SaskTel:
How Ownership Impacts Behaviour in a Competitive Market

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ABSTRACT

How much of a role does ownership play when a public enterprise moves from a natural monopoly to a competitive market? Through comparing the market performance of SaskTel and Manitoba Telecom Services (MTS) from 1995 to 2012 it will be possible to answer this question. The eighteen year time frame makes it possible to measure the ramifications of privatization because MTS operated as a public enterprise until its privatization in late 1996. The question of ownership and the corresponding analysis make it possible to isolate any unique advantages or significant consequences of operating a public enterprise within the competitive, market driven and ever evolving telecommunications industry.

Chapter 1 lays out the question as well as the hypotheses being tested in this work. The value and unique capacities of a public enterprise can be determined by each firm's ability to perform the three policy roles traditionally played by public enterprise as described by Chandler (1982). The roles are: the capacity to augment the private sector, distribute economic outcomes more equitably, and promote regional and provincial goals over other jurisdictions (Chandler 1982). Each role outlines a potential purpose for operating a public enterprise and each serves as a basis to compare changes which took place as a result of both regulations and a highly competitive market place. Chapter 2 elaborates on the common justifications for creating as well as privatizing a public enterprise. The former section focuses on the market failure of a natural monopoly, and the later section discusses the regulatory and structural changes which have taken place in
the telecommunications sector. Chapter 3 demonstrates that Manitoba and
Saskatchewan are very similar provinces, which allow the consequences of privatizing a
public enterprise to be picked out. This chapter also provides a modern history of MTS
and its similarity with SaskTel. MTS is the most recently privatized provincial
telecommunications firm in Canada. The geographic and economic similarities between
Manitoba and Saskatchewan create a strong ground for comparison and discussion.
Chapter 4 carefully analyzes the performance of both firms from 1995 to 2012 based on
their respective annual reports using a number of shared reporting measurements. These
findings are then interpreted through Chandler's (1982) three functions as described in
Chapter 1. Finally, Chapter 5 discusses the results of this analysis.

Ownership does alter firm behaviour. SaskTel plays a dominant role in terms of
province-building when compared to the performance of MTS as illustrated by comparing
the income tax payments of MTS to the dividends returned to the government by SaskTel
as well as the debt levels of each firm. As a public enterprise SaskTel is able to avoid
paying the same taxes as its private counterparts, provide a direct return to the province,
and take on debt at lower rates with the backing of the provincial government. The unique
abilities of a public enterprise allow SaskTel to concentrate the wealth it generates within
Saskatchewan as well as shelter itself from the private market. Each of these advantages
are due SaskTel's status as a public enterprise and afford this firm certain opportunities
which are unavailable to private firms participating in the same competitive market. A
public enterprise offers unique benefits when participating in a competitive market.
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CHAPTER ONE: INTRODUCTION

This thesis explores the roles of public enterprise and how these roles are carried out by SaskTel. Public enterprise continues to play a valuable, yet evolving, role within Saskatchewan. SaskPower, SGI Canada, SaskTel, Saskatchewan Liquor and Gaming Authority and SaskEnergy recently ranked among the top fifteen employers in Saskatchewan (Martin 2012). In addition to providing jobs, these public enterprises add financial value to the Government of Saskatchewan. According to the Crown Investment Corporation (CIC) 2012 annual report, public enterprises generated a total of $478.9 million in earnings and $346.4 million in dividends which were returned to the Provincial Government (Mandryk 2013). The following description of returns generated by the major Crown Corporations demonstrates that a considerable number of public enterprises in Saskatchewan are valuable:

“SaskPower, $159.2 million in net earnings providing a $120-million dividend; SaskTel, $129.6-million profit, $84.3-million dividend; SaskEnergy, $106.5-million profit, $27.2-million dividend; SGI, $82.1-million profit, $52-million dividend; Saskatchewan Gaming Corp., $26.3-million profit, $21-million dividend and; Information Services Corp. (ISC), $21.2-million profit, $21-million dividend” (Mandryk 2013).

These returns have only reinforced the position taken earlier by the Saskatchewan Party, which committed to retaining control of the government owned utilities. Premier Wall has publicly stated a number of times that he has no intentions of privatizing any of the public enterprises listed in the Crown Corporations Public Ownership Act (Atkinson 2012). However, noticeable changes have occurred within Saskatchewan's public

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1 These Crown Corporations include: “(i) Crown Investments Corporation of Saskatchewan; (ii) the Liquor
It seems as though a shift is taking place which supports private ventures in settings which were previously dominated by public enterprises. Foremost, ISC has been privatized (Atkinson 2012; CBC News 2012). In line with this, several of the Crown corporations listed in the *Crown Corporations Public Ownership Act* actively seek out and participate in a competitive market. For instance, a number of services, such as telephone operators and cable installation, were offered by the public enterprise SaskTel but they are now done by private firms which hold contracts with this telecommunications Crown corporation (Atkinson 2012). These same firms are often in direct competition with SaskTel, such as Telus (Atkinson 2012). This practice transplants specific functions and niches which public enterprises fulfilled to private enterprises. The practice of contracting out work has noticeably increased in SaskTel, SaskEnergy and SaskPower (Atkinson 2012).

