

*The Communications Revolution:  
Can Canada Keep Pace in the Global Race?*

*James J. Meenan,  
Vice-Chairman & CEO  
AT&T Canada*

*Remarks to the Canadian Club*

*Toronto*

*October 25, 1999*

Check against delivery



Thank you and good afternoon everyone. It's really a great pleasure to be here.

When I began my career in the sixties, telecommunications, broadcasting, TVs and computers were all very separate businesses. No one had wireless telephones, personal computers were only a dream in some engineer's eye and the World Wide Web was the stuff science fiction was made of.

Today, all that has changed. The lines between these industries have blurred and they are all playing a vital role in a vast communications revolution. A revolution that has become a central force of change in our business and personal lives.

You and I will experience more changes in the next five years than the world has seen in the last 50 years. Today, I'd like to talk to you about some of those changes by addressing three themes:

- First, we'll take a look at the global stage
- Second, we'll look at Canada's role in this revolution and AT&T Canada's part of this story
- And lastly, we'll look at the obstacles which are keeping Canada from reaching its full potential as a global leader in this communications revolution

First, the global stage.

In May of this year, some students from Smith Jackson Elementary School in Dauphin, Manitoba won a worldwide Internet competition – the AT&T Virtual Classroom competition.

The students flew to Hong Kong to accept the grand prize that rewarded international teamwork and Internet skills. These children won by successfully working on-line, in a "global, virtual classroom" with other students from India and the United States. Together they created the winning website.

These children are part of a new global experience . . . and they are part of the greatest technological revolution in history.

The twin engines of technology and competition are driving this exciting revolution, functioning with a "fly-wheel" effect. Competition pushes technology – just as technology sparks competition – disciplined, of course, by customers.

To see this “fly-wheel” effect in action, just look at the speed at which the public has embraced a few of the 20<sup>th</sup> Century’s best-known information technologies. To reach the first 50 million users:

Radio	. . . 30 years
TV	. . . 13 years
PCs	. . . 16 years
The World Wide Web	. . . 4 years

The Internet reached 50 million users in 1996. Just three years later, that number has jumped to 150 million. And it continues to grow hour by hour!

Trade is expanding and borders are falling. Electronic Commerce will revolutionize business. Revenues are expected to rise from \$180 billion this year, to over \$3 trillion by 2003 – that’s a 17-fold increase.

The Internet has allowed Electronic Commerce to flourish on a global scale without regard to political, economic or geographical borders.

- That’s why Bangalore is now a software development “hot-spot”
- That’s why Amazon.com’s “street” address is totally irrelevant
- That’s why today’s students in Manitoba can be tomorrow’s global entrepreneurs

All of these connections, whether local or global, depend on sophisticated telecommunications networks – we link Canadians across the street . . . across the country . . . and around the world.

So, what about Canada’s role in this revolution?

The globalization of the world’s markets and the rise of the global consumer are very important to Canada.

- Two-thirds of Canada’s domestic product is based on trade in services
- One out of three jobs depends on trade
- And more than one half of Canada’s GDP relies on exports

The strategic importance of communications to Canada’s economic development is well recognized by the Canadian government. Ottawa has set the ambitious goal of making Canada the most connected country in the world by the year 2000. As the Prime Minister told the Softworld exhibition last year: (and I quote)

“ We in Canada have long understood that our future prosperity depends on merging our economy with the information highway.”

What does this mean?

It means that our government has long understood that a country's healthy economy is inextricably linked to the reach and operating performance of its telecommunications networks.

The World Bank and other global institutions support this view – a healthy economy can only prosper when its telecommunications infrastructure provides fast, reliable and advanced services to meet the growing demands of its citizens.

Marshall McLuhan's vision of the global village is a reality and telecommunications networks with instant global reach are no longer the stuff of dreams.

However, building modern networks to connect our village to the global village is expensive and requires vast amounts of resources and capital.

In the last few years, AT&T Canada has invested over \$2 billion in Canada and has created the only national network in this country. From coast to coast, province to province, we can meet all of the local and long distance voice, data and Internet needs of Canadian and multinational businesses.

And we are continuing to invest millions of dollars expanding our national local service capabilities -- serving businesses today in over 17 cities – with plans for five more cities by year end. We'll spend over \$700 million this year alone on capital projects to bring the first real choice to Canadian businesses.

Our 4,500 Canadian employees are located in every province and look after 15,000 kilometers of broadband long distance networks running from Atlantic Canada to Vancouver Island, and nearly 3,000 major buildings wired for local service.

So, how did we get here?

Unitel Communications, part of AT&T Canada's heritage, was the pioneer that broke the long distance monopoly and brought competition to Canada in 1992.

This year, AT&T Canada merged with another pioneer, MetroNet Communications, the pioneer of local service competition, to bring together the global strength of AT&T with the entrepreneurial spirit of MetroNet.

And we have continued to demonstrate our faith in the Canadian market this year. In August, we strengthened our relationship with Rogers Cantel to offer bundled wired and wireless services under the Cantel AT&T co-brand. And at the same time, our global partners, AT&T and British Telecom, invested over \$2 Billion in AT&T Canada and in Rogers Cantel.

