



**ON BALANCE**

**THREE PRINCIPLES FOR SUSTAINING  
CANADA'S LEAD IN COMMUNICATIONS**

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**Check against delivery**

I have been looking forward to addressing this audience on issues which I believe are critical to the health and prosperity of the Canadian communications sector, and consequently of importance to our economy on a broader level.

But I must remark that the events of this past week have overshadowed many day-to-day issues that would normally demand our attention in less difficult times.

There can be no doubt that the acts of terrorism we witnessed last week in the United States were acts committed against all of us who value our peace, freedom and democracy. To attack these institutions is to assault the very foundation of our society; a society built on respect for human life and predicated on our right to a peaceful and secure existence.

Canadians stand as steadfast partners with Americans as they strengthen their resolve to remain a standard bearer of democracy and justice for nations around the globe.

Terrorism aims to destroy or at least disrupt our systems of commerce, of justice, of national security and of public safety. While it is appropriate for us to pause and to express our grief and our outrage, we must not bend to their original intentions. We must continue to move forward and demonstrate our unrelenting will to live by our own terms.

Our continued focus on social and economic progress will ensure that our way of life will prevail and that we will not yield.

It is in that spirit that my office and the executive of the Canadian Club decided to proceed with my address here today.

Canada's communications industry has and continues to play an important role in our economy, as well as the everyday lives of Canadians. Indeed, this sector is a key asset, first in its own right and second, by providing Canadian companies with a competitive advantage as they vie for market position, at home and abroad.

If the Internet is the "central nervous system" of the knowledge-based economy — an enabling platform, vital to long term productivity, growth and competitiveness — then Canada's global competitiveness in the communications sector is, not surprisingly, a topic of considerable interest not only for business leaders but also for educators, researchers, policy-makers and all Canadians alike.

Does Canada have what it takes to sustain a leadership position in communications? Can we build an even stronger domestic industry from which we can succeed globally?

I believe the answer to these questions is an emphatic yes — if we can sustain and nurture the leadership we have already achieved.

Some of you may be surprised to hear that we are leaders in communications. With a head start from Alexander Graham Bell, here in Brantford, Ontario, we built one of the world's most extensive telecommunications infrastructures. For universal access and affordability it ranks second to none.

One of the key reasons for Canada's success in this sector is the balance that was struck a long time ago between regulators and industry leaders, between the public good and private interests.

In essence, regulators asked the founders of our industry to provide universal, high quality service, in exchange for a fixed return. In other words, it was incumbent on industry to build infrastructure, not just in profitable urban centres like Toronto and Montreal, but also to plant poles and string wire across hundreds of thousands of miles in remote and, consequently, unprofitable areas. This period was known as the monopoly era and was not unique to Canada except that Canada encouraged private investment in the sector rather than create state monopolies, as did many other countries. In other words, we used private sector forces to achieve public policy goals.

This also allowed companies to invest in future technologies and much of Canada's leadership in this sector is owed to Nortel. Bell Canada founded Northern Electric in 1895 as a department to make telephones. It grew to be more than that, of course. Nortel was instrumental in creating the digital, fiber optic and broadband revolutions. Canada's lead in communications is therefore intrinsically linked to Bell Canada and Nortel. Our joint research facilities in Ottawa, Bell Northern Research as it was called, nurtured the technology entrepreneurs who later created JDS, Mitel, Entrust, Newbridge, and dozens of others.

The results of Canada's approach speak for themselves. Canadians enjoy the most advanced communication services — at some of the world's lowest prices.

Today, our nation can boast among the world's highest penetration rates for phone service. At nearly 99 per cent, we're second only to Sweden.

- More than one in three Canadians carries a mobile phone.
- Over three-quarters of Canadian households subscribe to cable or satellite TV.
- Almost two-thirds of Canadians, and every school and library, are hooked up to the Internet. And the proportion of Canadians using high-speed broadband access is twice the U.S. level.

A balanced approach, including the competitive model which later emerged from this, has allowed Canada to build an industry with the scope and scale to continue to invest in new technologies — an industry that's the envy of the world for access, quality and price.

### **Canada's competitive landscape**

Although the monopoly era is long gone, there are still some who claim that there is no telecom competition in Canada. For proof, look at the multiple rivals Bell faces in nearly every market segment.

