

Incidental Paper

**In Whose Interest?
Telecommunications
Privatization and Universal
Service in Canada**

K. Michael Bessey

Program on Information Resources Policy

Harvard University

Cambridge, Massachusetts

Center for Information
Policy Research

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**In Whose Interest? Telecommunications Privatization and
Universal Service in Canada**

K. Michael Bessey
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in September 1996.**

Executive Summary

Canada has been described as a thin slice of civilization sandwiched between the empty wilderness of the far north and the howling wilderness of the United States.¹ For almost a century, telecommunications services in the prairie provinces were provided by publicly owned enterprises whose mandate included the provision of subsidized, low-cost services on a universal basis. This paper presents a scenario intended to illustrate the divergent perspectives of stakeholders affected by the proposed privatization of the Manitoba Telephone System. To the lay observer, economic and technological change may suggest linearity, that is, movement from regulation to deregulation; from protectionism to liberalization; from public ownership to privatization. The scenario offers an artful device for exposing recurring themes which underlie social and institutional adaptations to innovation.

The following interrelated, and controversial, factors underlying the privatization arise:

- **Financial:** Inflow of cash proceeds to satisfy the government's legislative commitment to balanced budgets; elimination of past financial liabilities (debt guarantees); and removal of expectations of public financing of future telecommunications infrastructure.
- **Legal:** Assignment, by the Supreme Court of Canada, of responsibility for regulation of communications to the federal government, ending years of provincial oversight of telecommunications provision.
- **Market:** Deregulation of the Canadian communications marketplace with erosion of monopoly long distance and local exchange revenues resulting from the emergence of competitive suppliers and the commodification of many utility services.
- **Technological:** Technological convergence in communications and computer technologies altering production functions and traditional costing and pricing formulae; decline of distance-cost sensitivity in communications.
- **Economic:** The influence of economic restructuring and globalization in shifting the focus of public policy from redistribution of wealth to improving the competitiveness of Canadian firms in domestic and export markets.
- **Political:** The declining influence of rural and northern voters relative to their urban counterparts; competing perceptions and definitions of public service entitlements.

¹By the late Richard Duprey, Professor of Canadian Studies and History, at Emerson College, Boston, Mass.

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One

Introduction

Telecommunications services in the western Canadian provinces of Saskatchewan and Manitoba are provided by public enterprises.¹ In each of these jurisdictions public ownership of the telephone system was established early in their settlement history, reflecting the considerable fear that the newly established private monopoly, Bell Canada, would not provide services throughout the sparsely populated Prairies at a reasonable price.² This response to the concern with *universality of service* and the provision of low rates for local service was buttressed by the well-established notion in Canada of providing public utility services such as water and electricity via government enterprises. With the growth in long-distance following the Second World War, the Crown-owned telephone corporations were able to embark upon major subsidized improvements in their infrastructure, particularly their rural telephone networks, pricing local and residential, as well as rural services, in a manner that was unrelated to the cost of providing those services. This pricing method, based on system-wide rate averaging and cross-subsidies between certain classes of service, came to vary little from that of the regulated (regional) private monopolies elsewhere in Canada. Unlike their private sector cousins, the public enterprises generally maintained low rates and generated comparatively low profit margins and extremely high debt:equity ratios. This growing debt liability, guaranteed by the provincial governments, that is, the taxpayer *at large*, has gradually worked its way into the consciousness of utility ratepayers, who have always been sensitive to proposed adjustments in utility services pricing.

In the early 1990s, provincial governments and their appointees to the boards of Crown-owned utilities watched nervously as several critical and related forces crystallized into a perceived threat to public ownership in Canada's telecommunications sector. First, major technological advances in, and integration of, digital communications and computing technologies provided the largest institutional users of telecommunications services the means with which they could "by-pass" the networks of Canada's (public and private) monopoly phone companies, lowering corporate communications costs in the process.³ Since long-distance intensive business users had been subsidizing residential consumer rates for decades, "by-pass"

¹Until its privatization in the late 1980s, Alberta Government Telephones provided telecommunications services throughout that province as well.

²For a history of the origins of public ownership in the telecommunications sector in Canada, see: Michael Denny, *Government Enterprise in Western Canada's Telecommunications* (Discussion Paper No. 301, Ottawa: Economic Council of Canada, 1986) as well as: C. Armstrong and H. V. Nelles, *Monopoly's Moment: The Organization and Regulation of Canadian Utilities, 1830-1930* (Philadelphia: Temple University Press, 1986).

³For example, Canada's largest retailer, the Hudson's Bay Co., cut annual voice and data costs by \$14 million. See *The New Urban Infrastructure: Cities and Telecommunications*, edited by J. Schmandt, F. Williams, R. H. Wilson, and S. Striver (N.Y.: Praeger, 1990), 284.

of the Bell-Stentor network⁴ and Stentor's reactive proposals for "reversed rate rebalancing" (by which long-distance rates would decline and local rates would nearly double) threatened to undermine the very foundation of rate of return pricing and the infrastructure development financing which had been operative since the early 1900s.⁵ Secondly, structural adjustment arising from the innovation of flexible production technologies, changes in patterns of labour utilization, the emergence of highly differentiated and deregulated markets, the unprecedented growth in information-based services, accelerated international mobility of capital, and other macroeconomic factors associated with globalization, including liberalized trade with the United States, forced a shift in emphasis on the part of Canadian industry and government toward building a climate conducive to competitive advantage. Low-cost telecommunications and other digital technologies were seen to be key to this transformation.

Other political developments, namely, the declining influence of rural and northern voters relative to their urban counterparts⁶ and the relatively recent public demand for government restructuring and downsizing, served to make the retreat of provincial governments from their prior interventionism more acceptable to an historically populist public.⁷ A 1989 Supreme Court of Canada ruling giving the federal government regulatory jurisdiction over telecommunications, spelled an eventual, albeit controversial end to years of provincial regulation and oversight in this important economic sector.⁸ In 1992, the Parliament of Canada

⁴For convenience, the networks of Bell Canada and its associates in the Stentor association of telecommunication carriers, including the Crown corporations, are hereinafter referred to as the Bell-Stentor network. The owner companies of Stentor include AGT Ltd. (Alberta), Bell Canada (Ontario and Quebec), BC Telecom Inc. (British Columbia), Island Tel (P.E.I.), MTS (Manitoba), MT&T (Maritime Tel), New Brunswick Telephone, Newfoundland Telephone, Northwest Telephone (North West Territories), and Sasktel (Saskatchewan).

⁵For a detailed discussion of the technical fundamentals and the politics behind rate of return pricing in telecommunications, see Carol L. Weinhaus, and Anthony G. Oettinger, *Behind the Telephone Debates* (Norwood, N.J.: Ablex Pub. Corp., 1988), 253. For a similar discussion in a Canadian context, see Robert Babe, *Telecommunications in Canada* (Toronto: University of Toronto Press, 1990), 363.

⁶Manitoba has a highly urbanized and concentrated population with close to 65 percent of its labour force and 60 percent of its total population resident in the capital city of Winnipeg. In the early 1900s, Winnipeg had only four representatives in the forty-seat legislature, even though it contained one-third the population of the province. Today, Winnipeg elects more than one-half of the seats in the fifty-seven-seat legislature. For a discussion of the relative political influence of rural and urban voters in the United States, see John C. LeGates and John F. McLaughlin, *Forces, Trends and Glitches in the World of Communications* (Cambridge, Mass. Harvard University Program on Information Resources Policy, May 1989, P-89-2), 11-20.

⁷For a history of radical prairie populism in Canada, see Seymour M. Lipset, *Agrarian Socialism: The Cooperative Commonwealth Federation in Saskatchewan; A Study in Political Sociology* (N.Y.: Anchor Books, 1968).