Today, AT&T Canada delivers the finest global connectivity in the telecommunications industry -- connecting Canada to over 270 countries with an unparalleled level of service, reach and reliability.

Looking back to 1992, Canadians have reaped the benefits of competitive long distance and wireless services. Indeed, the OECD has recognized Canada as having the lowest long distance rates in the world.

This is no accident. I would like to applaud the CRTC for their vision of a competitive market in Canada that has allowed Canadians to enjoy greater choice, innovative service and greater value.

Canadians have been among the greatest beneficiaries in the world of a competitive telecommunications infrastructure and regulatory environment --- so far.

I say, "so far" because Canada's regulatory environment has not kept pace with the changes needed to keep Canadians at the forefront of the communications revolution.

This leads me to my third topic . . .

Significant obstacles are keeping Canada from achieving its full potential in the communications revolution.

The first obstacle is a number of regulatory issues that unfairly punish new competitive telecom entrants who are investing in Canada, while rewarding the former monopoly provincial phone companies.

Some regulations remain in place that are a vestige of a by-gone era when long distance was the only competition in town. Today there are contribution charges in long distance, a form of industry subsidy designed to ensure local service can be provided in high-cost areas. An important concept and one that we support.

These subsidies might have made sense when we leased capacity on the monopoly providers' networks, but today it makes no sense as we move traffic to our own local facilities. That's like continuing to pay rent after you've moved out.

Let me give you one small example of this punitive policy. Even when a call from Toronto to Vancouver runs entirely on AT&T Canada's local and LD network, we still pay the provincial phone companies close to fifty percent of the price we collect from the customer -- -- and that's for a call that never, never touches the former monopoly's network.

And this is after we have raised the capital, invested \$2 billion in networks across Canada and hired 4,500 Canadians to run the company and serve our customers.

These antiquated rules discourage investment by preventing investors from making a fair return on their invested capital.

Something is wrong with this picture.

In 1998, the cost of sales for AT&T Canada was more than \$800 million. Of this, we paid more than \$360 million to the former provincial phone monopolies.

In almost all cases, we are the largest customers of the provincial phone companies. And I don't even get invited to Bell Canada's golf tournament.

These regulations are outdated, unjust and no longer applicable. We are working diligently with the CRTC to revisit them.

Another impediment to success is the structure of the telecom industry in Canada and how investment capital is formed. The regulatory environment was clearly designed to foster and sustain competition.

Unfortunately, reality tells a different story on the balance sheets of every alternative competitor – Canadian or international – who has tried to compete with the former monopoly phone companies in Canada.

And it is a very different story from the ones that we see in other countries experiencing deregulation.

After seven years of long distance competition in the U.K., the U.S. and Canada, all of the start-up providers in these three countries reported roughly similar levels of investment and revenue as a percentage of the total market.

However, after seven years, the report card on profitability is radically different. In the U.S. and the U.K., the alternative providers reported a 16% and 2% share of the industry's net income respectively.

After seven years in Canada, out of the total profits, the alternative providers reported a 39% loss, and the former monopolies took home 139% of the profit.

Something is really wrong with this picture.

This on-going "no-profit" model suggests that the current regulatory environment cannot support long-term competition. A healthy industry that can attract the necessary capital requires a reasonable opportunity for all participants to earn a fair return on their invested capital.

Something must be done.

Lastly, let's look at foreign investment. In a speech in April, Industry Minister John Manley highlighted the benefits:

"Foreign investment is critical to Canada's future. It links Canadian companies, consumers and workers to the new knowledge-based global economy."

With regard to the limits on foreign ownership, Canada is still among the most closed nations in the world.

Virtually all of Canada's trading partners have completely open telecom regimes, and where restrictions remain, they are confined to the dominant carriers, like Bell Canada and Teleglobe.

Today's regulations put Canada in a category with Poland, Portugal, Indonesia and Turkey. It is a clear anomaly for Canada to be a part of this isolationist group, especially when Canada benefits from the more open policies of its trading partners.

Their rules have allowed Teleglobe to purchase Excel, one of the largest U.S. long distance companies. And Bell Canada International has taken majority ownership positions in carriers around the world.

Yes, something is wrong with this picture.

However, I remain optimistic that as we proceed into a new cycle of trade negotiations next month in Seattle with the kick-off of the WTO talks, that our government will act in the best interest of all Canadians and table revisions that will eliminate artificial barriers that restrict the flow of investment capital.

As the industry continues to build the networks of the future, Canadian investors alone cannot support this level of investment. Canada must tap world capital markets.

In conclusion, AT&T Canada has attracted foreign investment from AT&T, British Telecom and other public shareholders with the belief that the government wanted and supported real competition and a healthy industry. We have pledged to work with the regulators to revisit a number of regulatory issues affecting the health and competitiveness of the telecom industry in Canada. I hope and trust that this can be done sooner rather than later.

At AT&T Canada, we want to make sure that we can all build on the global success of those terrific students in Manitoba. And we will continue to build that global highway -- to connect all the dreams of the future.

And on that optimistic note, let me thank you for listening. It has been a distinct pleasure and honour for me to speak here today.

Thank you.