatable as to whether the Commission's approach to allocating local exchange costs provides a definitive answer to the fundamental questions on the table. A main object of Phase III of the Cost Inquiry was to develop a cost causative method of allocating common local exchange costs among services. The Commission has opted to place most of these costs in an "access"

category and has left it to Bell Canada and B.C. Tel to divide these common costs among services which use the local exchange. This is problematic in two respects. First, dumping common costs into an "access" category implies that the public telephone network starts at the switch. The telephone set, inside wiring, wires and poles which connect subscribers to local switches and two each other are regarded as means of "accessing the network" rather than as an integral part of the network itself. This flies in the face of logic, when one considers that the design of the local loop was based on the engineering requirements of long distance service and that without connections being available to local subscribers, it is not possible to complete telephone calls. Second, given the views of Bell and B.C. Tel regarding "cross-subsidy" of local service by long distance service, many telephone industry observers believe that the contents of the cost manuals will reflect the approaches of Bell and B.C. Tel, and will accept the notion that most common costs should be assigned to local service, despite the lack of substantial evidence supporting this approach.

The Commission's decision to turn a blind eye toward the ambiguities in its Phase III rulings and to consider rate rebalancing prior to receiving information which is fundamental to the proceeding are illustrative of the problems that the CRTC's current supervisory approach to regulation has wrought. The Commission is not compelled by statute to rule on rate rebalancing, yet has chosen to proceed without essential information. The issues at stake are of fundamental importance to the public and deserve thorough consideration. So far, the Commission's piecemeal approach to rate rebalancing has meant that fundamental policy issues are being acted upon prior to the development of any common consensus about

the evidence and the policy objectives for telephone service.

Conclusions

This study has examined federal telephone policy issues from 1902 through current debates in 1988. The case studies have shown that there are historical threads running through telephone policy debates over the years, although the debates during different periods focussed on different issues. A major thread tying different periods together is that in each period there were conflicting notions of the scope and character of federal Government responsibility for providing telephone service, which were manifest in debates regarding specific issues. A key factor contributing to these conflicts has been the lack of consensus regarding national telephone policy objectives and the failure to explicitly address conflicting interpretations of generally recognized goals. The study indicates that the current efforts on the part of federal and provincial governments to develop a national telecommunications policy cannot succeed without addressing these conflicts.

Footnotes

1. CRTC, Telecom Decision CRTC 85-19, "Interexchange Competition and Related Issues," Ottawa, 29 August 1985.
2. Ibid.
3. Richard Gabel, et al., "The Allocation of Local Exchange Plant Investment to the Common Exchange and Toll Service on the Basis of Equalized Relative Cost Benefits." Research paper sponsored by the Kansas Corporation Commission, 23 May 1983. See also William H. Melody, Telecommunications in Nova Scotia: A Cost of Service Study for Maritime Telegraph and Telephone Company, Limited -- Part 1, Final Report, prepared for the Board of Commissioners of Public Utilities, Province of Nova Scotia, (Burnaby, B.C.: Nova Scotia Telecommunication Research Group, Department of Communication, Simon Fraser University, March 1983).
4. CRTC, Telecom Decision CRTC 86-17, "Bell Canada - Review of Revenue Requirements for the Years 1985, 1986 and 1987," Ottawa, 14 October 1986.

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