⁸The date of transfer to Canadian Radio and Television Commission (CRTC) regulation on the prairies was a matter of "closed door" negotiation between the federal government and Manitoba and Saskatchewan. In a 1991 memorandum of understanding between the federal minister of communications and the Manitoba minister responsible for MTS, it was agreed that certain mechanisms would be put in place to ensure that "the [national] telecommunications policy must *maintain and enhance* [emphasis added] the availability of reliable and affordable telecommunications goods and services in urban, rural and remote areas..." giving the agreement what the Manitoba minister called "a definite made-in-Manitoba flavour." See *Computing Canada* 17 5 (March 1, 1991), 37. As a result of a similar "side deal" with the federal government, Saskatchewan, concerned with Sasktel's ability to compete, delayed the transition to CRTC regulation in that province until 1998.

passed Bill C-62, the country's first comprehensive telecommunications legislation, replacing the Railway Act of 1908. Through the Canadian Radio and Television Commission (CRTC), the federal government expressed its apparent, if not consistent, support for deregulation of Canada's telecommunications sector and mandated that competitive systems be permitted to interconnect with the Bell-Stentor networks for the purposes of providing "transparent" long-distance services in Canada.⁹

In the face of high debt, aggressive competition for long-distance revenues, and erosion of public support for their social mandate, it is unclear whether there will be a future role for government telecommunications enterprises in Canada. In contrast with its counterpart in the neighbouring province of Saskatchewan, the government of Manitoba has indicated its intention to privatize the Manitoba Telephone System (MTS) through a public share offering in November of 1996. This initiative has drawn criticism from some quarters and support from others. The privatization of MTS provides only the context for the discussion which follows, the purpose of this scenario paper is not to predict a specific future relative to the success or failure of the proposed privatization. Rather, its goal is to highlight, or make more visible, the powerful technological, sociopolitical, and economic forces that prompted the proposed abandonment of state ownership as a policy tool for the provision of universal (subsidized) service after nearly ninety years and to assess whether this fundamental principle of telecommunications service will be addressed by other means in the future. As such, the goal is to question whether the interests of various consumers will be advanced or disadvantaged in the new telecommunications environment.

⁹CRTC Decision 92-12, June 1992, entitled "Competition in the Provision of Public Long Distance Voice Telephone Services and Related Resale and Sharing Issues," required that Unitel (the forerunner to AT&T Canada) be given "equal access" to Bell-Stentor facilities by July 1994, eliminating the requirement for extended dialing on the part of Unitel customers.

Two

The Scenario

An exhaustive list of the stakeholders in telecommunications would include, in one word, everybody. The scope of the following scenario is limited to a handful of stakeholders, in an effort to make explicit their differing values, perceptions, and objectives. The stakes for the organizations and individuals represented are bound together in a convoluted mix of regulation and market competition. The scenario is written in the format of legislative committee proceedings; a public hearing presided over by a Standing Committee of the Manitoba Legislature.¹ Such Standing Committees regularly review the operations, financial results, investments, reporting, and divestiture of Crown corporation assets, soliciting public input and testimony (under subpoena if necessary) as the committee sees fit. In the Canadian parliamentary system, the governing party tends to control or rule committee proceedings in some proportion to its electoral majority, represented by the distribution of seats in the House. The proceedings normally open with a presentation by the Minister responsible for the Crown corporation or government department under review, followed by questioning by both government and opposition members of the committee, and the submission of written and oral briefs from members of the general public. It is not uncommon for public interest groups to hire professional and technical experts to appear and present arguments to the committee on their behalf.

The scenario that follows is clearly a *fictional* transcript of proceedings of the Manitoba Legislature, intended only to portray the real issues and arguments of real stakeholders affected by the proposed privatization of the Manitoba Telephone System. At the time of this writing the Government of Manitoba had announced its intention to privatize MTS in through an Initial Public Offering, and the various stakeholders made their positions known primarily through debate in the Legislature and in various news media but no formal public hearings were held expected prior to privatization of the Crown corporation. The legislative process for authorizing the privatization does, however, provide for public input before the Bill is presented to be House for Final Reading. Where the arguments of actual stakeholders are quoted, they are italicized and notated by way of footnotes. All names in the body of the paper, including those of members of the Legislature, are fictitious.

¹I served in this Legislature in various capacities from 1986 to 1995. This scenario draws freely on my experience appearing before Legislative committees and advising the Boards of Crown Corporations during my tenure as Secretary to the Cabinet and Deputy Minister of the Department of Industry, Trade and Tourism.

This scenario is presented as an artful device for describing stakeholder actions which, in the words of Anthony G. Oettinger, resemble "ninety-year old minuets being danced with courtly elegance even as the barbarians [of competition] bang at the gates of the palace."²

* * * * *

LEGISLATIVE ASSEMBLY OF MANITOBA

Third Session: Thirty-sixth Legislature

**STANDING COMMITTEE ON PUBLIC UTILITIES
AND NATURAL RESOURCES**

OCTOBER 15, 1996

Time-10:00 AM

Location-Winnipeg, Manitoba

MATTERS UNDER DISCUSSION:

Annual Report of the Manitoba Telephone System for the year ending Dec. 31, 1995; giving rise to public hearings in respect of the proposed privatization of the Manitoba Telephone System (MTS)

CHAIRMAN: Mr. Hendrik Pituran (Member for Morris)

ATTENDANCE: 11 **QUORUM:** 6

APPEARING:

The Hon. George Finneal, (Member for Shoal Lake), *Minister Responsible for the Administration of the Manitoba Telephone System Act.*

* * * * *

Mr. Chairman: Good Morning. The hour being 10:00 AM, would the Standing Committee on Public Utilities and Natural Resources please come to order. I would like to welcome everybody here this morning. I should perhaps note for members of the committee that of the seven registered submissions, all are from associations or public interest organizations of one kind or another. For some reason, it seems increasingly difficult to engage members of the general public in the proceedings of legislative committees. Having served in this legislature for close to forty years, I find this an unfortunate trend, but it appears to be a sign of the times. We will begin this morning's deliberations with an opening statement from the Minister Responsible for the Manitoba Telephone System. Perhaps the Minister would like to introduce the officials of the corporation that are in attendance with him here today?

Hon. George Finneal (*Minister Responsible for MTS*): Thank you, Mr. Chairman. On my immediate right is Mr. Tomias Sorensen, who chairs the corporation's board of directors. To

²Personal communication, from A. G. Oettinger to the author, Sept. 12, 1996.

his right are Mr. Bill Oberlin, President and CEO of the Manitoba Telephone System, and the presidents of the company's four operating subsidiaries: Mr. Ian Whitton; Mr. Bill Overton; Ms. June Kirkton, and Mr. Jake Froese. In the interests of time, I will be deferring technical questions to this management group this morning and will try, whenever possible, to avoid taking questions "as notice." With me as well, on my left, are Ms. Julie Leventhal-Ravine, of KPMG, and Mr. Ron Kite, of Richardson Greenshields, who have been leading the effort to prepare the corporation for an Initial Public Offering pursuant to the government's announcement back in June. Both of these individuals have extensive experience underwriting large divestitures and privatizations, and I am delighted to have them as a resource to this standing committee this morning.

This is not the first time that this committee has pondered changing circumstances which may direct alternative futures for the province's oldest Crown corporation. I remind members of the committee, and the general public with us here today, that just one year ago the Chair and the President and CEO of the Crown Corporations Council appeared before us with their assessment that MTS *is a high risk with a negative risk trend.*³ I am paraphrasing from the Council's report, which, of course, is recorded in Hansard, and which states that *although MTS is currently profitable, it faces many business risks. It is in an industry facing tremendous technological, competitive, and regulatory change. MTS is a small player in an industry dominated more and more by the very large global telecommunications companies. In addition to dealing with such significant and rapid changes, the company is burdened by the weakest balance sheet of any of the telephone companies in the Stentor alliance with over \$800 million in net long-term debt.*⁴

One doesn't need to be a student of management to appreciate that the CCC's board of directors, drawn from the private sector and the community-at-large, were trying to ensure a year ago that this standing committee has a realistic understanding of the adverse financial and operating pressures confronting the Manitoba Telephone System.

The members of the committee who have been here before will [also] know that there are a number of trends that are driving the telecommunications industry. Here in Canada and, indeed, throughout the world, three of these trends are key to understanding where the industry is going.

³The Crown Corporations Council (CCC) is an oversight and advisory body whose members are appointed primarily from the private sector to advise government with respect to critical circumstances which may affect the management and future performance of Crown corporations. It is also tasked with ensuring consistent application of government policy across the various Crown corporations. This evaluation of the environment confronting MTS by the Crown Corporations Council is in the transcripts of *Hansard*, Proceedings of the Manitoba Legislature XLV, 3, Oct. 19 1995.

