

# Free Trade: A Telecommunications Perspective

*Opportunity has arrived, but we have to work at it.*

**M**ore than \$400 million a day. Every day. That's the value of trade between Canada and the United States - and it's growing.

Each country is the other's best customer, and the Canada-United States Free Trade Agreement is already stepping up the pace. The Agreement is having a direct impact on the high technology industries of both countries.

In the telecommunications industry, all tariffs on telephones, modems and private branch exchanges (PBXs) were eliminated on January 1, 1989, the day the Agreement came into effect. Trade in this area is about even: in 1988, Canadian companies sold about \$1 billion in goods to U.S. customers and U.S. producers sold about the same amount.

## Status Quo Not An Option

Canada's international trade outlook is for change, challenge...and opportunity.

Change is rippling through world trade, whether or not Canadian companies recognize it, respond to it, and use it as a powerful vehicle for our future prosperity. In the past, governments have been prone to spend hundreds of millions of dollars propping up businesses that, for one reason or another, couldn't make a profit.

In today's demanding world markets, businesses must adapt, discover changing needs and fill them - or disappear. Analysts tell us that global integration - not isolation - is the pattern for the 1990s. The world is fast becoming more of a single market, and there is no place for an enterprise to hide from competition. The status quo is not an option. Many informed observers agree that it is not a question of whether Canada's trading relationships will change, but how they will change.

As Leonce Montambault, Chairman and Chief Executive Officer of Bell Canada, has declared, "If we (Canadians) wish to ensure our place in the North American economy - and the world economy - we should pursue free trade with vigour and determination."

Bell Canada is already carrying out a major transformation - from a monopoly provider to an aggressive competitor. About one quarter of Bell Canada revenues now come from competitive services.

With current world trends, every Canadian company will have to make a similar change: from occupying a comfortable position in a small, domestic, market, with little outside competition, to scrambling aggressively to capture - and keep - market shares both at home and abroad. This will require major transitions - conversions - in perception, attitude, self-image.

## Telecommunications: Your Competitive Edge ?

This Agreement offers many benefits, not only for us at Bell Canada but for our customers as well. Lower, or no, tariffs mean lower prices on our purchases of U.S.-made products or those with significant U.S. content. Our customers will also benefit - indirectly from our lower costs, and directly from the increased competitiveness of U.S. terminal suppliers.

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### *More competition at home and abroad ...*

*The world is becoming more of a single market. The Canada-U.S. Free Trade Agreement (FTA) means change, challenge, and opportunity for increased profits. Is Canada ready ?*

### *Une intensification de la concurrence au Canada et à l'étranger ...*

*La mondialisation des marchés continue de se concrétiser. L'accord de libre-échange entre le Canada et les États-Unis (ALE) entraîne de nombreuses modifications dans son sillage, pose de nouveaux défis et donne l'occasion d'accroître les profits. Le Canada est-il prêt ?*

It follows that the Agreement will necessarily increase competition for Canadian businesses, putting such efficiency and productivity tools as telecommunications near the top of the business priority list. It is anticipated that creative new applications of telecommunications will continue to develop at an ever-increasing pace. For telecommunications to take its place as an instrument for creating profits, the move toward cost-based pricing must gain momentum.

This Agreement is a pioneering trade effort, introducing the concept of international trade in services. It will serve as a model for future GATT (General Agreement on Tariffs and Trade) negotiations.

## Advance Rulings on Enhanced Services a Must

The Agreement addresses telecommunications in several areas:

- monopolies
- basic telecommunications services
- enhanced telecommunications services

- research and development
- standards
- equipment

It provides for competition in some areas, and not in others.

The Agreement defines monopoly as "any entity, including a consortium, that...is the sole provider of basic telecommunications transport facilities or services."

The Agreement states that nothing shall prevent either country from maintaining or designating a monopoly, as long as the designating country notifies and consults with the other, and endeavours to minimize any effects on the benefits of the Agreement.

There will be little effect on basic telecommunications services - those limited to the offering of transmission capacity for the movement of information (e.g., basic local and long-distance telephone services).

The federal government has issued a policy statement, relevant to proposed legislation, which defines roles for:

- 1) telecommunications common carriers, i.e., those operating local and long-distance networks, and
- 2) providers of enhanced services, i.e., those offering customized telecommunications services that involve generating, acquiring, storing, retrieving, transferring, processing, or making information available in computerized form.

A stated objective of the Agreement is "to maintain and support the further development of an open and competitive market for the provision of enhanced services."

