Fast FACTS
CANADIAN CENTRE FOR POLICY ALTERNATIVES – MANITOBA

there is an alternative.

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The Return of Bell Canada

It has taken more than a century, but Bell Canada has returned to Manitoba. In 1908, the government of Manitoba purchased Bell Canada's local operations and turned them into the Crown Corporation we knew as Manitoba Telephone System (MTS). Last week's news that Bell Canada Enterprises (BCE) would buy Manitoba Telecom Services brings this local success story to an end. It is an ending with a beginning in the privatization of MTS 20 years ago this spring.

The privatization of MTS followed what has become a familiar pattern in terms of public-asset sell offs. Errol Black and Paula Mallea documented the events, starting in 1993 when then Premier Gary Filmon mused about privatizing the Crown. Filmon's inner circle knew full well that they would likely lose the election if they moved too quickly, so they implemented their plan incrementally. Before the 1995 election, they sold off some MTS assets and sold off its coaxial cable system for $11.5M – less than 20 per cent of an internal MTS valuation of the network. A 1993 Ernst and Young study had concluded that it would be a strategic error for MTS to lose control of the cable network, prompting more questions about Filmon's real intentions. But both the premier and key cabinet ministers continued to deny that privatization was in the offing.

Then the government masterminded a deal with a private American firm – Faneuil ISG, contracting out MTS' telemarketing services for $47M. Although it was becoming increasingly clear that the Crown was being primed for privatization, during the 1995 election Filmon and the Minister in charge of MTS, Glen Findlay, reiterated their commitment to keeping MTS in public hands.

That spring the Conservatives won the election with a majority of seats. By December they commissioned three brokerage firms to "evaluate" MTS. Their reports were released in April of 1996 and on May 2, the government announced that it would be privatizing MTS.

Many will remember how the public reacted that spring when the government tabled the bill to privatize MTS. Hundreds attended hearings to speak against the bill and hundreds more were unable to speak because of scheduling problems. A Save our System (SOS) campaign sprung up across the province as hundreds of citizens mobilized in favour of maintaining the status quo.

Tim Sale noted that besides the $36M in commissions paid to brokers, $10M in expenses was paid to four law firms and to pay for marketing campaigns responding to the groundswell of protest. Despite the government's claim that MTS was a poorly-performing company, shares appreciated to $68M. The sale of shares was so popular that brokers paid students for use of their social insurance numbers so their clients could buy more shares than they

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were allowed to. According to Sale, selling an asset that Manitobans owned ended up costing every Manitoban $100 – but that revenue did not go into public coffers; it was "vacuumed up by brokers, marketing experts and the fewer than five per cent of Manitobans who actually bought shares."

The question many ask now is "was it worth it?" Was it the case, as Filmon's government claimed, that the Crown held too much debt and that the only way it could modernize and be competitive was to subject the system to the rigours of the free market? Twenty years on, we know the answer.

In 1909, Saskatchewan also purchased its telephone system from Bell Canada and, following Manitoba's example, turned it into a Crown Corporation. But unlike Manitoba, SaskTel remains a Crown, providing us with a perfect opportunity to compare performance.

Economist Toby Sanger analysed both systems and found that MTS and SaskTel are more or less similar in terms of number of customers, revenues, the kind of services offered and the number of employees per capita. He also found that, ironically, SaskTel is more innovative than MTS.

And it's more economical too. The cost of basic phone service from SaskTel was 27 per cent lower than the lowest service from MTS. In 2014 SaskTel's CEO received $499,492 vs the $7,782,241 paid to MTS' CEO. The MTS CEO's average compensation over the previous 5 years was $4.8M, more than ten times what the SaskTel CEO received.

MTS's directors also received more than ten times what SaskTel directors were paid. Former Premier Filmon was one of those board members who profited handsomely, receiving $1.4M in director fees over ten years and hundreds of thousands of dollars worth of shares.

Although MTS produces higher revenues and profit than SaskTel, very little of that profit comes back to non share-holding Manitobans. Over five years, SaskTel paid $497M to government coffers through its annual dividend. Compare that to MTS, which has paid corporate income tax in only one of the past ten years ($1.2M in 2010).

The one saving grace left us under privatization was the modicum of competition that kept our services more reasonably priced. Many fear that the increased industry concentration coming from the takeover will cause our rates to sky rocket and service to decline.

So we've come full circle; Bell Canada - to Crown - to private – and now back to Bell Canada. It's been a profitable ride for a few lucky Manitobans, but a net loss for the rest. Just how much of a loss will depend on what kind of service and rates we see under the new management.

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