Through contracting out work public and private ventures become mixed and it becomes far more difficult to differentiate between the two sectors. The lack of a clear separation brings a significant question to the forefront. Does a firm's organization as a public enterprise alter its behaviour and/or the effects it produces when participating in a competitive market? Answering this question will make it possible to assess the value of maintaining a public enterprise.

The underlying public policy purpose for creating a public enterprise must be

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and Gaming Authority; (iii) Saskatchewan Gaming Corporation; (iv) Saskatchewan Government Insurance; (v) Saskatchewan Power Corporation; (vi) Saskatchewan Telecommunications; (vii) Saskatchewan Telecommunications Holding Corporation; (viii) Saskatchewan Transportation Company; (ix) Saskatchewan Water Corporation; (x) SaskEnergy Incorporated; (xi) SGC Holdings Inc.; (xii) TransGas Limited” (Government of Saskatchewan 2004).
understood in order to properly frame as well as comprehend the actions and consequences of a public enterprise (Chandler 1982). Public enterprises are only one of the instruments available to governments that help them obtain collective and/or financial goals (Allan 1998). A simple comparison of profitability, albeit illuminating in regards to respective firm performance, is not capable of illustrating the range of purposes of a public enterprise. To achieve this more nuanced perspective it is important to view the actions of a public enterprise from the public policy roles it is capable of playing. One of the best and most comprehensive approaches to classifying the varied public policy roles of public enterprise was provided by Chandler (1982). The three policy roles that she articulates are cultivating the private sector, altering the distribution of market outcomes, and promoting regional goals (Chandler 1982). These are used by all governments regardless of political ideology, albeit to varying degrees.

A public enterprise is capable of improving the private sector by investing in or reducing the costs of a private venture (Chandler 1982). In this role the market has a larger influence on the state of the economy than the public enterprise (Chandler 1982). Second, by altering the distribution of market outcomes a public enterprise can be utilized to bring about a more equitable society (Chandler 1982). Such an active role in the allocation of resources increases the amount of control the government maintains over the economy (Chandler 1982). Finally, a public enterprise can promote local goals which improve a specified geographical area (Chandler 1982). Favouring local conditions can compromise goals being pursued outside of the designated area (Chandler 1982). Through carefully evaluating the market performance of a Crown corporation it will be possible to
gauge how well each of these roles can be performed by the public enterprise SaskTel.

The telecommunications market in Saskatchewan offers a unique opportunity for this approach. SaskTel is the only provincial public enterprise within this geographic region and industry (Eisler 1997). SaskTel's singular position makes it possible to accurately isolate the ramifications of privatization within a competitive market setting. SaskTel will then be compared to Manitoba Telecom Services (MTS) by evaluating each firm's respective market performance. MTS was a public telecommunications enterprise in Manitoba until its privatization in the later part of 1996 (Black and Mallea 1997). MTS also has and continues to operate in a comparable environment and market place to that of SaskTel. These conditions make it possible to highlight any unique behaviours or effects made possible by operating a public enterprise within the competitive telecommunications market.

To answer the question of ownership, two hypotheses are required.

Hypothesis: SaskTel does not outperform MTS in any of the traditional policy roles described by Chandler (1982). Therefore, the public enterprise does not offer any unique advantages when compared to the private enterprise.

Alternative: SaskTel does noticeably outperform MTS in regards to at least one policy role described by Chandler (1982). Therefore, the public enterprise does offer certain unique benefits when compared to the private enterprise.

If the alternate hypothesis cannot be proven false, it will be possible to isolate the factors which make a public enterprise beneficial. Through determining which role, if any, SaskTel is best suited to play it will be possible to highlight the unique circumstances or
opportunities which are made exclusively available to a public enterprise and ultimately allow it to achieve better outcomes.

Policy roles of public enterprise

The three policy roles are cultivating the private sector, altering the distribution of market outcomes, and promoting regional goals (Chandler 1982). A better understanding of the three policy roles, and their corresponding purposes, is achievable through elaborating on the specific characteristics and political observations surrounding each one. After providing a more detailed understanding of each policy role, it is possible to clearly identify the measurements used to illustrate the performance of each firm and their respective capacities to accomplish each policy role.

In regards to the role of economic development, public enterprises were created to produce goods or services which would advance the private sector (Chandler 1982). This realm of activity is typically identified by a number of characteristics. First, they are intended to augment and build up the private sector, not take it over or control it (Chandler 1982). Second, they can be viewed, and criticized, as generating a profit with the public incurring more of the risk or cost (Chandler 1982). Finally, they are typically not seen as intrusive or as additional measures of state control (Chandler 1982). These types of publicly owned firms are typically implemented by non-left political parties as the state in this case functions more as a financier and sponsor since the market still largely influences the state of the economy (Chandler 1982). The reliance on the market place is quite apparent in the lender and subsidizer role a public enterprise could occupy.
This role places the private sector in a dominant position, and ultimately allows the market to have a larger influence than government directives. Neither SaskTel nor MTS have a specific mandate to help build a vibrant private sector in their respective provinces, although both have contributed to this role. Direct privatization added to the strength of the private sector in the case of MTS, and SaskTel has increasingly used the private market to allocate resources, form strategy and determine behaviour.