These services are facilitated through the enhancement, via computer programs, of the telecommunications network's basic transmission capabilities. Two examples are the iNet 2000\* database information retrieval, and Envoy 100\* electronic messaging services, both offered nationally through Telecom Canada.

According to the Agreement, each country may use its own definition of enhanced services, as defined by the regulator in that country. Canadian companies are already selling enhanced telecommunications products in the United States and anticipate excellent future markets in this field.

The Agreement heightens the urgency for our regulator, the Canadian Radio-Television and Telecommunications Commission (CRTC), to have the authority to render advance rulings on whether or not a proposed service is, in fact, an enhanced service, rather than simply a resale of basic service, which is to be offered only by common carriers.

Currently, providers may offer enhanced services without scrutiny by the CRTC until challenged. In Bell Canada's view, this scrutiny should occur before introduction of the service, not after.

## Free Trade and Research and Development

Making the most of the Free Trade Agreement requires a constant, productive commitment to research and development (R&D).

Unfortunately, Canada is considerably behind major competitors, such as the United States and Japan. Canada's total spending on research and

development is less than 1.5 per cent of Gross Domestic Product, compared to almost double that in the U.S. and Japan.

Canada's total is about \$8 billion a year, and the telecommunications industry alone accounts for almost 20 per cent...the largest percentage of any Canadian industry. Bell Canada's research and development investments last year totalled \$123 million, nearly two per cent of total operating revenues.

Northern Telecom (our sibling company within the BCE Inc. family) spent 13 per cent of gross revenues - \$860 million - in research and development in 1988. The spending by both companies was largely through their jointly-owned subsidiary, Bell-Northern Research, the leader in high technology R&D in Canada. We expect this level of commitment to continue over the next several years.

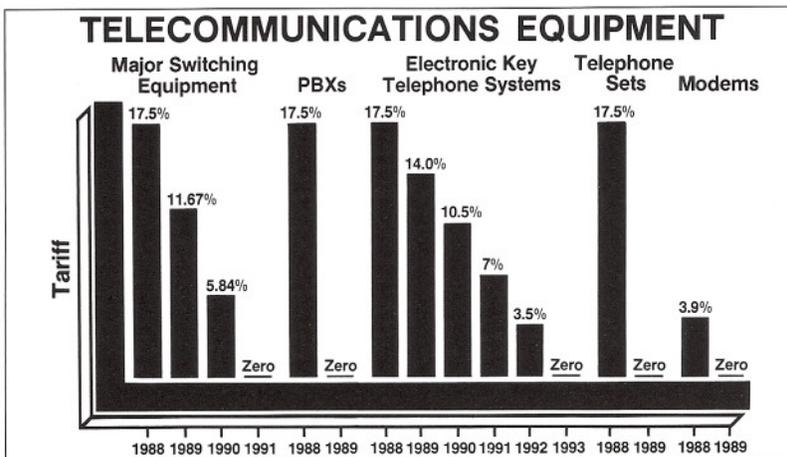


Figure 1 The progressive elimination of certain tariffs as a result of the Free Trade Agreement.

The federal government is beginning to recognize the crucial role R&D will play in our international competitiveness, but we need a much larger, stronger, accelerated commitment to stay in the race.

## Standards and Equipment

The Free Trade Agreement raises another issue of mutual concern: standards.

Canada and the United States have agreed to "... endeavour to make respective standards-related measures more compatible, to reduce the obstacles to trade

and the costs of exporting which arise from having to meet different standards."

Neither country is to create standards designed to keep out the other nation's equipment and services. Such organizations as the Canadian Standards Association and the American Underwriters Laboratory are to work more closely together. In telecommunications, we are already working closely on developing mutually-acceptable standards. With its Integrated Services Digital Network (ISDN), the telecommunications system of the 90s, Bell Canada is extending the scope of its international work on standards.

Regarding telecommunications equipment, as mentioned earlier, the Agreement has already eliminated tariffs on telephones, modems and PBXs. Those on major switching equipment are going in three equal annual reductions - there are two more reductions to come. Similarly, tariffs on electronic key systems will be gone in less than four years - on January 1, 1993. Further negotiations could very well accelerate this schedule as many companies have requested that the dates be moved up.

## Conclusion

Bell Canada is making the transition from a monopoly to a vigorous competitor. This transformation over the last few years is challenging to our employees, beneficial to our customers, and profitable to our shareholders.

Free trade with the United States is an opportunity to do business profitably at home and abroad...a prelude to competing successfully anywhere in the world.

But every Canadian company will have to work at it.

At a rate of \$400 million a day with the United States alone, the effort will be amply rewarded.

\* TM Bell Canada