⁴Ibid.

First, the pace of technological change is constantly accelerating. Indeed, the very term "telecommunications" may be too confining, given that telephone technology has merged with that of the computer to vastly enhance the capabilities of both⁵. With each passing day an innovation makes new services possible and, in turn, raises consumer expectations and certainly their demands. In fact, rising consumer demand in itself has become a second critical trend in this industry. Every telecommunications company confronts the indisputable fact that customers expect more services delivered to them instantly and in every conceivable configuration. They make these demands for many reasons, including the need to compete in a global economy. However, perhaps a more compelling reason is that they too are aware of the power of the telecommunications industry. Telecommunications users are fed daily reports about the value and potential of this technology. Descriptions of the digital world, fibre optics, wireless communications and the infamous information highway suggest that anything is possible and, indeed with today's technology, it is. For good reason our telecom users want it all.

The third basic trend in telecommunications is that it has become an intensely competitive industry. Telephone markets, once bastions of monopolies, now have active competition in all their segments. Our policy in telecommunications, which we have pursued for a number of years, is based on the recognition of these trends. More importantly, it is founded on understanding them and accepting them as positive developments, Manitoba could reap important benefits. Specifically, we have seen that by bringing them into the mainstream of competitive telecommunications developments, Manitobans would be able to enjoy wider choices, see faster introduction of innovative services and lower prices in competitively supplied products and services.

Moreover, we have seen that by encouraging a competitive marketplace in telecommunications, new industries and jobs would be drawn to the province. At this time we have about twenty-eight customer service Call Centres in the province, employing some 2,500 people with an industry in that area that is certainly growing, and we hope to see more announcements that lead to more jobs in that area in the not too distant future.⁶

Indeed, by accepting the reality and the necessity of change, we have reaped the benefits that changes in telecommunications can bring to Manitobans. Manitobans can, and must, be in touch with the world to market their products, to export their commodities, and telecommunications is very clearly the vehicle to do it. If we are to continue to secure the

⁵For a discussion of the technological "push" provided by the merging of these related technologies, and the coining of the phrase "communications," see Anthony G. Oettinger, "Communications in the National Decision-Making Process," in *Computers, Communications and the Public Interest*, edited by Martin Greenberger (Baltimore: Johns Hopkins University Press, 1971), 73-114.

⁶Since these comments were made in 1995, employment in non-Crown teleservice operations has more than doubled, to about 6,000 full-time-equivalents (FTE).

*benefits of the future, such as those that were made possible by the emerging information highway, we have to keep adapting and changing.*⁷

That is at the heart of the announcements made last summer about MTS. The company is taking several important organizational steps that will equip it to respond more effectively to the new telecommunications environment and, most importantly, to the changing needs and expectations of its customers.

I would now like to ask Mr. Tomias Sorensen, Chair of MTS, to give a few opening remarks to describe the events that have taken place since this committee last met to review the operations of the telephone system.

Mr. Tomias Sorensen (Chairman of the Board): Mr. Chairman, in 1995 MTS announced changes in the organizational structure of the company, and earlier this year the government announced its intention to privatize the corporation. I want to recap for the committee the key points of those announcements.

Specifically, these changes consist of this. The existing MTS is being transformed into a holding company and we are establishing four new subsidiary operating companies. As suggested by the minister today, these changes are being made to permit MTS to meet the changing needs and expectations of its customers, while allowing it to succeed in a rapidly changing telecommunications industry. At these committee proceedings a year ago, I explained that we are not breaking new ground. Similar organizational steps have been taken by virtually all the major telephone companies over the past several years because they have responded to the trends identified by the minister. MTS clearly is part of the new world, but some of the major developments have come to Manitoba only over the past two or three years. In June 1995, for example, full-blown competition in long-distance services came to Manitoba when MTS, through equal access, was able to make its network available to firms wishing to compete with it.⁸ About 70 percent of MTS annual operating revenues are now generated through services that are delivered in competition with other companies.

So, what does competition have to do with organizational structures? The answer is, quite a lot. In 1908, MTS originally was created as a company that would function as a monopoly, and that is basically how it has operated for nearly ninety years. We have found what other telephone companies have discovered: A monopoly-based organizational structure does not work well in present competitive environment. Here is an example of what I mean. MTS

⁷Paragraphs 4 through 9 quote the introductory comments by Minister responsible for the Manitoba Telephone System to the Standing Committee of Public Utilities and Natural Resources in 1995. See *Hansard*, Proc. Manitoba Leg. XLV, 1, Sept. 26, 1995.

⁸The Chairman's comments put a "positive spin" on the Crown corporation's response to "equal access," which was forced upon it by CRTC ruling 92-12, 1992.

*Mobility provides cellular services in competition with another company. The CRTC has decided that cellular providers do not need to be regulated, but only if they are structurally separate from telephone companies. That has practical implications, because MTS Mobility has to meet regulatory conditions not required of its competitor, which cost time and money and put us at a competitive disadvantage. It has been recommended to us that the holding company-subsidiary structure will allow us to meet MTS' needs in a changing industry in a manner that is consistent with the direction of the CRTC's new regulatory framework. Let me emphasize that MTS will continue to serve Manitoba as it has for more than eight decades, but it will do so more effectively, more efficiently, and more competitively.*⁹

Before closing, I would just cite another example of how changes in the environment pose new difficulties for a Crown-owned MTS. There has been much debate in the House over our divestiture last year of MTS' cable TV assets. The simple truth of the matter, as the Minister has repeatedly suggested, is that the "strategic value" in cable rests with the broadcast license. Last year the federal government, through the CRTC, made it clear that such licenses would no longer be renewed for any province or any agent of any province¹⁰. This provides one more illustration of the challenge to continued public ownership in the new regulatory environment.

The details of the *Manitoba Telephone System Reorganization and Consequential Amendments Act* have been distributed for First Reading in the House by the Minister. The act establishes clear provisions to allow Manitobans an exclusive opportunity to purchase the majority shares in the Manitoba Telephone System (MTS), allowing them the opportunity to continue controlling MTS. Other legislative clauses include provisions that ensure that Manitobans have a majority of seats on the board of directors, and that the head office stays in Manitoba. According to the legislation, government would also be issued a "special share" which entitles it to appoint four board members as long as there is any outstanding debt. As well, the first board of directors would be appointed by government. In addition, shareholder restrictions, aimed at preventing any individual, company or group from gaining voting control of MTS, would: Limit maximum shareholdings for residents and non-residents to 15 percent; Limit individual ownership by any one person or by the members of any group of associated persons to 15 percent. The legislation would also allow MTS to bring in a strategic partner if there is a need for specific expertise in practice or technology. The strategic partner's involvement will be limited to a maximum of 25 percent.¹¹

⁹Hansard, Proc. Manitoba Leg. XLV, 1, Sept. 26, 1995.

¹⁰Federal Order-in-Council, passed June 27, 1995, Ottawa, Office of the Privy Council.

¹¹This information respecting the *Manitoba Telephone System Reorganization and Consequential Amendments Act* was first made available to the public in the form of a government news release (after the Act had been distributed in the House for First Reading). See "Legislation Proposed to Govern Sale of MTS," Manitoba Government News Release, Information Services Branch, Winnipeg, Canada, May 31, 1996.

Mr. William Oberlin, President and CEO, will now bring you up to date on some of the key financial issues facing MTS.

Mr. William Oberlin: Good morning. The minister and the chairman have emphasized that the organizational and ownership changes being made at MTS will benefit our customers and improve our ability to meet the changing conditions of the telecommunications industry. I would like to emphasize that organizational changes are important, but that MTS is doing additional things to adapt to its new environment.

One of these has been to improve the finances of the corporation. This has been a special challenge because of the nature of traditional telephone company financing. Before competition, we used the revenues from certain services such as long distance, which were priced above cost, to support the prices of other services such as basic local residential services that generally have prices below cost. Now that we are competing in such markets as long distance, the revenues we get from these services are no longer secure. Therefore, in order to compete and still keep the cost of basic service affordable, we have been working to reduce our debt and to control our expenses.