The extent to which each firm enhances the private sector can be evaluated through the total amount of revenue generated from local access services and the amount of profits produced by each firm. Local access revenues reveal the capacity of each firm to adjust to changes in demand and subsequent market shocks. The net profits reveal how well each firm performs the profit-maximizing objective of a firm. Comparing the ability of public and private enterprise to maintain value in a changing, competitive market illustrates the effectiveness of each ownership structure. However, public enterprise has also been implemented to achieve goals which rely on interfering in market processes.

The equitable function of a publicly owned firm is more intrusive. These refer to public enterprises that are meant to alter the allocation of economic advantages and strengths (Chandler 1982). These firms, by default, increase the state's control over the economy through direct intervention as they are designed to alter some part of the current market allocation in order to bring about a more equitable society (Chandler 1982). They can also function as an influential foundation for the province, although the winners and losers of policy choices are more visible (Chandler 1982). These public enterprises are commonly associated with left parties as they foster a more equitable society and increase
the government's control over the economy, although several have been maintained by incoming non-left parties (Chandler 1982). SaskTel is tasked with this role through its Crown corporation mandate. This public enterprise is required by legislation to provide high standards of services that are both widely available and reasonably priced (SaskTel 2013a). A central purpose for creating and maintaining SaskTel is to operate a communications network that is accessible to the majority of residents in the province and offer services at a price that is affordable. Through this role the government is able to interfere with the market's otherwise normal distribution of benefits and costs in order to foster a more equitable society (Chandler 1982). Adversely, the private firm MTS will only perform these distributive roles when required by current regulations or when seen as advantageous within a competitive atmosphere.

The capacity of each firm to accomplish the distributive role can be determined through evaluating the level of employment each firm engages as well as the amount of funds provided for capital expenditures. These address a public enterprise's unique ability to artificially control its market outcomes in order to achieve societal goals (Black and Mallea 1997). Through measuring the level of employment it is possible to determine if Saskatchewan residents benefit from an artificially enlarged labour pool. The amount of capital expenditure measures the investments made by each firm in order to expand and enhance their services. The measurements make it is possible to determine if a public or private enterprise is better suited to maintain a higher rate of employment and improve services through larger investments. Through discussing these costs it is possible to determine the extent to which each pursues communal goals in order to foster a more
equitable society. But, this distributive role of a public enterprise is limited to the residents of its home province and the residents experience differentiated benefits and costs (Chandler 1982). Public enterprise also has the ability to play a third role.

This final role is advancing regional goals and participating in province building activities. This occurs when a public enterprise is designed to promote local activities and aims at the cost of participating in activities which are taking place outside of the given area (Chandler 1982). This undertaking is seen as promoting political, social, and market benefits within a given region (Chandler 1982). However, this function is unique as both left and non-left parties have chosen to create such public enterprises. Non-left parties typically view it as a possible foundation for influencing market processes as it reduces the vulnerability of open markets (Chandler 1982). Left parties claim that such a practice can allow some political and economic advantages to be redistributed or deconcentrated as well as permit a certain level of government planning to exist (Chandler 1982). In the case of SaskTel, this provincial focus is required through the Saskatchewan First Policy, The Saskatchewan Telecommunications Holding Corporation Act and The Crown Corporations Public Ownership Act (Government of Saskatchewan 2008;1993;2004). SaskTel as a public enterprise provides dividends to the provincial government, avoids tax payments which are required by its private competitors, and is able to access loans from Saskatchewan's Ministry of Finance directly. These opportunities allow SaskTel to concentrate its earning within Saskatchewan and shelter the telecommunications firm from the private market. MTS participates in this activity through private interest and government regulations, such as paying all applicable taxes.
This province centred role can be adequately measured by examining the tax and dividend payments provided by each enterprise, as well as the level of debt held by each firm. These practices illustrate the idea of advancing provincial goals by outlining the amount of resources each one commits to improving the communities in which they operate as well as the ability of each firm to reduce the risk of holding larger debt loads. In addition to these functions, it is necessary to consider the political feasibility of maintaining and operating a public enterprise. The political aspect of public enterprise becomes more significant in Saskatchewan because most residents see public enterprise as valuable (Jang 2002).

A common misconception is to simply label non-left parties as favouring privatization and left parties as favouring public enterprise. However, the value of public enterprise depends far more on the functions of the specific firm than its ownership structure (Chandler 1982). Every party that has held office has interfered in the marketplace through directly producing goods and services in a competitive market (Laux and Molot 1988). As each political party has interfered in the open market, it becomes clear that a simple distinction between political leanings and ideologies is not advantageous when evaluating public enterprise.

