

Torys on Mergers and Acquisitions

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Canadian Government Proposes Liberalizing Foreign Ownership Rules for Telecommunications Sector

By [Paul Cowling](#)

In this week's speech from the throne, the Canadian federal government announced its intention to "open Canada's doors further to venture capital and to foreign investment in key sectors, including the satellite and telecommunications industries, giving Canadian firms access to the funds and expertise they need."


The 2010 budget announced by the government on March 4 contained a proposal to remove restrictions on foreign ownership of Canadian satellites, citing the report of the 2008 Competition Policy Review Panel, commonly known as the "Wilson Report." However, the budget provided no details on how it would allow for increased foreign investment in the telecommunications market generally.

If Parliament proceeds with legislative amendments to follow through on the government's throne speech announcement, that would have a significant impact on domestic and cross-border M&A in the telecommunications space. However, the timing and type of transactions will depend on the details of implementing the government announcements.

The Wilson Report recommended liberalizing foreign investment restrictions in telecommunications and broadcasting through a two-phased approach. In the first phase, the *Telecommunications Act* would be amended to allow foreign companies to establish new telecommunications businesses in Canada or acquire existing telecommunications companies with a market share of up to 10% of the Canadian telecommunications market. The second phase would follow five years later and would involve a broader liberalization of the foreign investment rules governing both telecommunications and broadcasting distribution.

If the government proposes to implement the first phase of the Wilson Report's recommendations, foreign entry will change the structure of the market and may increase pressure for domestic consolidation. In addition, there could be foreign acquisitions or financings of the new wireless entrants that won licences in the 2008 AWS spectrum auction and that are just beginning to acquire market share.

Substantially all of Canada's telecommunications incumbents also hold broadcasting distribution licences. As a result, the impact of this development will depend on the government's approach to the foreign ownership rules under the *Broadcasting Act*. The government could implement the second phase of the Wilson Report's recommendations along the recommended five-year timeline or the government could choose to give the incumbents access to foreign investment at the same time as the smaller players.

While the nature and timing of any changes to the foreign ownership rules are still unclear, the announcement signals a significant shift in the government's approach to foreign investment in the Canadian telecommunications industry. 

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