Here is what we have done. We have reduced our debt ratio. In January 1988, MTS' debt ratio was 91.2 percent. At the end of 1994, it was 79.3 percent. Our approved capital expenditures dropped from \$214 million to \$153 million between 1991 and 1995. Our operating and administrative budgets fell by 10 percent between 1993 and 1995. We have reduced the number of regular full-time and term employees by approximately a thousand through voluntary retirement opportunities and attrition.

MTS' productivity has been improving. However, the realities of our industry dictate that more has to be done. Here is one reason among many. The CRTC has made it plain that local service will be a competitive service in the next few years. MTS will compete in that market, but to do so successfully, the cost of providing local service must drop by approximately 30 percent. As I have emphasized, we are working hard to reduce our costs, but like other telephone companies, we have been experiencing a decline in long-distance revenues. In the first half of 1995, they were down by \$10.3 million or 7.9 percent. MTS is receiving approximately \$60 million less in annual toll revenue than it did four and a half years ago.

The ways we can improve productivity are limited. We cannot make further major cuts in our capital expenditures or in many of the other expenses without running the risk of deterioration in service, and we cannot slip into deeper debt, because despite the progress we have made, MTS' debt ratio is still the highest of all Canadian telephone companies.¹² For

¹²See Hansard, Proc. Manitoba Leg. XLV, 1, Sept. 26, 1995.

these reasons, like telephone companies everywhere, we must continue the process of downsizing our staff complement.

Let me conclude and summarize the comments made thus far: We believe that it is critical if MTS is to survive, that it improve its service to customers, its productivity and control costs, while pursuing new revenue opportunities in a changing, competitive marketplace. Thank you, Mr. Chairman.

Mr. Chairman: Through the Chair, the committee thanks the Minister and the officers of the corporation for their comments. Does the Honourable Leader of the Official Opposition have an opening statement or is it the committee's will that we proceed directly to questioning?

Hon. Garnet Doernot (Leader of the Official Opposition): Thank you Mr. Chairman. With the committee's leave I have a brief statement to make before we proceed to questions and presentations.

The concerns of the New Democratic Party respecting MTS are quite clear. We have stated these concerns publicly in the past. *To be quite frank, we want to maintain the Manitoba Telephone System as a public asset in this province. In fact, I feel a responsibility today because in many ways the questions I will be asking I will be raising not only on behalf of our party but also the people of Manitoba, who are in essence the shareholders of this particular company, and have been since the turn of the century.*¹³ May I remind all members that it was Bell's refusal to interconnect with rural, municipally-owned telephone companies that prompted the Manitoba government to try and expropriate the Bell network in the early 1900s. And it was the Federal government and the federal court which intervened then to prevent that action. Plus ça change, plus c'est la même chose! Not until Manitoba taxpayers financed the infrastructure to compete with Bell did that private monopoly express any willingness to deal with the provincial government on equitable terms.¹⁴

The current privatization proposal is typical of Conservative Party government in Canada: jump to the tune sung by big business interests. This policy is not sensitive to the needs of all Manitobans, it is motivated by what is in the best interests of the big eastern banks, and the oldest corporate interests in the history of Canada: Canadian National (CN) Railways and Canadian Pacific (CP).¹⁵ This is a policy concocted in the private dining rooms of the Manitoba Club and the Empire Club. Sure, these institutions will offer to throw a few back-office jobs our way as supposed evidence of the decentralizing influence of technology. And in predictable

¹³Ibid.

¹⁴Bell eventually agreed to sell its Manitoba network to the provincial government in 1908. For the history of these discussions, see Armstrong and Nelles.

¹⁵The primary competitors to the Bell-Stentor network include AT&T Canada and Call-Net, a U.S. Sprint investment in Canada.

fashion this "good-news-hungry" government will rise to the bait. Meanwhile, those same banks are closing dozens of branches in small rural towns; and those same transportation and communications conglomerates are abandoning thousands of miles of feeder-rail lines that are essential to the competitive movement of our agricultural, mineral and forest resources. As well, the blue collar workforce employed by the two major railways in the city has been nearly halved in the last five years. And I read with interest the reports in *The Canadian Banker* magazine (interjections) yes, Mr. Chairman, it may surprise my honourable friends opposite to discover that even social democrats do read such right-wing business journals; reports which call into question whether all Manitobans will have equal access to the Internet, to CompuServe, to on-line banking services. If rural and northern Manitobans and businesses have to pay a long-distance charge to log-on to these services, the new "information" highway so-to-speak, they will be at a distinct disadvantage compared to their urban cousins.

Quite frankly, I really view MTS as one of our greatest assets, not just in terms of the book value listed in these annual reports but also in terms of the (universal) service that it has historically provided. I hope we are going to get some answers today because I talked to many MTS employees; I talked to many people in the province who are concerned that this government may attempt to privatize a part or all of MTS...particularly in the context of the so-called balanced budget bill which does allow the government to sell off resources, assets, and in this case Crown corporations, and apply that money to whatever deficit they may have run up. When you consider the fact the government has run up seven years worth of deficits, I think many people are very concerned that the assets of MTS would be sold on that basis. I would also like to say, Mr. Chairman, that this government has systematically 'looted' the Manitoba Telephone System, forcing it to stop selling equipment, forcing it to sell its cable system for less than its value, forcing it into third party agreements for smart cards and for Yellow Pages; for its database and for telemarketing. They are selling a company they have effectively already looted.¹⁶

Our concern is very clear. We believe that MTS should be maintained as a public asset. It has been very important to our economic development, and I can speak as a northern representative: it has been extremely critical in rural and northern Manitoba. I doubt that subscribers in these areas will continue to enjoy service at a fraction of its cost once the company is privatized.¹⁷

¹⁶Comments made by the Opposition Member for Crescentwood. See *Hansard*, Proc. Manitoba Leg. XLVI, 32A, Thurs., May 9, 1996.

¹⁷Comments, taken from *Hansard* transcripts, expressed not by the Leader of the Opposition but by the "Opposition Critic" for MTS. See *ibid.* For readers unfamiliar with parliamentary process, opposition members are officially assigned specific critic duties by the Leader of the Opposition and collectively constitute what is informally referred to as a "shadow cabinet." These critics *tend* to take the lead role during debates and other proceedings of the legislature, such as review of departmental and external agency spending estimates.

I have one question for the Minister and his staff, Mr. Chairman: Why is it that the only response to the new environment that they can come up with consists of cost-cutting, layoffs and privatization?

Mr. Bill Oberlin: If I may, Mr. Chairman. From a strategic management perspective, it is important to appreciate that the federal government and the CRTC have left us in an environment of extreme uncertainty. We know we must compete and compete aggressively. However, they have yet to clearly enunciate specifically where we are headed in terms of regulatory reform...what the rules of the game will be. On the one hand, they seek to safeguard, enrich and strengthen the cultural, social, political and economic fabric of Canada, and to render reliable and affordable telecommunication services in rural and urban areas. On the other hand, they seek to enhance the competitiveness of Canadian telecommunications-intensive businesses through increased reliance on market forces.¹⁸ Truthfully, I am not sure whether we are headed down the path of deregulation or simply on a short detour that will eventually lead to reregulation. However, at the present time, *rather than helping Canadian grown companies, the emphasis in Ottawa seems to be on political correctness and free market access for American Goliaths, AT&T and Sprint the ultimate result of this regulatory uncertainty is that few of us on the telco side feel confident about even the short term future. Consequently there is a heightened riskiness to new investments in Canada and a growing aversion to this risk so our focus has to be on marketing, quality customer service, cost containment and absolute cost reduction.*¹⁹ As the Premier of Manitoba has said, in such an environment, government ownership only creates obstacles that limit MTS' ability to be an aggressive competitor.²⁰

Mr. Tomias Sorensen: If I may interject, Mr. Chairman, I think it is important to understand that government makes for an awkward shareholder in the kind of environment that has been described here this morning. *When a public utility is expected to compete like a private company—while still following sometimes costly social policy decisions like low consumer rates and servicing remote northern Manitoba—problems arise. As long as you're a Crown corporation, you're always going to have that push-pull.*²¹ In addition, it is important to understand that we are not acting on an ideological imperative in the privatization of MTS. We are responding in the most fundamental sense to revolutionary changes in the prevailing

¹⁸See *Telecommunications* 26, 7 (July 1992), 49. For a thorough treatment of these issues in a U.S. context, see particularly the introductory comments in P. H. Longstaff, *Telecommunications Competition and Universal Service: The Essential Tradeoffs* (Cambridge, Mass.: Harvard University Program on Information Resources Policy, P-96-2, May 1996).