Evaluating the political feasibility of a decision seems as though it could bear more fruit. Elected officials can be assumed to have one primary goal in every decision, which is to increase the possibility of being elected again, or maximizing votes (Trebilcock and Prichard 1983). This concept of vote maximization, although admittedly one-dimensional, will cause a politician's principles to be influenced by the presence and
actions of other participants in the political arena (Trebilcock and Prichard 1983). Factors that one group of stakeholders will see as advantageous can be seen as disadvantageous by another group of stakeholders, corresponding to the extent that such factors impact their desires (Trebilcock and Prichard 1983). Elected officials will be effected by the push to increase votes while balancing and evaluating these opposing perspectives (Trebilcock and Prichard 1983). In short, this variable includes the political viability of adopting or privatizing a public enterprise in order to promote the self-interests of elected officials. This is needed due to the decision making process surrounding public enterprise.

Any action regarding changing the ownership structure of a public enterprise will inevitably be cast as a political decision. This has led some to the conclusion that the process of privatizing a firm is always political (Janzen et al 2001). It is often seen as a manifestation of neoliberal thought which corresponds to economic dilemmas and orientations which have emerged (Janzen et al 2001). This political argument can be expanded to include the purposes of a public enterprise as described by Chandler (1982). She clearly states that right-leaning and left-leaning parties both create public enterprises, but the roles they are intended to occupy are substantially different, except in the case of promoting provincial goals (Chandler 1982). Therefore, the concept of political feasibility requires attention when discussing the purpose and performance of public enterprise.

However, it is short sighted to claim that a public enterprise will be implemented by a political decision maker in every situation where he or she would be in a better position to achieve the end goal of re-election (Trebilcock and Prichard. 1983). This realization demonstrates that an elected official most likely considers a number of factors
when making decisions instead of pursuing the single objective of keeping his or her office. Therefore, this fourth criteria of political self-interest, although important to understanding public enterprise, cannot function as a cornerstone for evaluating the effectiveness of this instrument because the considerations driving such actions are inconsistent. By measuring the market performance of SaskTel and MTS through the policy roles of augmenting the private sector, controlling the distribution of market outcomes, and promoting provincial goals it will be possible to determine whether or not a public enterprise offers any unique opportunities for the province and/or political decision-makers.

SaskTel did outperform MTS in regards to its ability to promote local goals due to the dividends which are provided to the provincial government as well as the lower debt load held by SaskTel. However, such a conclusion largely depends on the perspective and subsequent bias of the stakeholder. If the resident is in Saskatchewan, he or she may claim that SaskTel is more effective due to the dividends given to the local government and the mandated *province first focus* of this Crown corporation. However, if the resident takes a national perspective, he or she may claim that the operations of SaskTel do not promote the well-being of the country to the same extent as MTS. The material wealth produced by SaskTel is concentrated in Saskatchewan. This local preference could be compared to a protection-based economic approach which is made visible through economic rent seeking. Rent seeking occurs when a participant in a market attempts to capture a surplus or profit through exploiting the resources he or she has access to, which results in an unbalanced allocation of advantages and disadvantages (Parkin and Bade 2006b). The
resources in this case are SaskTel and its dominant position within Saskatchewan's telecommunications market; the resulting benefits are the dividends provided to the provincial government, the lack of taxation provided to the national government, and the sheltered position of SaskTel since it can borrow funds at below market rates. As a public enterprise SaskTel is able to avoid outlays required by its private competitors and concentrate returns inside the province. Such local concerns significantly alter the economic ideals which are put forth by the government (Quinn and Toyoda 2007). The geographically specific advantages of SaskTel have the capacity to influence the choices of political decision-makers since benefits are concentrated in the province and promote his or her constituents. The benefits of SaskTel seem limited to its promotion of local goals alone though.

In regards to promoting the private sector MTS was able to absorb market shocks better and produce higher profits. MTS is also the embodiment of enhanced private sector participation since it is now a private enterprise providing identical services in a competitive market setting. Federal regulations have also been introduced in the telecommunications industry which are meant to enhance competition.

SaskTel was also unable to outperform MTS in regards to the equitable distribution role measured through levels of employment and the capital investments made by each firm. Even though SaskTel is a Crown corporation with a legislative mandate to provide services at an affordable rate, the characteristics of the telecommunications marketplace have incentivized MTS to provide higher rates of employment and more funding for investing in the materials required to produce
telecommunications services.

Based on this analysis the original hypothesis is shown to be false. This original position stated that SaskTel would not outperform a private firm in any of the traditional policy roles described by Chandler (1982), leading to the conclusion that a public enterprise within the telecommunications industry does not offer any unique advantages. However, this analysis alternately concludes that SaskTel, even though it is now operating in a competitive market, still noticeably outperforms the private firm in regards to at least one policy role as described by Chandler (1982), and therefore a public enterprise does offer certain unique benefits. This public enterprise outperforms the private firm in its ability to fulfil the role of province building.