Ever since competition was introduced in 1992, in long distance services, entrants to the Canadian market have captured about 40 per cent of the largest long distance markets, those in Ontario and Québec, and prices have dropped nearly 50 per cent during that period. In the local business market, competitors like AT&T Canada, Sprint and GT Telecom have gained 15 per cent of that market in past several years. And in the wireless arena, consumers and businesses can choose from four strong competitors: Telus, Rogers, Microcell and Bell, which has about 35 per cent of the market.

Nationally, Bell and Telus are now going head-to-head across a broad range of services. Consumers who want Internet access can pick from their local cable company or from numerous ISP services. As for high-speed Internet access, the cable companies were first off the block and still command the largest chunk of the business, that is 60 per cent. And, some cable companies have begun to offer local phone service over their cable networks. Similarly, TV viewers who want more than their antennas can pick up, can choose between cable and two satellite companies.

I think you'll agree this is pretty good evidence that there is significant, sustained and sustainable competition in almost all sectors of our business.

### **The last 20 years brought low prices**

So yes, the monopoly era is over and competitive forces are well entrenched. And as a result of the evolution of the last twenty years, Canadians enjoy some of the lowest prices for communications services in the world — a fact that should be better known as we evaluate our success to date, and plan policy for the future.

Our low our prices are the subject of two studies conducted by the Yankee Group, the first in 1999 and the second finished just months ago. Both studies compared identical baskets of services for businesses and consumers in major cities in Canada and the US. And both concluded that Canadians pay less than their US counterparts — and the gap has actually widened over the two years.

For example, businesses in every US city studied spend nearly twice as much for

service as firms in Montréal and Toronto. That provides a distinct competitive advantage for Canadian businesses.

As for Canadian consumers, we pay the lowest phone and Internet access rates on the continent, and among the lowest in the world.

### **Investing in infrastructure**

However, while the Yankee study applauds Canada's regulators for keeping a lid on local prices, it also raises a cautionary flag. With prices this low, it says, we may face a situation where revenues are insufficient to fuel investment or raise money in capital markets. We might also hamstring our ability to attract new competitors, who can get a better return just across the border.

Once again, it's a matter of finding the right balance. How do we deliver low rates and open access, while also ensuring our industry's long-term health? This question goes to the root of the matter. For the need to attract and retain capital investment is fundamental, particularly in today's economy.

Why is this so important? Because communications is part of our country's basic infrastructure; as vital as roads, bridges and railways. And like these, it needs continued investment.

A state-of-the-art communication infrastructure is essential for Canada and Canadians to succeed in the global knowledge economy. Our government knows this, and has publicly committed to making Canada the most connected nation on earth.

### **The balanced view**

Let's now turn our attention from the Canadian industry to some broader issues. In these times of scepticism about the future of the Internet, Canada more than ever needs to exercise its historic sense of balance.

It's time to look past today's headlines at what the past has taught us. History suggests that the current dot-com meltdown is merely the end of chapter one, not the end of the story — and certainly not the end of the Internet. History has shown that euphoria and inflated expectations are followed by a corrective shakeout. But in cases where the technology is sound and the product has value, strong, steady growth will resume — and I firmly believe that's the case with the Internet.

Take for example the tens of thousands of investors fighting for a seat on the railroad boom. By 1845, some 1,200 new or proposed issues were flooding the market. Within a few years, however, most were bankrupt. Pundits said the iron horse was a fad and would soon vanish. Tell that to my good friend Paul Tellier at CN!

During the 1920s, the car industry went down the same road. Sales tripled, driving astounding growth. But with the inevitable glut, came consolidation. Out of 200 automakers, fewer than 10 survived. But, I don't think we need a postscript to tell us whether the car industry recovered.

Similarly, the technology sector's performance may be disappointing at the moment. But that's the price of witnessing the birth of a revolutionary technology. All this to say, Canada must look past the headlines and position itself to take advantage of the next stage of this new technology.

The Internet — the global platform that will ultimately carry all digitised information: text, voice, video and commercial transactions — is here to stay. Its central role in our economy will not just survive, but flourish. Applications in medicine, in business, in education and in government are only just beginning.

### **The Future: ready or not...**

If we've turned the page on the first chapter, what's in chapter two? Several issues, I believe, will carry the story forward:

First, we are in a period of consolidation. The discipline of the market ultimately selects out the winners. And to remain profitable and viable, those winners must invest in emerging markets... the Internet, multi-media, wireless and e-commerce. These emerging forces become alternatives for the provision of traditional services and thus become part of the new competitive landscape. Wireless services are a perfect example.