¹⁹These comments were actually made by a senior officer of another Stentor company (Mr. Len van der Hayden, Vice President, Human Resources and Corporate Services, Bell Canada International). See *CMA: The Management Accounting Magazine* [Toronto] (February 1996).

²⁰See Gilbert Le Gras, interview with Premier Gary Filmon, *The Reuters Business Report*, May 2, 1996 [on-line].

²¹See *Manitoba Business Magazine* (October 1995), 24.

technological paradigm, one in which the traditional costing formulae and internal production functions no longer apply.

Mr. Garnet Doernot: On a point of order, Mr. Chairman. I must beg to differ with the Chair of the telephone company when he speaks of technological innovation as some independent, abstract force it is a dynamic situated in a political context that is bounded by social constraints; you may see the marketplace as being populated with consumers, and may have forgotten that those consumers are also citizens (interjections) deregulation and privatization of essential public services are decidedly political imperatives which are diametrically opposed to most concepts of collective responsibility and accountability (disruption)

Mr. Chairman: Order, please. The Honourable Leader of the Opposition knows that a difference of opinion does not constitute a point of order. In the interests of time, I would ask all committee members to refrain from such polemics.

Do committee members have questions they would like to put to the Minister and his representatives before we proceed to public presentations?

Mr. Santini (Opposition Member for Ellice): Yes, I thank the Minister and the officers of the corporation for their remarks, but before I turn to the reports and financial statements, I would just like to clarify the responsibilities of the Crown Corporations Council (CCC) and the individual Crown corporations they monitor or review. According to the statute, the *Crown Corporations Review and Accountability Act*, Section 6.1(b), one of the duties of the Council is "to facilitate, in cooperation with each corporation, the development of consistent and effective criteria for measuring the corporation's performance." My question is simply, what criteria has the CCC utilized in their assessment of MTS' performance?

Hon. George Finneal: As I am not the Minister responsible for the Crown Corporations Council, I will defer that question to my cabinet colleague, Mr. Stefanoulos.

Hon. Erik Stefanoulos (Minister of Finance): The approach that the Council takes in looking at the Crown corporations is to look at the future as opposed to the past. In looking at the future, we are looking at the various strategies of each Crown corporation to try to ensure that they are the best business strategies that that company can put in place at the time. Those strategies are considered in context of what is happening in the country, in the province, in the industry and in the context of any competition that these various companies must deal with. The Council is constantly looking at industry practices to compare those with the practices of our Crown corporations.

Mr. Santini: Excuse me, Mr. Minister. I appreciate the assessment that the Council must make of each corporation's operating environment, but the Act calls for specific effectiveness criteria and I am simply wondering what specific criteria were used to assess the performance of the

Manitoba Telephone System? The corporation is profitable, is it not? It does provide a return to the taxpayers of this province, does it not?

Hon. Erik Stefanoulos: If the Member for Ellice would refer to Hansard of Oct. 19th a year ago, he would be reminded that he asked the same question then. There is no need to grandstand here, just because the media gallery is full! The Chair of the Crown Corporations Council described for my honourable friend here, what the standard criteria are that are used in the financial analysis of any commercial enterprise. They are well known. The Council does not have any secret weapons in its kit. They look down the P and L statements, starting at the sales level. They ask: Are sales growing? Then they look at the gross margin level for signs of growing or, alternatively, threatened profitability. If the gross margin is decreasing, they try to get behind the numbers to big understand why it is decreasing? They do this by looking at the individual expense categories, one by one, until they understand what is driving the costs of the business. They look at the productivity of the enterprise given the number of people employed. One of the ways they do that is to ask: Are we getting more revenue per employee than we used to get?

In the case of the Manitoba Telephone System the CCC expressed concern that in the face of declining revenues....(disruption)

Mr. Chairman: Order, please.

Mr. Santini: Excuse me, Mr. Chairman, but may I suggest that financial results provide only one effectiveness criterion, and that the CCC has dwelt extensively on that one criteria. I would like to know, and I am sure that members of the public would like to know if there are any other criteria of effectiveness, social criteria, that have been utilized in addition to financial results?

Hon. Erik Stefanoulos: The Council also looks at other criteria such as corporate responsibility. I mean, is it being a good corporate citizen? How are the environmental aspects of the business being handled? Customer service, all the other things that impact on any business have to be looked at, but you start with the financial statements as your starting point.

Mr. Santini: OK, Mr. Chairman, I would simply note that the Minister attaches no social value to the provision of service in remote areas, nor does he seem interested in the use of Crown corporations as an instrument of technological and cultural nationalism (interjections) he is content to drive the industry right into the hands of American owners. Perhaps the Minister could clarify for me the extent to which this Council of unelected advisors is involved in actual decision making in the Crown corporations. Do they have any effective control over individual Crown corporations?

Hon. Erik Stefanoulos: To answer the question directly, the responsibility of the CCC is to act in an advisory capacity. The Council brings a significant amount of business expertise to the table for the purpose of helping government assess its Crown corporations and the issues they must face. However, each corporation reports to and is responsible to an individual Minister. As for the "nationalistic" rhetoric of the member opposite, I can only suggest he review the history of the communications sector in Canada, whereupon he will discover that American investment and ownership in telegraph, telephone, communications equipment, and publishing are what propelled the communications infrastructure forward to meet the demands of this nation's economic expansion and industrial development. If my memory serves me well, intercorporate ownership and technology transfer among AT&T, Western Electric, Bell Canada, and Northern Electric were an accepted part of the corporate landscape until the late 1950s, when antitrust developments in the United States forced AT&T to divest itself of many of intercorporate holdings. I am reminded of past conversations with the Chair of the CRTC, a fine Manitoba and a former member of this legislature, who noted that AT&T didn't fully extricate itself from ownership of Bell Canada until the mid-1970s. The reappearance of AT&T as an equity partner in Bell Canada's archrival, Unitel Communications (now AT&T Canada) may be ironic, but it hardly represents the reversal of any national policy on the part of any Canadian government and has precious little to do with the privatization of the Manitoba Telephone System.

Mr. Chairman: I believe the Opposition Critic, the Member for Thompson, has a question?

Mr. Steve Asho (*Opposition Member for Thompson*): Thank you, Mr. Chairman. I would like to ask the Minister if the corporate reorganization and the streamlining of staff a year ago were accomplished with the express purpose of preparing the corporation for privatization, an initiative that was not made public until very recently?

Hon. George Finneal: Just so the member knows, my direction to MTS has always been to respond to customer demand. Today it is a strong demand which requires new technology and new services. I, like my predecessors before me, have often said, *keep rates down, keep basic service affordable to all customers, supply telephones to everybody in the province who wants one.*²² But we must continuously attempt to bring the government-guaranteed debt down. Therefore, MTS has gone through the restructuring process, which has been clearly explained here this morning, and the purpose of the restructuring is to improve customer service, keep costs under control, and give the customer the level of service wanted. *In terms of ownership, I want to tell the member that the world of "never" does not exist anymore. This is a changing*

²²Ibid.

*world. I look across Canada; we have a Stentor with nine companies, only two of which are Crown corporations—Manitoba and Saskatchewan.*²³

Mr. Steve Asho: *Will the minister confirm that Manitobans, and especially those of us living in rural and northern Manitoba, will have no guarantee of the kind of first-rate, first-class service they have had under a publicly owned phone system?*²⁴

Hon. George Finneal: Telephone service throughout Manitoba will continue to be provided by a good, competent phone company. We have positioned the company to be a competent supplier of services throughout Manitoba. During our tenure the debt:equity ratio has been reduced from 91 percent debt to 74 percent debt. Under the proposed share offering, that will be reduced to about 45%, putting the corporation on a solid footing so that all Manitobans can have confidence in the services they will receive in the future.