Before reaching this conclusion though, it is necessary to establish the economic justifications for both creating and privatizing a public enterprise.
CHAPTER TWO: THEORETICAL FRAMEWORK

The economic setting, market conditions, and government actions of an industry significantly impact the existence of public enterprise. Chapter 2 explores the broad economic concepts which are relevant to an understanding of public enterprise. Once public enterprise is established as a legitimate tool for governments to use, it is possible to elaborate on various responses to public enterprise within a federal context. Through this discussion of economic policy it will then be possible to more accurately describe Saskatchewan's unique stance within such a framework. As a result, the historical orientation of this province will become clearer. This discussion will begin broadly by addressing the array of economic thoughts and their corresponding evolutions in regards to public enterprise and the related concepts.

The guiding economic principles which determine the allocation of goods and services appear to reflect a vast spectrum. The most notable positions, at this time, seem to be those that range between Keynesian economic policy and a strict interpretation of neoliberal thought. The former is predicated on central planning and the government playing an active role in the economy (Peck 2008). The common course of this approach is to initially describe desired ends and targets that will bring about an improved society and then establish means of accomplishing these ends (Weimer and Vining 2011). It is commonly theorized that through such actions the short sighted and chaotic nature of a private market can be avoided (Weimer and Vining 2011). However, conservative neoliberal thought stands in opposition to such a mapped world.

A neoliberal perspective claims that such a planned approach to economic activity
is the catalyst to a series of events which would inevitably result in government despotism (Peck 2008). The neoliberal argument can be generally understood as claiming that the strongest way to maintain and ensure human welfare is through individually centred fiscal and social liberties and, subsequently, that state interference in the market place ought to be minimized (Cohen and Pulkingham 2009). This deference to private actions and an open market are cornerstones of the neoliberal doctrine. Both of these general orientations are prevalent within Canada, and each clearly holds different views of the validity of public enterprise.

Canada's economic orientation and corresponding policies have evolved over time, but active involvement in the nature of economic growth has always resulted in some form of public ownership. Whether it is the Canadian National Railway, Ontario Hydro, or the Canadian Broadcasting Corporation, Canadian governments have always and continue to use public enterprise (Chandler 1982). The widespread appropriation of Keynesian economic policies is typically thought to have taken place shortly after the close of World War II in the 1940s (Miljan 2008; Foucault 2008). This reflected Canada's commitment to both high levels of employment and a willingness to incur deficits in order to achieve social goals (Miljan 2008). However, Canada's more recent prioritization of debt reduction, price stability, and international competitiveness have clearly demonstrated a shift, or at least a revamping, of ideology since the 1990s (Miljan 2008). These self-imposed actions of limiting spending and expanding upon efficiency outline a movement from collective to personal choice. This emphasis of the individual plays a large role within neoliberal thought (Foucault 2008). But, Canada has clearly not
undergone a complete paradigm shift, as public spending remains quite obvious in many areas such as health and education.

The unique position of Saskatchewan is based on both the people as well as the geographic setting. As of 1944 Saskatchewan was seen as a centre for the New Democratic Party/Co-operative Commonwealth Federation (NDP/FCC) with the strong inclinations that a government ought to both assist in developing the economy and advancing the welfare of the community (Pitsula and Rasmussen 1990). This more communal mindset illustrated a clear preference for Keynesian policies. In addition to this, the population of Saskatchewan was and continues to be widely dispersed (Pitsula and Rasmussen 1990). This greatly diminishes the capacity of a private industry to establish the necessary markets at affordable production and consumption rates. As a consequence, despite periods of privatization, all governments in this province have made and continue to make use of public enterprise.

While there was a strong effort to curtail public ownership of commercial enterprises in the 1980s by the Devine government, this was never completed (Pitsula and Rasmussen 1990). Even with the coming of the right of centre Wall government the province has continued to see the use of public enterprise, most notably in its creation of Enterprise Saskatchewan. This agency was implemented in 2008 through the Enterprise Saskatchewan Act. This public undertaking was tasked with furthering the financial objectives and targets of the Government of Saskatchewan through principles that advocated increasing the role of the private sector in the economy (Government of Saskatchewan 2008). Both of these conservative governments spent public funds to
increase the size of the private sector. They also never eliminated publicly owned utilities and continued to establish new public enterprises when they saw a need that could not be met by market forces.

The province is changing in character and has become more open to privatization. But, public enterprise remains an active and legitimate option for governments (Parkin and Bade 2006b). The goal at this point is to accurately understand the nature of public enterprise as well as expound upon the relevant roles it may still occupy.