Second, technology, or hardware, is yielding to services and solutions. Note that IBM and Microsoft no longer bill themselves as computer makers and software writers. They're now suppliers of services, and technology is merely what enables these services to emerge.

Third, convergence will continue to reshape our industry. AOL Time-Warner is the biggest example, but these mixed marriages between media and connectivity are just one factor in a changing competitive landscape. Convergence obviously covers a lot more — like voice and data on a single network; the marriage of commerce and communications on the Internet and so on.

One of the most significant consequences of convergence is that today in Canada, we're vying for customers with the likes of Microsoft, IBM and AOL. To date, BCE remains the only Canadian company with significant assets in new media and e-commerce capable of competing with these multinationals.

Why is it so important to be at the forefront of convergence? Two reasons: First, Canada and Canadian companies need a seat at the table now, if they are to protect their interests tomorrow. A strong Canadian communications industry not only keeps our domestic market strong, but also provides a springboard for launching businesses outside this country. Moreover, these foreign giants have no obligation to reflect Canada through Canadian eyes. At BCE, our media properties have chosen to focus on Canadian content as a competitive differentiator.

And, on this front, I am very pleased to say that over the coming weeks we will be launching an interesting array of convergence initiatives for both the consumer and business segments of the market as well as unveiling some creative multi-platform advertising campaigns for some of our large media customers.

And finally, in looking at what the future brings, I believe we must also address the issue of size. I've noted that if we are to support Canadian interests in a converging, globalized world, a robust domestic industry is essential. So are large Canadian players, capable of competing with global giants.

BCE is Canada's biggest convergence player. But put us beside some of the global players and watch what happens. AOL Time-Warner has more than ten times our market capitalization. The UK's Vodaphone, Spain's Telefonica, France's Vivendi — are all several times larger than BCE.

So what? You might ask. What's size got to do with it? In a word, plenty. At home we need scale to take on globalizing players. On the world stage, only scale can give Canadian companies the critical mass we need to compete even in the narrower context of our chosen market niches. And, what's more, scale allows companies to continue to invest in innovation even in tough times.

### **BCE transformed**

I've briefly reviewed some of the changes that our industry is undergoing, and nothing illustrates this point better than the changes BCE has recently undergone. Canada's historic telephone company is fading from view. What we have in its place is a national and international communications, media and e-commerce company.

BCE's transformation is so advanced, that already half our revenues come from non-traditional services.

For example, just five years ago, 70 per cent of Bell Canada's revenues came from local and long distance phone calls. To date this year, it's down to 54 per cent. How did this sea-change occur, and in so short a time? Three events galvanised the industry in the 90s: competition, the Internet, and wireless. We saw that to remain relevant to customers and shareholders, we had to not only join this new world, but indeed be one of its leaders.

We've never looked back.

In the past four years alone, BCE has invested nearly \$20 billion to support its transformation. In the process, we:

- Created Canada's first national IP-broadband network. This is the coast-to-coast backbone that carries Internet and data traffic;
- Forged alliances and took equity positions in Atlantic and Western Canada to extend services across the country;
- Privatized Bell Mobility to facilitate bundling of services;
- Launched Bell ExpressVu, our satellite TV service;
- Expanded BCE Emergis, our e-commerce company, into the US, where over 40 per cent of its revenues are now generated;
- Purchased the remaining 77 per cent of Teleglobe, giving us access to global Internet and broadband markets;

And finally, we created Bell Globemedia to develop Canadian content and take part in the converging telecom and media industries.

And this massive transformational investment program was funded by selling BCE's non-core investments abroad (in the U.S. and in the U.K.), by entering into a strategic partnership with Ameritech (now SBC) for 20 per cent of Bell Canada, by selling a small portion of our Nortel holdings and by issuing new shares of BCE. Our transformation was not funded by Bell Canada or Canadian consumers.

In fact, we have accelerated our investment in Bell Canada in order to maintain our leadership in wireless and broadband and are dependent on new, external, capital to fund these activities.

As a result of these strategic investments and our expansion at Bell Canada, we're the only Canadian communications company with the scale and scope to give Canada a realistic shot at some world market segments.

## **Canada's lead in the twenty-first century**

At this point, allow me to ask some basic questions about our aspirations for Canada. Do we want to be followers or do we want to be leaders? Can Canada transfer its strengths at home to strengths on a global scale? The answers to these questions must guide our policy framework for the future.