Mr. Steve Asho: *I want to ask the Minister, based on his last comments, is he then saying, as he did at the press conference, that unlike Alberta where rates increased dramatically under privatization, where service has deteriorated, that there will be no increases in rates and no reduction in rural and northern service because of the privatization of MTS? Will he put that on the record, something he did not do in the election when he said that he would not privatize MTS?*²⁵

Hon. George Finneal: As has been pointed out previously in the House, the fact of the matter is that rates will go up or down in any way they are adjusted by the CRTC, which utilizes the same pricing analysis regardless of whether the applicant is owned publicly or privately. The Supreme Court and the federal government put an end to the days when the Cabinet of Manitoba dictated the rates of the Crown corporation, and may I say, given the previous political interference of my honourable friends opposite when they were in power, maybe CRTC jurisdiction is not such a bad thing...(disruption) sure...your party spent nineteen years fishing for votes with telephone poles!²⁶...(disruption)

Mr. Chairman: Order please. Would the committee come to order. The hour now being 11:00 AM, may I suggest to the committee that we proceed to public submissions? Is leave granted for this purpose? Leave being granted, we will hear first from Ms. Jennifer Hill, staff economist with the Consumers' Association of Manitoba.

²³Ibid.

²⁴ This question was put to the Minister during Question Period, Debates and Proceedings of the Manitoba Legislature. See *Hansard*, Proc. Manitoba Leg. XLVI, 44, June 3, 1996.

²⁵Ibid.

²⁶The promise of expanded service has been a recurrent feature in the history and politics of public utilities in Manitoba. In the provincial election of 1910, the *Manitoba Free Press* quipped that the Crown corporation's stockpiling of telephone poles in a contested exurban riding amounted to the government "fishing for votes with telephone poles." See *Manitoba Free Press*, Oct. 8, 1910; cited in Babe, 26.

Ms. Jennifer Hill (*Consumers' Association of Manitoba*): Thank you, Mr. Chairman. The Consumers' Association is concerned that the interests of rural and northern citizens, low income people and seniors living on a fixed income will be abandoned if the government proceeds with the proposed privatization of MTS. When we look at the experience in the United States since the break-up of AT&T, we are more convinced that the interest of our constituents will suffer from greater reliance on the marketplace. Crown ownership, and even regulated monopolies, provide better protection for those people whose telephone usage consists primarily of local calls. The benefits of cheaper long-distance rates are of much less value to this group of users than they are, for example, to large businesses and national institutions. I remember listening several years ago as consumer advocate Ralph Nader warned Canadians to be wary of the U.S.-style system, in which the rise in local rates significantly exceeded long distance savings since the divestiture of AT&T. Nader's assessment then was that the key tenets of telephone service-affordability, accessibility and universality-had been compromised by the break-up of AT&T.²⁷ We fear that the same thing is happening here in Canada, and in the absence of public ownership there will be no local institutions representing the interests of our members in future rate decisions.

I must say that I found the Minister's opening remarks rather enlightening. He implied that the interests of consumers are a driving force propelling privatization! Yet the enabling legislation referred to here today is silent on the key consumer issues: pricing and tariff structure, disconnection practice, consumer protection and representation and service levels. It appears that the government's definition of consumer interest is limited to citizen participation in share ownership. If they were truly concerned about consumer interest, "codes of practice" in this industry would have been enshrined in the enabling legislation. Instead, what we have, written between the (statutory) lines, is the conceptualization of public utility services as merely another set of commodities. The peculiar characteristics of utility services, namely their essentialness, non-substitutability, inelastic demand properties and their tendency to economies of scale and scope, appear to have been altogether lost on this government. Perhaps they have forgotten that the "obligation to serve," a cherished principle rooted in common law, has been a fundamental tenet of the provision of infrastructure since the earliest days of this confederation.

On a final note, I have to say that consumer subsidies are not the only subsidies in the existing structure. When the Bell-Stentor companies complain of low regulated rates, they always fail to mention the inflation of the rate *base* associated with exclusive purchase arrangements with the Bell subsidiary, Northern Telecom. They fail to highlight the significance of artificially long depreciation schedules (interjection) . Yes, it is true that some of these factors serve to keep rates low for consumers. The point I am making is that the

²⁷United Press International (UPI), March 13, 1991.

convoluted shell game also contains built-in subsidies for the service provider, making it very difficult to know just what measure is truly in the consumer's interest. Quite frankly, government ownership provides the consumer with more opportunities for being heard.

Mr. Chairman: I believe that the Minister of Finance has a question for Ms. Hill?

Hon. Erik Stefanouelos: Yes, thank you Mr. Chairman. I want to thank Ms. Hill for her comments and ask whether she can make any recommendations for protecting the interests of her constituents in a free market context?

Ms. Jennifer Hill: If privatization is a foregone conclusion, then I would urge the provincial government to join us in our efforts to convince the CRTC to institute a system of targeted subsidies for the purposes of universal access and extension of "911" or emergency services to rural areas. Even the Chairman and CEO of the Royal Bank has been a long-standing supporter of this initiative.²⁸ While we understand the economic argument that the "deadweight loss" associated with inefficient pricing can be reduced by the removal of system-wide price averaging, the distributional consequences of such a move, which surely are regressive, need to be addressed. We do not believe that the federal government is fully convinced of the incompatibility between universality and free market competition. They think they can "have their cake and eat it too." We therefore urge the provincial government to support our call for an independent, regionally sensitive and industry specific consumer body to work in conjunction with the CRTC. Consumer representation is a partisan activity. Regulation and consumer advocacy are not the same thing.

Mr. Chairman: Thank you Ms. Hill. We will now hear from the Canadian Business Telecommunications Alliance.²⁹

Mr. Roy Arneault (*Canadian Business Telecommunications Alliance*): Thank you Mr. Chairman and members of the Committee. As a representative of the CBTA, I would simply like to lay to rest some of the misconceptions that surround the issue of what is being given up in ending MTS' long history of Crown ownership. The CBTA, of course, has long been a supporter of competition in telecommunications. Competition brings choice, technological innovation, makes suppliers more responsive and lowers costs, thereby leading to lower rates. I would think that my friends in the Consumers' Association would be eager to support lower phone rates!

²⁸See the comments of Alan Taylor, Chairman and CEO, Royal Bank of Canada, in *Computing Canada* 15, 23 (Nov. 9, 1989).

²⁹The CBTA is comprised primarily of Canada's largest telecommunications users, including banks, insurance and other financial services companies, transportation companies, manufacturers and national retailers.

Let's face it; direct government provision in a deregulated, competitive environment is akin to simultaneously taking up a position at opposite ends of a continuum. The reality of course is that such an effort cannot be sustained; there is little middle ground between the two poles. To borrow a phrase from the British: "Regulation is not a substitute for competition it is a means of holding the fort until competition arrives."³⁰ Of course, it is easy to understand why managers of the old telephone monopolies find the current regime of regulatory reform disconcerting; they grew up in an era where the regulatory regime functioned as a kind of "cartel management" for the established telecommunications players. And I have listened to the Opposition members and consumers groups express their concern that privatization will accelerate increases in local rates and bring an end to "universal access." "Rate rebalancing" and "reversed rate-rebalancing" are tactics Bell has used since the 1920s, to eliminate rivalry in its most profitable markets. The reality, as demonstrated by the CRTC's own costing studies, is that any cross-subsidy between local exchange and long-distance toll is an artifact of arbitrary accounting procedures and the subjective assignment of access costs to one class of service or the other. Both classes of service are exceedingly profitable, Stentor's protestations to the contrary notwithstanding. Nonetheless, the CRTC has committed to (reversed) rate rebalancing between local and long-distance services, irrespective of whether there is competition in local service and irrespective of the private or public status of telecommunications carriers.³¹ I would also like to note that *since competitors currently pay the full access fee to interconnect with the telephone company's local network, there is no erosion in 'contribution' to the local network; the local distribution network receives the same level of support from competitors that it does from the telephone company.*³²

In addition, there is much confusion and "mythology" surrounding the concept of "universality." The universality versus competition debate has, to a considerable extent, been bogus. The two are not necessarily mutually exclusive. Practically speaking, universality in basic voice services has already been achieved. Even Manitoba's most remote First Nations (native) reserves enjoy first class, digitally-switched voice services. And properly introduced, the benefits of privatization can be realized for all without eroding the affordability of basic telephone services.³³ There is a caveat, however. The concept of "universal telephone service" has somehow become a "principle," which suggests that *any* telecommunication service of the future, not just basic voice should be provided to everyone, everywhere, at prices which are totally unrelated to costs. That the political and economic justifications contained in our

³⁰National Consumer Council, "British Telecommunications Profitability," *Report to the Secretary of State for Industry* (London: HMSO Publications, 1983).

