

*Bell Canada Act*

This Bill does not set any research and development commitments for Northern Telecom. This opportunity was missed in the long inquiry conducted by the Restrictive Trade Practices Commission between 1977 and 1983. Instead, we are stuck with what Bell Canada Enterprises will give us, because governments have not ventured beyond various incentives and carrots for research and development to require that there be a minimum contribution made. In short, there is very little in the history leading to this Bill that is commendable at all.

I would like to refer to some of the arguments that have been developed by consumer organizations and other groups which are deeply concerned about this. One of the best briefs prepared is that done by the National Anti-Poverty Organization. In effect, the National Anti-Poverty Organization has been speaking for all ordinary Canadians, for all consumers and telephone subscribers. Poor people certainly need their telephones and are acutely worried about increased costs and decreased service. The points that they make affect ordinary Canadians with adequate family incomes.

The National Anti-Poverty Organization states in its submission that it is important to note that if the reorganization is allowed it becomes irreversible. It is not an incremental decision that can be corrected incrementally. It is not like a rate decision where if you make a little mistake you can roll it back, as in the case that we have seen recently, or you can adjust it in the future. This is a momentous decision. It is not something that could easily be reversed, if realistically reversed at all. It is something to which we must give extremely serious attention.

The redistribution of management functions has been a major claim that Bell Canada has been making as a reason for the reorganization, that it cannot create the management team that it needs in order to manage its affairs adequately. However, it has not managed to convince too many people of the necessity of drastic reorganization of this sort in order to redistribute its management functions. It could do that without this full-scale reorganization. Other companies manage to reorganize management functions without an Act of Parliament completely changing and hiving off one company from its holding companies.

The National Anti-Poverty Organization submits that Bell Canada's claim that it needs a holding company to plan is completely unsubstantiated. The Commission and Parliament ought to view the company's explanations and justifications on other aspects of the reorganization with considerable scepticism.

The issue of capital is extremely important. The National Anti-Poverty Organization in its submission stressed that capital is the life-blood of Bell Canada. Effective control in relation to capital is essential to meaningful regulation. However, after the reorganization, Bell Canada Enterprises would be able to limit the amount of equity capital available for Bell Canada's needs. The other riskier subsidiaries would receive equity capital more easily as they offer higher returns. The parent company could thus force the regulated company

to obtain a higher rate of return or pay increased dividends to the detriment of subscribers. This is an extremely important point. It is one that the Government has not paid sufficient attention to, and has certainly not met the criticisms that have been raised here.

Let us note that Bell Canada acknowledged in questioning by the intervenors that it does not believe or expect that the CRTC can regulate Bell Canada Enterprises in any way, because the parent company will not be actively involved in the provision of telecommunication services under CRTC jurisdiction. Obviously. That is the whole purpose of the organization. The importance of this factor has to be considered in the light of capital requirements. After the reorganization, the cost of equity capital determined by Bell Canada Enterprises will, from Bell Canada's position, be akin to taxes in energy prices. Bell Canada will be able to argue that it is not in control of these, and that such costs must be passed on to subscribers.

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We see that the needs of subscribers can be simply set aside and that companies can be starved for capital. In order to obtain adequate capital, which might have come from other subsidiaries in the Bell family, the rates to subscribers are increased. The views and motives of Bell Canada in relation to the capital question were revealed in cross-examination during earlier hearings. It was asked the following question: "After the reorganization, does it mean that the CRTC has no control of the capital issued by Bell Canada Enterprises?" The answer to that question is quite revealing—"There is a concession that the CRTC will have no control over the capital issued by Bell Canada Enterprises". This clearly reveals an important problem. The CRTC will not have any say, and the needs of telephone subscribers could be easily ignored.

If Bell Canada Enterprises will not force up the return from Bell Canada in the short run, equity will be denied Bell Canada and the return from other subsidiaries will improve Bell Canada Enterprises consolidated results. Sooner or later this will have to be recognized. Either service quality will be allowed to deteriorate and consumers will not receive the service they want, or there will be pressures to increase the rates. The relative earning standard will no longer be other regulated utilities in Canada but will be other unregulated subsidiaries of Bell Canada Enterprises abroad.

How effectively could the CRTC control Bell Canada with the gun to its head that service will be allowed to deteriorate if rates are not raised appropriately? Control will have shifted from the regulator to the regulated.

I note that Bell Canada prefers to talk about scrutiny rather than regulatory control. It is aware that rather important aspects will escape regulation as a result of the reorganization. What is scrutiny if nothing can be done about it? Surely scrutiny is simply the first step to be followed up by firm regulations where necessary. However, in this case there is a loophole or an escape, and the CRTC will not have the authority to regulate on the important question of capital.