Understanding public enterprise

In order to properly comprehend the public enterprises implemented by government this section will expound upon several key points. First, it is necessary to carefully define the current practice of public enterprise so that a common understanding can be achieved. This adds clarity to the main ideas and concepts that are being discussed. Second, this section outlines the initial motivations for establishing a public enterprise in the telecommunications industry in Saskatchewan. Finally, due to the innovations and technological advancements in the telecommunications sector these more conventional justifications of creating clear boundaries between public and private enterprises appear to have fallen by the wayside. Through carefully discussing the roles of a public enterprise, as outlined by Chandler (1982), it will be possible to establish solid concepts through which the actions and intentions of public enterprise can be evaluated. Before moving further though it is crucial to accurately understand both the evolution and meaning of public enterprise.
The goal of government, broadly stated, is to sustain public cohesion and coordinate communal undertakings (Stoker 1998). A general yet cohesive economic approach is required in order to achieve these mandates. Canada's current economic orientation can be described as a neoliberal approach due to its growing reliance on the private market while also maintaining practices which interfere in the functions of the market to being about desired social ends. Under such an orientation public involvement in the market place remains open-ended (Peck 2008). However, the concepts of neoliberalism were specifically intended to go beyond the simple regulatory roles of the state under laissez-faire; rather supporting an active role for the government as it ought to maintain a framework for allowable competition (Peck 2008). The state is not seen as a negative entity designed to simply watch, and possibly enforce, economic policies for the sake of laissez-faire activity in this country. Rather, the government plays an active role in the functions of the economy. This approach is generally designed to promote effective competition and advance personal freedoms in order to facilitate most economic functions (Peck 2008). This orientation towards a government meant to enhance personal choices and competition, while ensuring the delivery of services, has confused and mixed the actual makeup of current economies.

The framework of a capitalist economy is far more complex than usually presented. The simplified argument that an open market structure is the most beneficial form for allocating goods and services is much more straightforward than the actual ways economic undertakings are overseen, which normally includes an array of non-market practices (Nelson 2011). In such an opaque reality public interference in the market place
is visible in a number of ways.

Every enterprise, be it public or private, is obliged to follow government pressures and orientations through a number of policy actions such as regulation, taxation, subsidies, procurements, etc. (Trebilcock and Prichard 1983). Previous and current government actions demonstrate that participating in the market place is not a question of involvement, but rather a choice of how involved the government ought to be (Trebilcock and Prichard 1983). Even within the area of public enterprise alone actions by the state can take multiple forms. Public enterprise can be argued to occur when the state expands its participation in production, both indirectly by reducing costs or altering organizational arrangements and directly by establishing public firms (Laux and Molot 1988). Public enterprise is, at its most basic level, a deliberate decision made by the state to direct economic activity (Laux and Molot 1988). However, for the purposes of this discussion such a definition proves too vague as it nearly encompasses any activity undertaken by the state which could affect production and/or consumption levels.

It seems more prudent to understand a public enterprise as any organization or institution which a government has possession over or directs their activity, is separated from the typical departmental structures of government, and that distributes goods and/or services in a commercial or quasi-commercial setting (Chandler 1982). This form of government involvement in the economy has been described as a more recent profit-oriented direction since the state is no longer visibly separate from private firms (Laux and Molot 1988). This lack of separation stems from the observation that the state ultimately substitutes itself for private firms. The government now commonly possesses
the resources required for producing a product, employs labour for that end, offers the product in the open market, and commonly reinvests any surpluses (Laux and Molot 1988). This participation in private markets and profit seeking behaviour can be achieved through a number of activities, but the central one to this thesis is the action of public enterprise. From a modern perspective, this definition of public enterprise accurately describes the current functions of SaskTel and the telecommunications industry. However, the initial desire to create a publicly owned firm that would participate within the telecommunications market does not correspond to this current understanding of public enterprise.

When the telecommunications industry was introduced in Saskatchewan, the available technology required that a natural monopoly be established. A system which utilized two or more separate entities was not practical (Love 2003). The necessity of a single system brought the question of ownership to the forefront. This specific example highlights the common theoretical justification for creating a public enterprise.

Through collective action a society is able to create, allocate, and purchase a large number of differentiated goods (Weimer and Vining 2011). Most of this collective action comes about through freely chosen actions between people (Weimer and Vining 2011). The current market system of allocation relies heavily on private choices meant to further the self-interests of each individual that is involved. However, this general rule can result in inadequate allocations of goods and services. In such circumstances public policy is utilized to address and correct collective action through the forceful powers of the government; it can incentivize, disincentivize, forbid, or specify private undertakings.
(Weimer and Vining 2011). Therefore, it becomes clear that decision makers are responsible for providing justifications for any government undertaking which could affect private decisions (Weimer and Vining 2011). One of the most widely accepted justifications for interfering in private choice and the market place is the existence of a market failure.

A market failure is any situation in which independent, unguided behaviours do not lead to an efficient allocation of goods and services (Weimer and Vining 2011). Efficiency refers to distributing goods and services in such a manner that no one person is able to be in a more advantageous position without reducing the position of another person (Weimer and Vining 2011). Efficiency could be increased under some alternative form of distribution if a market failure occurs (Weimer and Vining 2011). Such situations include the existence of public goods, externalities, natural monopolies, and information asymmetries (Weimer and Vining 2011). At this point it is possible to focus on the market failure of a natural monopoly because this situation was the motivation for creating the firm that is now called SaskTel.