³¹See "Canada's CRTC Confirms Telephone Rate Rebalancing," *Newsbytes*, Nov. 1, 1995 [on-line].

³²See *The CBTA Looks at Long Distance Competition in Canada*, Canadian Business Telecommunications Alliance, Position Paper, 1990.

³³Editorial, *Financial Post*, April 7, 1992, 12.

historical approach to universality no longer apply seems to have escaped most participants in the current debate. The original use of the term "universal service" had nothing to do with government policy to connect all citizens to a phone system, but was a policy to encourage regional and municipal phone companies to interconnect with each other.³⁴ Moreover, those who advocate government-subsidized information services should not be surprised when the ultimate result is government censorship and restricted access to information. Typically, Canadian governments have been viewed as being among the most restrictive governments in the world when it comes to information access.

Mr. Chairman: I believe the Leader of the Official Opposition has a question for Mr. Arneault?

Hon. Garnet Doernot (*Leader of the Official Opposition*): Yes, thank you, Mr. Chairman. I was hoping that the CBTA would elaborate a little on their assertion that privatization will not erode citizen entitlements to quality, affordable information infrastructure.

Mr. Arneault: If I may, Mr. Chairman. When speaking of "entitlements" to information services, the implicit and generalized assumption is often that universality should apply broadly to all communication services. This is a huge leap from where we have been traditionally, and where we are at today. Moreover, when you realize that the provision of information services will increasingly rely upon convergence among complex and integrated "communication" networks of many information providers, including print, broadcast, telephony and cable operators, as well as content providers, you realize that government ownership of just "one link in the technological chain" is of greatly diminished utility, and more likely, a serious liability. Of course, even coming up with a workable, prescriptive policy for universal service in this evolving and undefined world of convergence is impractical, at best.³⁵ And I think it is important to fully understand that the greatest opportunity for enhanced services in remote areas will come from the declining cost of new, innovative technologies, probably wireless technologies. There is little question, Mr. Chairman, that private companies in a competitive environment are the real innovators... (interjection)... Let me restate that then, if I may: The history of government ownership in the telecommunications sector in Canada is one of slow technology adoption, and very little innovation to speak of.

Mr. Chairman: Mr. Doernot, with a supplementary question.

Hon. Garnet Doernot: Yes, Mr. Chairman. Just as a matter of clarification; I have to say that this debate is not only about who will own our critical infrastructure in the future. Rather, the underlying issue is whether some other instrument for serving the public interest will replace

³⁴See Longstaff, xx.

³⁵Ibid., Chapter Two.

the instrument of Crown ownership. Right now, I do not see such an instrument. I just see government abandoning its obligation to serve its citizens equitably....

Mr. Chairman: Would the Honourable Leader of the Opposition please put his question?

Hon. Garnet Doernot: Yes, Mr. Chairman. I would like to ask the CBTA if what they are suggesting is that the future will be one in which we rely more on technological innovation and competition, and rely less on government to provide the assurance of universal service?

Mr. Arneault: Yes, Mr. Chairman, in essence, that is correct. Again, however, I must make the caveat that different people, with differing objectives, living in different regions of the province, will continue to *define* "universal service" in different ways.

Mr. Chairman: Thank you, Mr. Arneault. The next presenter is Mr. Preston Milder, Executive Director of Blue Sky Community FreeNet. We are fortunate to have Mr. Milder here since he has served on both the national and provincial information highway advisory councils. Welcome Preston.

Mr. Preston Milder (Blue Sky Community FreeNet): Thank you, Mr. Chairman, it is a pleasure to be here. On behalf of my associates at the national and provincial information task forces, as well as my colleagues in community FreeNets across the country, I would like to address the issue of protecting Canadian values in the information age. For those of us in Canada who toil on the new digital roads, the new community infrastructure if-you-will, there are only two realistic ways to protect Canadian cultural and social values: (1) We'll have to build our own "byways" with our own hands, creating places rich in Canadian content that reflect our own peculiar notion of social responsibility; and (2) to achieve truly equal access, we must forge partnerships between business, local governments and community organizations, finding creative means of financing the information highway. Universal access, the bedrock of Canadian social values, will have to be painfully redefined. Equity used to be achieved in Canada through progressive tax measures and national standards set by the government. But taxpayers' loyalty to social justice has been undermined by an underperforming economy; and Canadians no longer have confidence that government can solve social inequities.

So how are we going to forge the infrastructure presence we require? By starting with the schools, hospitals, public libraries and other community institutions whose own internal communications networks will provide the framework for information communities of the future, regardless of geography and population density. Members of the committee may not be aware that schools are increasingly being seen as a key institution through which wide access can be achieved. I wish that the Minister of Education were a member of this Standing Committee, because for many Canadian children, the school is their only portal to the information highway. For example, the federal government has initiated a program to make sure all 16,000 public schools are connected to the Internet through a development project called

SchoolNet.³⁶ The Canadian Television Network (CTV) is building an on-line news service for SchoolNet, which will provide students with advice on journalism and Canadian news gathering resources. If we are to have any success in keeping US cultural imperialism at bay, then I suggest that such partnerships between business, government and our community institutions will be critical, and I urge members on both sides of the House to support our collective efforts in this regard.

On a final note, I think it is important to recognize the work done by information advisory councils at both the federal and provincial level. These groups have served to focus our attention on three broad, and some would argue, inconsistent objectives: (1) creating jobs through innovation and investment in Canada, (2) reinforcing Canadian sovereignty and cultural identity, and (3) ensuring universal access at reasonable cost.³⁷

Although the Councils represent a diverse set of interests, their membership came to share an increased respect for differing regional and sociocultural perspectives, and a willingness to transcend the interests of a particular community in order to address the broader interests of Canada. While their objectives represent honourable intent, the greatest challenge of course, will be in the implementation of information infrastructure in a manner that balances competing imperatives. Thank you.

Mr. Chairman: Mr. Milder. I am sure that the Minister of Education will be interested in your comments, as are those of us present here this morning. The time now being past noon, may I suggest that we recess until 2:00 PM? May I have a motion to that effect? Moved by the Member for Ellice; seconded by the Member for Lakeside. All in favour? (Ayes:11). The motion having been carried, this committee is in recess.

³⁶For a general discussion of the protection of Canadian cultural and social values and the role of SchoolNet, see *Digital Media* 5 (Dec. 18, 1995), 7-8.

³⁷*The Challenge of the Information Highway* (Final Report of the Information Highway Advisory Council, Ottawa, Supply and Services, 1995), vii.

Three Commentary

A large public sector anchored by huge provincial utilities has been one of the most distinctive features of Canadian industrial structure. To be sure, utility industries occupy a fundamental position in the economic and social fabric of a developed nation, but they also exert a powerful influence at the level of individual households, in terms of both lifestyle and consumption. The argument for universality of service is thus usually cast in the distributive language of normative economics. However, a reading of the early history of telecommunications in western Canada suggests that the telephone had initially been thrust onto the public agenda by politicians, not by aggrieved consumers or angry farmers.¹ Politicians in the early days of Canadian settlement may have been instrumental in manufacturing the “telephone issue” among these groups, but, as Armstrong and Nelles have pointed out, public expectations, once released, become evolving political facts that have to be accommodated—even if they cannot easily be satisfied. Over many decades, public provision of telecommunications infrastructure and services on the prairies became synonymous with a social commitment to the principle of universality, meaning accessibility and affordability regardless of location. Until reregulation and competition, public enterprises could “successfully” extend infrastructure and services into relatively unpopulated regions of the country since the flow of cost-reducing technical innovations combined with monopoly status in a rate of return regulatory environment implied that financial resources would be available for many diverse purposes.² Nearly one hundred years later, “long fuse-big bang”³ influences of a political, technological and socioeconomic nature, have forced a rethinking of government’s role in the provision of these “essential” services.

