

2010 Canadian Telecom Summit

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**“Opportunity for Canada: Investment, Competition
and Leadership in the Digital Economy”**

Pierre Blouin

Chief Executive Officer

Manitoba Telecom Services Inc. and MTS Allstream Inc.

Check Against Delivery



Good morning everyone. It's great to be back again this year to address the Telecom Summit.

Let me read you something, "a strong digital economy will be the backbone of Canada's future prosperity and success."

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This, in my mind, is the key statement in the Federal Government's consultation paper on Canada's strategy for the 21st Century Digital Economy, released earlier this year. And at MTS Allstream, we believe it is both fundamentally true and fundamentally important.

Technology drives productivity and productivity creates jobs, raises living standards, enhances pension and retirement security and gives Canada greater international clout.

As a trading nation with more geography than history, as others have said, telecommunications technology in all its forms connects us as a country, reduces our environmental footprint, enriches the lives of consumers and often overlooked, enables our businesses to stay competitive.

The world isn't standing still. Countries and companies are investing in new technologies and capabilities. And they are putting in place – or put in place a long time ago – the policy frameworks needed to encourage investment, facilitate competition and reward innovation.

Canada has been a leader in many respects, from Mitel to Nortel to RIM and for that matter, to MTS Allstream. In addition to many other "firsts" we have compiled over the past 100 years, MTS Allstream offers the most advanced television service in Canada, bar none including cable competitors, and some of the fastest broadband speeds for our Manitoba consumers, as well as industry-leading technology in Converged IP for our business customers.

But for all the strengths we have, Canada is a laggard in other key respects. Wireless penetration in Canada is the lowest of any country in the OECD. According to statistics from Statistics Canada and the US Census Bureau, our retailers are approximately four years behind their US peers in terms of online sales.

Our small and medium size businesses lack access to the tools they need to stay competitive in a global – and digital – economy. And, frankly, we still lack the kind of policy framework we need to ensure the very "...future prosperity and success" the government's consultation paper speaks of.

We limit foreign investment, even though that investment is necessary to fund the growth and innovation we seek. We force competition to take place between networks rather than on them, by adhering to a facilities-based model of competition that has been proven not to work. Not long ago, Canada had 14 facilities-based competitors. Of those, only MTS Allstream remains.

The UK abandoned a similar approach and opened its networks to competition, with the result being more competition, more innovation, lower prices and solid shareholder returns.

The good news is that we have a federal government today that seems to recognize what's at stake and what needs to be done. Let me try to address three areas of opportunity for Canada: capital, competition and innovation.

First: capital.

In its consultation paper, "Improving Canada's Digital Advantage: Strategies for Sustainable Prosperity," Industry Canada explicitly recognizes that: "government can support the provision of digital skills and tools needed to compete, thrive and innovate in the digital economy."

The paper goes on to say government can do that: "by developing sound economic framework policies, ensuring competitive corporate tax rates and creating a positive foreign investment environment." More significantly, our federal government is preparing to do something about it.

You all know that telecom is a capital intensive business. The incumbents, including MTS, have benefitted from a century or so of capital investment funded under a regulated regime. Competitors like MTS Allstream and the new wireless entrants, among others, have been forced to rely more heavily on foreign debt because of Canada's limits on foreign investment. We have first hand knowledge of the impact of this.

In 2000, Allstream was operating as AT&T Canada, a partnership that was the first competitor to build out a national IP network. AT&T Canada did so at a cost of approximately \$4 billion, with the consequence that in 2002, it underwent the second largest restructuring in Canadian history as of that time.

This was due, in large part, to the fact that it was paying \$400 million in annual interest charges on the foreign debt required to fund its capital build – a situation no Canadian incumbent would ever face. If not for Canada's restrictions on foreign ownership, the build out could have been funded with equity and not debt, and the bankruptcy could have been avoided.

Now I have great respect for the role the CRTC plays in Canada's regulatory framework. But the CRTC has been placed in the position of having to defend Canada's limits on foreign investments by arguing that Canada's telecom sector is too important to permit more investment from abroad.

This, we think, is backwards. If the industry is important, shouldn't we do everything we can to welcome investment and attract capital? If that were not the case, surely we should place strict limits on foreign investment in our manufacturing and natural resource sectors as well, because they too are important.

Canadians understand this. We recently commissioned a Harris Decima survey of public opinion on this topic. The results showed that 63 per cent of Canadians support global investment in the Canadian telecommunications industry. The survey showed that Canadians believe global investment in Canadian telecom will provide more consumer choices and more jobs without harming Canadian culture.

I congratulate Minister Clement for his comments yesterday, reconfirming the Federal Government's commitment to open telecommunications to greater foreign direct investment. We look forward to participating in the consultation process. The direction is a very positive one.

Why do I say this? I say it because our market is among the most closed of all the OECD countries to global investment. In 27 of 30 OECD countries, telecom service providers like MTS Allstream would be able to access more foreign equity capital for growth. In Canada, we can't.

Some of you will remember that there once was a time when AT&T, Verizon, Sprint, and BT all operated in Canada. Now, they don't. Our stated policy was that they were not welcome to offer choice and innovation to Canadians. Not surprisingly, they left the country in response.