A natural monopoly becomes evident when the average cost of a firm continuously falls when compared to the corresponding demand (Weimer and Vining 2011). Under such circumstances one enterprise can produce the necessary goods or services at a reduced cost when compared to other forms of market structures, such as a competitive framework (Weimer and Vining 2011). This concept is illustrated in Figure 1 below. Coordinates P*, Q* represent the efficient market allocation of this good. Whereas coordinates Pm, Qm represent the price and quantity, respectively, that would be achieved
under monopoly pricing because marginal revenue is equal to marginal cost at these points (Weimer and Vining 2011). Both of these situations pose significant problems.
Figure 1: The economic result of a natural monopoly

- $P^e, Q^e$ = Efficient Pricing
- $P_m, Q_m$ = Monopoly Pricing
- $D$ = Demand
- $MR$ = Marginal Revenue
- $MC$ = Marginal Cost
- $AC$ = Average Cost (fixed cost is included in this value)

Deadweight Loss at Monopoly Pricing

(Weimer and Vining, 2011, 98)

(original in colour)
Reducing the required monopoly to a price that is efficient will push it out of the market place (Weimer and Vining 2011). But, permitting the monopoly to establish a price that only maximizes profits creates a deadweight loss (Weimer and Vining 2011). Deadweight loss refers to inefficiency (Weimer and Vining 2011). Ultimately, an industry which is predicated on the existence of a natural monopoly, if left alone, is either unsustainable or inefficient. Therefore, some form of public policy seems justified in order to rectify the market failure and improve the efficiency of the market (Weimer and Vining 2011). Now it is possible to more accurately discuss the potential policy responses to such a market arrangement.

Certain economic issues can be resolved through a variety of public policy actions. It is generally accepted that a public enterprise is one way to mitigate the effects of a natural monopoly (Trebilcock and Prichard 1983). However, it is also typical to allow a private firm to establish a monopoly which is then subject to public regulation in order to address the economic impacts introduced by the market failure of a natural monopoly (Trebilcock and Prichard 1983). As stated earlier it is a question of instrument choice for a government. From this foundation it is possible to discuss the telecommunications industry specifically.

Both forms of government involvement were, and still are, present within this sector. Within Canada the telecommunications industry has been historically viewed as a natural monopoly (Trebilcock and Prichard 1983). In line with this observation, as of 1983, Newfoundland and Labrador, Nova Scotia, Prince Edward Island, New Brunswick, Quebec, Ontario and British Columbia had private firms that were subject to public
regulations providing telecommunications services (Trebilcock and Prichard 1983). Simultaneously Manitoba, Alberta and Saskatchewan had public enterprises providing the same services. In Manitoba and Alberta they were under the jurisdiction of a regulatory public utilities board while in Saskatchewan the public enterprise remains under the jurisdiction of direct Cabinet regulation (Trebilcock and Prichard 1983). This previous market structure sheds light on the alternatives available to governments as well as historical practices. But, the present makeup of the telecommunications industry is quite different in certain regards.

Foremost a small number of telecommunications firms hold a dominant position. Ten large firms held more than 90% of the $43.9 billion revenues earned in this market in 2012 (CRTC 2014b). Consumers currently have access to six areas of telecommunications services: local access, long distance calling, Internet use, data plans, private line, and wireless (CRTC 2014b). A substantial proportion of this market is made up of wireless services, which accounted for 46% of the total revenues; wireline and voice services accounted for 26%, Internet services made up 17%, and data and private line services accounted for 11% (CRTC 2014b). Subsequently, firms which participated in each of the available markets maintained 87% of the total revenues, whereas enterprises operating in only one of these areas claimed 1% of the total revenues (CRTC 2014b). Bell, Rogers and Telus maintain dominant positions within the wireless and cellphone sectors, with a combined market share of approximately 90% in regards to wireless services in the fourth quarter of 2012 (Rogers 2012). The Canadian Radio-television and

2 The Top 10 firms are: Bell, MTS, Rogers, Shaw, Telus, Bragg, Cogeco, Quebecor, SaskTel and Telesat Canada (CRTC 2014b).
Telecommunications Commission (CRTC) has taken active steps to address this lopsided market.

The federal government recently blocked Telus' investment plan to buy out Mobilicity for $380 million (Avery 2013). Active market interference, alongside new regulations, have clearly demonstrated the government's willingness to alter the telecommunications sector in order to bring about desired ends (Avery 2013). In addition to this, incumbent service providers can only purchase a limited amount of the available wireless spectrum in order to ensure that new entries in the market are able to compete, including foreign competition (Avery 2013). Such regulations follow a neoliberal orientation as they attempt to create the best possible framework for firms to both compete in and provide services. As few firms continue to hold dominant positions and seek out new opportunities they are also subject to the oversight of a more active regulatory structure (Avery 2013).