Indeed, the pervasiveness of utility privatization on the public policy agendas of governments throughout the world seems to suggest that the current period represents a pivotal point in the history of the modern State. In effect, we Canadians appear to be witnessing a process of transformation in the way the State views itself and is viewed by influential business interests and by its citizenry. The post-war post-World War II consensus concerning the explicit responsibility of the State for provision of, for example, transportation, telecommunications, energy and water services) is progressively being displaced by a very different set of views, in which the market plays a much greater role in the financing, management, and production or

¹See Armstrong and Nelles, 182-83.

²For the first seventy years or more, MTS was not even subject to oversight by a regulatory agency.

³The term “long fuse-big bang influence” is taken from Lawrence Wilkinson, “How to Build Scenarios: Planning for Long Fuse, Big Bang Problems in an Era of Uncertainty,” *Wired* (Special Edition, January 1996), 74-81.

provision of integrated infrastructures.⁴ In Canada, the private provision of such integrated infrastructures is taking place in the Clausewitz's "fog of war" between the oldest and largest titans of industry. This chaotic marketplace results from an historic shift in the legal-political-economic framework, although it is routinely ascribed solely to fundamental differences in the economics and underlying technical architecture of digital and analog networks. Broadly speaking, the new digital technologies are transporting the global population out of a world in which distance was fundamental to cost, and whose intrinsic economic logic was the neoclassical logic of scarcity (of bandwidth and spectrum) and diminishing economic return. The new technologies of communications destabilize the environment in that they offer a world in which distance is not fundamental to cost and the transforming economic logic is one of bandwidth and spectrum abundance.⁵

In the scenario presented, the Minister, the Chairman of the Board, and the President of the Crown corporation "paint" privatization as a nonideological, almost apolitical, response to global vectors of change. While the Minister focuses attention on the macro environment, emphasizing the role of rapidly changing technologies, exaggerated consumer expectations and deregulation/ competition, the Chairman and the President of the corporation describe their activities as a defensive, tactical response, at the organizational and operational levels, to the changing environment confronting them. A contrasting viewpoint presented by Opposition Members, (particularly the Leader of the Opposition) is that privatization is inherently an ideological decision, ripened by political trends and reflecting the conscious abandonment of the public policy instrument that for almost a century established the preeminence of social criteria over economic criteria.

This view is reinforced by the Consumers' Association of Manitoba. Consumer groups, particularly at the national level, generally support competition in the utility sectors. Nevertheless, the Consumers' Association of Manitoba raises concern with the "commodification" of utility services because of the unequal distribution of benefits and costs across consumers and regions. They also reflect a concern that national regulatory institutions tend to be isolated from the regional and local consequences of their decisions. Even among the perceived "big winners" in the new environment, the large corporate users of communications services, there is no longer a clear consensus respecting the utility of "universality" as a public policy objective. Depending upon one's definition, "universality" has: (1) already been achieved (in terms of basic voice service), (2) will soon be achieved by competitive technological innovation (in the case of advanced voice, data and video services), or (3) is the unachievable goal of insatiable appetites.

⁴John Ernst, *Whose Utility? The Social Impact of Public Utility Privatization and Regulation in Britain* (Buckingham: Open University Press, 1994), 225.

⁵See Vincent Mosco, *Will Computer Communication End Geography?* (Cambridge, Mass.: Harvard University Program on Information Resources Policy, September 1995, P-95-4).

Yet it is precisely in the "old" consensus around universality and price averaging that the ghosts of what has been discarded reside. The very goals that prompted acceptance of regulated monopolies in an earlier technological paradigm of analog-voice have prompted reregulation of competitive communications service providers in the current paradigm of high-speed digital voice and data networks.⁶ In the absence of any agreement as to an appropriate definition for universality, however, support from the corporate sector is often viewed with partisan skepticism. Thus, notwithstanding the restructuring being wrought by technological change and revision of the prevailing political-legal framework,, the interests of rival stakeholders suggests that Canadians may not have seen the last of the pendulum's swing between greater State regulation and free-market competition. This should not come as a surprise in that the telecommunications industry in Canada has been defined by marked oscillation between monopoly and competition, between Canadian ownership and American control, and between policy frameworks motivated by "technological nationalism" and those rooted in acceptance of continentalism in the communications industry.⁷

In summary, if this particular privatization proposal does not draw consensus in the face of such competing political, technological, economic, and sociodemographic imperatives, it should at least be clear that the disengagement of public ownership from telecommunications provision in no way implies disengagement of government from the arena of public utility services. In the scenario presented, the (federal) State continues as a significant regulatory presence, despite withdrawal at the provincial level from ownership and production, and despite the fact that the federal government's own objectives encompass social policy goals and free market principles which are at odds with each other in real-life situations. This inconsistency has been institutionalized, because Canada's *Telecommunications Act*, Bill C-62, vests the federal government with the power to issue directions to the CRTC on broad policy matters and to vary or rescind CRTC decisions, giving rise to the observation that one (supposedly independent) federal institution may be compromised by another (the federal cabinet⁸).

More positively, governments at all levels, including federal, provincial, and municipal will continue to be major consumers of increasingly sophisticated telecommunications services. Our scenario hints at implementation of a "national information highway strategy" in which government applications in education and health care, and the networks that support them, may serve as the "backbone" upon which commercial and community applications can be piggybacked. Giving impetus to this idea is agreement among Canada's "information highway" ministers respecting the need for collaboration among various levels of government for

⁶See the treatment of this history in Weinhaus and Oettinger.

⁷See Babe.

⁸For its part, the federal government has said it will exercise this power only "if problems develop in achieving universality of access." For a more complete discussion, see: *Digital Media Magazine* [Toronto], Dec. 18, 1995.

adoption of electronic commerce standards, removal of legal, policy, and regulatory obstacles to electronic commerce, the principles of universal access to an as yet undefined "basket of information highway services," a process for networking Canadian schools and libraries with other public access facilities and community networks, standards for protection of privacy, and models for joint service delivery and technology procurement.⁹

It may be worth noting here, that while city governments have traditionally played an active role in providing the public infrastructures that help shape their development, the "information" infrastructure, as a complex web of public and private networks, is evolving with little or no material input from the local level of government. CN ¹⁰ That urban governments should be relegated to the role of "spectator," essentially without a voice in key development decisions, is particularly notable in a jurisdiction like Manitoba, where there is only one dominant (centripetal) city serving as the center of commerce and the seat of public decision-making.

A key question which remains unanswered is whether continued public ownership is even a viable alternative for the Manitoba Telephone System. There are ample reasons to respond in the negative: its accumulated indebtedness to the taxpayers of Manitoba, its poor productivity relative to its private counterparts, the on-going erosion of its revenue, uncertainties in the evolving regulatory environment including competition at the local exchange, the competitive threat from wireless and other emerging technologies, including integration across communications media and markets, its inability to attract and competitively reward top-notch senior management, and the potential for political considerations to outweigh operational considerations at the board and executive level. Still, Manitoba, in its negotiations with the federal government over the transition of regulatory responsibilities, could have gone the route of its neighbouring province, Saskatchewan, and deferred "open access," competition and CRTC regulation for several more years. Recognizing that the new environment promises benefits (such as new jobs and investment) as well as costs, Manitoba decided to make a virtue of necessity, and welcomed the inevitable tides of change. Competition, however, makes for a volatile sea, and state capitalism may well be a crippled ship being blown over treacherous shoals.

⁹See "Information Highway Ministers Hold First Meeting in Winnipeg," Manitoba Government News Release, Oct. 9, 1996.

¹⁰ City government input into the deployment of information infrastructure is often limited to administering easements, conduit space, rights-of-way etc. While administrative powers over the disposition of real estate can be a significant lever, few examples come to mind where Canadian municipal governments have used this instrument to strategically influence communications infrastructure investments in pursuit of specific urban economic objectives.

Acronyms

AT&T	American Telephone and Telegraph
CBTA	Canadian Business Telecommunications Alliance
CCC	Crown Corporations Council (of Manitoba)
CEO	chief executive officer
CN	Canadian National Railways
CP	Canadian Pacific
CRTC	Canadian Radio and Television Commission
CTV	Canadian Television Network
FTE	full-time equivalent
IPO	initial public offering
MTS	Manitoba Telephone System



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