And I know it because every time we – as Canadians – ask the question about foreign ownership in telecom, we get the same answer. In 2001, the Broadband Task Force report recommended an urgent review of foreign investment restrictions. In 2003, the Standing Industry Committee report, titled: "Opening Canadian Communication to the World," recommended the complete elimination of foreign ownership and control restrictions.

In 2006, the Telecommunications Policy Review Panel recommended removal of foreign investment restrictions, and in 2008, the Red Wilson's Competition Policy Review Panel, and it too recommended removal of foreign investment restrictions with a staged approach. Now, is the time to act, and I applaud Minister Clement's leadership on this issue.

Now let's talk about competition.

Here, too, Canada is making progress, though it hasn't been easy or entirely consistent. The Federal Government got it right with the last Wireless Spectrum Auction. The auction was structured with the explicit goal of increasing competition in Canada and it did that. These are the kinds of tools we need to compete.

Every day the world becomes more connected and faster. We cannot allow ourselves to be less connected and slower than the countries we compete with. We have to do better and this fresh burst of competition is a good start. The incumbents have responded with new investments in HSPA networks and the like.

Those are the benefits of competition – and they wouldn't have been achieved without smart regulation designed to drive competition and innovation. But that competition – and those benefits – are only being felt in the consumer market.

In the business market, where the incumbents still retain market control, the forces of competition are hamstrung. It is not just restricted access to capital that shuts competition down, it is also Canada's counterproductive approach to wholesale access. You all know the arguments on wholesale access so I won't repeat them. Let me just say that we urgently need a policy that encourages the same kind of competition and innovation in the business market that we are seeing in the consumer market.

This isn't an issue that captures the public attention but the stakes are far higher. Small and medium businesses account for 70 per cent of all private sector employment and 45 per cent of Canada's GDP. And yet, according to Bank of Canada Governor Mark Carney, Canada's productivity rate is "abysmal."

We need more competition in the business market. To get it, we need to address wholesale broadband access regulation that today effectively permits the incumbents to regulate the competitors' ability to compete with them.

We make do under the current regime. But customers, and Canada, would all benefit by moving to the kind of careful regulation of wholesale broadband access that has led to continued investment and a competitive market in many other countries.

So far, I've talked about what *government* can do to create a policy framework that fosters competition, innovation and enhances national productivity. Now, let's talk about what *business* can do.

Business can do what business does best. We can find out what customers want, and we can deliver it. Better still, we can create innovative new products – like MTS's IPTV, or our Converged IP suite of products – that create capabilities and address issues many of our customers haven't even thought of yet.

Standing still isn't an option, regardless of the regulatory framework. Every day the world gets smaller and moves faster. Our business customers are under pressure from the economy at home and competition abroad.

The Internet is becoming a richer, deeper and more powerful part of our social fabric and daily lives, creating a whole new set of challenges and opportunities. And the need for small, medium and large enterprises to harness information and convert it into competitive advantages is greater than ever. In this environment, MTS Allstream has a number of advantages.

One is that half our business is based in Manitoba, where the provincial economy continues to fare better than most. Another is our balance sheet, which remains a source of strength for the company. Third is our DNA. Today MTS Allstream has 6,000 employees across Canada, \$1.8 billion in revenue, nearly two million total customer connections spanning business customers across Canada and residential customers throughout Manitoba, and a national IP fibre network that spans almost 30,000 kilometres.

We are both an incumbent in Manitoba and a leading competitor in the business market across the rest of the country. We are also a relentless innovator. Given our size and the markets we serve, we have no choice. The result: despite the artificial constraints of limited foreign investment, excessive and arbitrary wholesale access costs is that we are leaders in the services that will define

future success; services like whole home PVR with Microsoft, HD IP TV, Converged IP and Fibre-to-the-Home, to name just a few.

We innovate because we aren't big enough to do otherwise. We are forced to compete on the quality of our products, the strength of our technology and the excellent service we provide to our customers.

Maybe that's why we are one of the few among Canada's major telcos in advocating for more foreign investment and fairer wholesale access rules: because we know how to innovate and we aren't afraid to compete on a level playing field.

Canadians should not be afraid to compete. Look at the Olympics! We learned that Canada is at its best when it believes in itself, invests in technology and innovation – as we did through the “Own the Podium” program. Using this formula, our athletes took on the world's best and won more medals than ever for Canada. Our entire country is richer for it.

If only we could feel the same way about our productivity and innovation. To repeat, we support the Federal Government's announced intention to open the door to global investment in telecom.

This is why: the consequences are clear. The status quo favours the largest players in the Canadian telecom market, while harming our small and medium-sized businesses.

The benefits are also clear: with increased foreign investment competition will increase.

The path forward is also clear: we have had four studies over the past decade, each of which encouraged Ottawa to remove foreign investment restrictions in telecom and create a policy framework to foster competition and enhance our productivity.

Now is the time to act, to establish the positive regulatory framework that is so critical to Canada's future prosperity and success.

Do that, and companies like MTS Allstream – and our worthy competitors – will do the rest!

Thank you.