For my part, I believe Canada is well placed to have a global impact. Our infrastructure is second to none. We've built Silicon Valley North. And we have a sterling history of innovation.

None of this happened by accident. Rather, it flowed directly from a policy and regulatory framework that balanced the private and public goods... a framework that resulted in the world's greatest access to services, at some of the lowest prices. However, the current framework — confronted with the new challenges of the Internet, convergence and globalization — may not ensure that Canada remains at the forefront of a changing global communications industry. But what can replace it?

### **Three principles for sustaining Canada's leadership**

Perhaps it's time to consider a new approach, one that will take into account how the future is unfolding and whom it will benefit. The approach must still be based on the objective of balance because it has served us well. In that tradition, therefore, I offer three principles that may help to guide our thinking and our actions over the coming months and years.

First principle: focus on the long term. As the dot-com debacle has shown, we must look beyond today's headlines to the underlying forces. A quick fix may be tempting to solve today's perceived problems, but in the long run quick fixes are more likely to damage our interests.

Let's focus on Canada's long-term prosperity and interests in an Internet economy. We believe all Canadians should have access to some form of high-speed Internet connection in the long-term. We might debate the solutions resulting from the Broadband Task Force but let's not debate that goal.

And, let's have clarity and consistency in the policy framework that emerges. Let's not propose short-term fixes to support some industry players in the name of competition, when in fact these fixes, which are in effect subsidies, would only serve to distort long-term competitive structures.

As it has so successfully done in the past, public policy must continue to rely as much as possible on the logic of the market. At the end of the day, only the customer should decide which companies prosper, which business models survive and which technologies prevail.

Second principle: focus on the results. Success will be determined by balancing price and access, in traditional and emerging communication services.

What do we really want? We want affordable prices and we want investment. We believe that a healthy competitive industry structure is the way to achieve this in the long term. To get these results, prices for basic local services should not be artificially driven by regulation any lower than they already are — since Canada's prices are already among the lowest in the world and uncertain instances significantly less than our American neighbours. In its review of the price cap formula for basic telecom services, our regulator, the CRTC, should consider where Canada stands relative to its most important trading partners and must also be mindful of the need for investment.

To encourage competition, we should provide access to our networks. Already we have the best, most open competitive regime in the world with our competitors paying much less than in the U.S., for example, to originate and terminate their calls on our network.

So, I draw the line, when some competitors, like AT&T Canada, lobby for access to Bell's facilities at prices that would be well below objectively determined cost. Should competitors be able to supply service to their customers, without contributing to the cost of building and maintaining the infrastructure — especially when they do not have the obligation to provide universal service in Canada? Should we really provide discounts to global corporations that would ultimately limit our own capability to become global?

This would be the farthest thing from a balanced approach. It would severely distort and curtail investment incentives in our industry and impair some industry participants in favour of others, in a totally artificial way.

And the third principle: promote innovation. In other words, Canada must continue to reward the creativity that made us leaders in the first place. And the best way to encourage innovation is by ensuring that the industry remains an attractive investment as a result of a healthy and competitive marketplace.

Greater innovation means a stronger Canadian industry; a more attractive place for investors; a place where consumers will continue to enjoy the best services at the best prices.

But, while innovation is essential, it does cost money — and lots of it. R&D is capital-intensive and carries significant risk. And so, while our industry must innovate, it must also have a framework that allows us to raise the capital needed to do so. Canada's low communications prices carry a double edge. Consumers and businesses benefit greatly, in the short-term at least, but in the long-term we have to be concerned about maintaining our industry's ability to attract more capital.

### **A fine balance**

Canada has come a long way since Alexander Graham Bell invented the telephone. We were leaders in communications then, and we are leaders now.

But the world is vastly more complex than in those earlier days. Who could have dreamt, back then, of the Internet, convergence and globalization? Imagine their astonishment if they could see kids talking and e-mailing with their cell phones... doctors using the Web to examine patients in remote areas... or families shopping for a vacation on their satellite TV. And who could have imagined today's vastly different competitive landscape? Clearly, our regulatory and policy leaders have their work cut out for them... if they wish to be at the forefront of this new reality.

Nevertheless, I believe that our historic sense of balance will see us through.

A balanced approach will ensure that Canada's communications industry will attract capital to fuel innovation; will continue to deliver the best services at the lowest prices; will build scale to compete globally; and will ensure our competitiveness in this strategic sector.