



TELEGLOBE

**"Canada and the Stakes
in Intercontinental Telecommunications:
Challenges and Perspectives"**

Notes for an address by

**André LeBel
President and Chief Executive Officer
Telelobe Canada Inc.**

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Ladies and gentlemen: I wonder how many of us here could conceive of a day without a fax machine? A day without a cellular telephone? Or a day without access to a data bank? Aha, I believe I detect a few envious sighs in the room!

Those of you who feel like slaves to the telephone might be interested to know that there are only 600 million active phone numbers on the entire planet. That's not a lot, considering there are almost 6 billion people.

Furthermore, half of the world's population live more than two hours travel from a telephone! Again, I detect some envy.

The bad news for those of you who dream of a phone-free environment is that 75% of the world's phones are located either here in North America, or in Western Europe and Japan--which share only 15% of the world's population. And Canada is second in the world in terms of the number of telephones per capita.

If it's any consolation, I can tell you that even those people living in the remotest regions of the world will soon be brought within reach of the telephone. Global satellite telephone systems are on the way. Within five years, you'll be able to routinely pick up a phone here in downtown Toronto and reach a colleague or customer in the hinterlands of Mongolia or the rain forests of the Amazon.

The advances in telecommunications technology remind me of a quip by British academic Havelock Ellis: "What we call progress," he said, "is the exchange of one nuisance for another nuisance."

At any rate, the telecommunications industry is blazing new trails every day. And the growth is most noticeable, not in traditional telephone calls, but in a host of other new services that are becoming available at attractive prices.

These new services are about to surpass traditional telephone calls in terms of volume. Consider that the telecopier did not even exist 15 years ago. Yet more messages are now being transmitted between North America and Europe by fax than by phone! And, last year alone, 12 billion messages were left on voice mail--those answering devices we love to hate.

To this we can add phenomenal growth in mobile telecommunications. In 1980, there were hardly any cellular phones. And the most optimistic predictions were that there would be about 1 million cellular users by the turn of the century. Well, by last year, there were already 45 million!

When we speak of the telecommunications industry world-wide, we speak of a sector whose 1992 revenues totalled 415 billion dollars. As for the segment Teleglobe is engaged in--that is intercontinental service--annual traffic is now some 24 billion minutes. And that figure is expected to double within five years. This is a fast-growing and potentially lucrative market in which the Canadian industry is well-positioned.

The point of my remarks today is to impress upon you that Canadian leadership in intercontinental telecommunications can--and must--be reaffirmed.

- Pause -

The universe of telecommunications is not only experiencing explosive growth. It is also in a period of severe upheaval.

Why? First of all, because it's undergoing a rapid evolution of technology.

Today, we can send a fax from Toronto to Hong Kong in only a few seconds. You can receive a call on cellular in La Paz, Bolivia. And, in just a few seconds, you can transmit the complete works of William Shakespeare by modem.

We are entering the era of multi-media. And it's an era full of promise. Look, for instance, at health care. Thanks to advances in telecommunications, a doctor in Toronto can now make a diagnosis of a patient in Vancouver or, for that matter, in London, England.

Innovative new services are becoming more and more accessible at affordable prices. And new ways of sending calls have already lowered prices significantly for users of intercontinental telecommunications services.

Take "call-back", for example. Call-back enables customers in one country to make calls to or via a second country which offers lower international rates. Let's say you're in Tokyo, and you want to place a call to New York. You'd communicate first of all with a North American carrier that offers better tariffs than can be found in Japan. A special device calls you back and gives you access to dial tone in North America. You then dial the number of the party you wish to reach. And the tariff that applies to your call is that of the U.S. or Canadian carrier, not the Japanese tariff.

However, these sorts of technological advances can also have a negative effect. For example, modern technology makes it very easy to "bypass" networks. A call from Canada to Britain, say, can be diverted through a U.S. carrier's network instead of through Teleglobe. Although this practice is illegal, it's a fact of life.

In summary, technology has opened the door to services that were unimaginable or unaffordable to most only a few years ago. It is bringing about profound changes in the way we all do business.

But technology is not the only factor at play. The structure of the industry itself is undergoing drastic change. The ground rules are no longer the same.

Telephone services, cable TV services and computer networks used to be clearly defined, and operated in mutually exclusive territories. Today, they are all part of the same industry.

As well, national telephone-service monopolies are fast becoming obsolete. Within the next two years, around 30 countries are expected to privatize their national networks. Several of those will open up their markets to competition.

The impact of these changes on our industry is already very evident. In the past two years, 11 of the 15 largest international telecom carriers have announced new strategic alliances.

The largest of these alliances is World Partners, which brings together AT&T of the United States, KDD of Japan and Unisource, the European consortium.

In the near future, fewer than five major telecommunications carriers will share more than two-thirds of the world market--and Teleglobe will be one of them.

- Pause -

Competition at this level is intensifying. Regulations are becoming less stringent; services are expanding; prices are falling. Ultimately, it is the consumer who will benefit.

The Canadian telecommunications industry has long been a major contributor to the prosperity of the country, not only by its own economic weight but also by the competitive advantage it provides to Canadian industry.

With revenues of \$14 billion, projected to grow to \$20 billion by the turn of the century, telecommunications--like few other industries--acts as a nerve-centre for the Canadian economy.

The question is not to determine if the Canadian industry wants to win the telecommunications battle in world markets. The reality is that our industry has no choice, if it wants to continue to grow and prosper in a sector where growth is synonymous with survival.

Make no mistake. It's not just the survival of one sector of Canadian industry and its employees that is at stake. It's also Canada's presence in a high-value-added sector of the economy. And the future of Canadian research and innovation. And Canadian intellectual property in high technology.

- Short pause -

How do we win this battle? First of all, by demonstrating lucidity and vision. Allow me to illustrate my point with a sports metaphor. Would you believe it? At the beginning of his career, some connoisseurs of hockey suggested that Wayne Gretzky would never make it to the National Hockey League.

Too frail, they said. Not heavy enough. And not very fast. But Gretzky had decided that he would play NHL hockey. And he became the best.

Why? Because, in hockey, **everyone** knows where the puck is. But not many players know where it's going to be a few seconds later. If Gretzky was the biggest star, it's because he did know where the puck was headed, and was able to get there before everyone else.

It's the same in business. If the Canadian telecom industry wants to score points, it's got to know the markets, predict the needs of the future and respond to them quickly.

The Canadian industry must also make a realistic assessment of its own strengths and weaknesses--and act accordingly. Have you ever seen Gretzky throw a body check in the corner? If he'd focussed on that aspect of play, his career would not have been very long--or illustrious.

Canada's strengths are enormous. It is one of the countries that has been best-served by its telecommunications enterprises. Those of you who have travelled extensively are certainly in a position to confirm this.

Of course, these strengths are counterbalanced by certain weaknesses of a geographic and demographic nature. Canada is a huge country, with a widely spread population--less than 30 million people dispersed over an area of 10 million square kilometres.

This is a situation which, from other viewpoints, makes Canada the envy of many. However, along with our proximity to the United States, these factors render Canada unique in the telecommunications world. Obviously, we are not the only country that has neighbours. But we are one of the few countries with a neighbour whose economy is ten times larger.

Canadian telecom enterprises cannot base their growth completely on the domestic market. Even if all the Italian-Canadians in Toronto called their relatives back home a couple of times every week, it wouldn't be enough traffic to provide the critical mass we require to compete in world markets. We would need expatriate Italians in New York, Chicago and Buenos Aires to use our network as well.

There is nothing really new in that. Canada's prosperity has always been based on its capacity to seek out other markets. And, in our case, this is the only way to build the critical mass that will ensure Canada a spot at the table when crucial decisions effecting the global information highway are made.

The Canadian telecommunications industry is in the midst of redefining itself in light of these requirements. And it must avoid being weakened in the process.

- Short pause -

The domestic Canadian market is extremely competitive. In the long-distance sector, Bell, Unitel and other rivals are throwing themselves into not just competition, but a ferocious rivalry. The same, highly competitive situation prevails in the intercontinental services Teleglobe provides to Canadians through these distributors.

Even in the domain of intercontinental calls, Teleglobe's so-called monopoly is a myth. We are forced by the laws of the market and by the proximity of the United States to offer extremely competitive tariffs. If we did not, then bypass--the illegal practice I mentioned earlier--would assume disastrous proportions.

Since we're talking about myths, it's about time to disprove another. I'm referring now to the myth that the United States, in telecommunications as in other industries, is a hotbed of competition. In fact, nothing can be further from the truth.

Those of us familiar with the U.S. market know there has never been real competition at the level of intercontinental telecom infrastructure. With few exceptions, everyone in the States passes through AT&T's cables and its COMSAT satellite circuits.

Not just anybody can enter the U.S. market. The barriers are stronger than one might suspect--something we are beginning to fully appreciate as we attempt to penetrate there. The U.S. intercontinental telecommunications market is an oligopoly dominated by AT&T.

Nevertheless, there are tremendous opportunities awaiting us out there, thanks to NAFTA and the globalization of telecommunications.

But if Canada is to remain a force to be reckoned with in global telecommunications, it must have the necessary tools to win. And it must have the courage to put together a strategy that adequately reflects its ambitious plans.

The Canadian government will soon define a new policy for international telecommunications. This policy must provide for the maintenance of Canadian leadership.

To achieve this end, Canada must adapt to the new competitive environment knowing full well where its interests lie--just as our neighbours never lose sight of their interests.

We must learn from mistakes of the past, and those of others. And we must tell it like it is: Frankly, the liberalization of value-added telecommunications services such as voice mail, EDI, and access to value-added data bases--to name just a few examples--has worked against Canadian companies. It has resulted in an erosion of Canada's leadership in a sector where we've always excelled.

Teleglobe feels strongly that we must not let the same thing happen in intercontinental telecom services. And I'm quite certain that most Canadians would agree with us on this point.

Don't get me wrong. We welcome fair competition. The issue here is how to level the playing field--how to instill a true spirit of competition. Naturally, we don't want to be sideswiped by an American "semi" just as we're picking up speed on the information highway.

- Short pause -

That said, Teleglobe accepts the fact U.S. megacarriers would like to compete in the Canadian market--just as we would like a piece of the action south of the border. Indeed, such head-to-head competition is inevitable.

Consequently, we favour a gradual liberalization of the intercontinental telecom sector in North America. And we're asking the government of Canada to consider pursuing such an arrangement in on-going free-trade discussions with the United States.

This gradual liberalization of the North American market might well entail phasing in competition in the respective jurisdictions within different time frames. Details of the arrangement would have to be negotiated.

Such an approach is not without precedent. I'm thinking, for instance, of the "open skies" agreement signed recently between Canada and the United States.

As you probably know, by virtue of this agreement air carriers from the two countries have access to Canadian and American cities. However, U.S. airlines' access to Montreal, Toronto and Vancouver is restricted for a period of several years.

At any rate, I can tell you that my colleagues at Teleglobe are excited about the prospects of taking on the global telecom megacarriers--and winning. But we know those megacarriers already are busy multiplying their alliances and refining their networks. So it's imperative that our Canadian industry acquire the means to provide serious competition on a continent-wide level.

- Pause -

We must be able support our position at the top of the heap for the long haul.

Okay. So what else do we need to do in order to not destroy a system that has taken Canadians years of collective effort to build? First of all, we must not duplicate, unnecessarily, the extensive telecommunications infrastructure that already exists in the Canadian market. It would be ridiculous, in fact, to not use our existing infrastructure to the optimum, to allow needless duplication of expensive facilities for a population of 30 million.

Instead, Canada must channel its energies, its capital and its human and technological resources into the development of world-class, value-added services.

It must be able to bring such services to market quickly and to successfully export them--rather than be content with the role of distributing U.S. technology and know-how.

Canada must continue to offer the best intercontinental telecom services at the best prices. It must accomplish all this by piloting the creation of another great global telecommunications alliance, similar to those formed by U.S. carriers--but this one, of Canadian origin.

It is in this context that we must look at the up-coming review of Teleglobe's exclusive mandate as Canada's international telecom carrier, which runs through 1997. We know full well that this mandate will eventually disappear. Meanwhile, however, it should not be regarded simply as a corporate asset of Teleglobe's. The mandate is also a valuable instrument that can be used to provide Canada with additional leverage in the context of global telecommunication politics.

Before renouncing this instrument once and for all, Canada must be sure to have a solid and coherent policy that will provide access to the entire North American market without undue delay.

- Pause -

In this context, we see Teleglobe as the international launch-pad of the Canadian telecommunications industry. Working over the years with our Canadian partners, we've managed to put together one of the most efficient and competitive networks in the world, linking Canada to more than 230 countries and territories.

Since Teleglobe was privatized in 1987, end-user prices have been reduced by more than 40% on average. It is Canadian businesses and consumers that have profited from these prices, which are equal to or lower than those offered by the big U.S. carriers.

With more than 860 million minutes of out-going traffic in 1994, and total traffic approaching 1.5 billion minutes, Teleglobe currently ranks seventh among the world's intercontinental telecom carriers. We're determined to ensure that our company--and our Canadian industry--continue to play a lead role on the global stage.

To this end, Teleglobe is already engaged in several major initiatives. Through projects such as Odyssey and ORBCOMM Teleglobe is pioneering the new frontier of world-wide, satellite-based mobile phone service.

Elsewhere, we've recently brought into service our new CANTAT-3 fibre-optic cable linking Canada to Europe. CANTAT's leading-edge technology opens the door to high value-added services such as trans-Atlantic video-conferencing and high-definition television.

The capacity of CANTAT, which will soon be linked directly to the U.S. market via another superhighway we're building, surpasses that of all other existing trans-Atlantic cables combined. It can carry more than 60,000 simultaneous conversations--but only 40,000 in French, because we require many more words to say the same thing.

- Pause -

In conclusion, I'd like to draw your attention to a recent report by the U.S. Council on Competitiveness. This influential organization affirmed that information technology was the principal factor which has enabled the United States to rebuild its international competitiveness.

The technologies of information and telecommunications are elements of primary importance in the competitiveness of a national economy.

As Canadian satirist Bob Edwards once put it: "The meek are a long time inheriting the earth." And, without taking anything away from others, I don't think there are many recent corporate success stories to rival Teleglobe's.

This is an enterprise which has succeeded in meeting the needs of its clients, launching new products and lowering prices in a market that's expanding rapidly. And our success is clearly to the benefit of all Canadians.

What Teleglobe wants today is clear support for maintaining its dynamism, creativity and competitiveness.

In exchange, it offers an equally clear commitment to make Canada one of the great leaders of our industry and to continue to offer Canadians first-rate services at the best prices available.

The future successes of Teleglobe--the development of world-class services, its capacity to offer rapid and economical access to the entire world--will have an undeniable impact on your own successes here in the business heartland of Toronto and Ontario.

Teleglobe's vision is founded on the notion that Canadian enterprises are our partners and that our destinies are closely linked.

Our objective for the future is to continue to help provide Canadian companies with an edge that will make the difference in an open market which is becoming more and more competitive.

I thank you for your attention.