But, this national perspective seems to misrepresent the actual conditions within certain geographical locations. This misrepresentation seems especially true when considering the provinces Manitoba, Alberta and Saskatchewan. In these provinces incumbent providers have maintained a majority of the market share in regards to residential and business line services in each of its major urban centres (CRTC 2012). Each of these jurisdictions are also quite competitive as both large and small providers participate in the telecommunications market (SaskTel 2013a). SaskTel maintains a majority of the market share within Saskatchewan (SaskTel 2013a). MTS holds a similar

3 Several jurisdictions are not being included in this discussion because they would dilute the observable impacts caused by privatization. This work focuses on comparing similar market conditions.
dominant position with Manitoba (MTS Inc. 2013a). In Alberta though the telecommunications market appears more competitive since its former public enterprise, Alberta Government Telephones, was privatized in the early 1990s becoming the firm Telus (Anonymous 1990).

The telecommunications public enterprise in Saskatchewan was, in large part, created to offset the negative effects of a natural monopoly so that the public goal of providing communications services to every resident of Saskatchewan at an affordable rate could be achieved (Trebilcock and Prichard 1983). Other provinces sought a similar objective through public regulation. Therefore, it is not possible to assume that this particular market failure necessitates the response of a public enterprise in order to operate efficiently (Trebilcock and Prichard 1983). Such an explanation ignores the array of changes in both regulatory schemes and market arrangements which now exist in the telecommunications industry.

The privatization of public enterprise

Privatization rationales broadly claim that the public sector should be reduced and replaced by the private sector in regards to the production and sale of goods and services (Trebilcock and Prichard 1983). The influence of the open market is valued over the pursuits of the government. But, the practice of privatization needs to be evaluated in terms of the alternative choices which are available. In order to determine the value of choosing either public enterprise or private enterprise it is important to discuss the
regulatory and structural changes which have taken place in the telecommunications sector. Through discussing the context of the telecommunications industry it is possible to determine how unique the functions and operations of a public enterprise are. Significant changes have occurred in telecommunications sector which have made it possible for private enterprises to pursue the three policy roles traditionally reserved for public enterprises, which are often seen as a defence for maintaining a public enterprise within a given industry or area.

Arguments advocating for privatization most often claim that significant advantages and gains will be made through this practice. It is claimed that privatization has the ability to significantly aid in both decreasing the magnitude of the public sector as well as re-establishing the private sector as the dominant player in the creation, distribution and sale of goods and services (Trebilcock and Prichard 1983). But, these sentiments remain contested or unseen. Rather than this approach, the decision to privatize a public firm should be made from a comparative perspective. This approach argues that privatizing a public enterprise should be judged based on the available substitute policy instruments and the roles they can fill (Trebilcock and Prichard 1983). This approach examines the context a firm operates in as well as its purposes. The available instruments will be limited to (a) public enterprise and (b) private enterprise subject to public regulation. The justifications for pursuing the privatization of a public firm can be broken down into two broad categories.

Changing the ownership structure of a public enterprise has been justified, first, when there is an alteration in the original goal of the firm or, second, an alteration in the
ability of that firm to efficiently achieve its goals (Trebilcock and Prichard 1983). Privatizing a public firm due to the alteration of desired public ends points to a revamping or removal of the communal objective which the public enterprise was originally intended to produce (Trebilcock and Prichard 1983). Or, the public enterprise may not be the best policy tool available to successfully obtain the stated goals in an efficient manner due to changes over time (Trebilcock and Prichard 1983). The public objective of SaskTel was and continues to be to provide widely accessible and modestly priced communication tools to the province of Saskatchewan (Love 2003). These concerns of accessibility and cost can be achieved by a private firm within the telecommunications sector due to increased competition and federal regulations. But SaskTel continues to operate as a public enterprise in spite of these advancements in the telecommunications sector.

Privatizing a Crown corporation due to changes in the communal goals or the efficiency of public enterprise typically points to industry wide modifications. Moving towards privatization can occur when adaptations take place in either the judicial and regulatory factors which govern a firm's operations, or the structural factors which determine the conditions of service delivery (Trebilcock and Prichard 1983). The telecommunications sector has experienced large shifts in both of these areas.

The federal regulations regarding telecommunications have been significantly altered since the 1990s. Foremost, the Telecommunications Act was introduced in 1993 (Government of Canada 1993). According to federal legislation the telecommunications industry plays a critical function in preserving the character and freedom of Canada (Government of Canada 1993). As a result of the significance placed on this sector, three
objectives of Canadian telecommunications policy are “(b) to render reliable and affordable telecommunications services of high quality accessible to Canadians in both urban and rural areas in all regions of Canada; (c) to enhance the efficiency and competitiveness, at the national and international levels, of Canadian telecommunications; (d) to promote the ownership and control of Canadian carriers by Canadians” (Government of Canada 1993). The policy objectives outlined in the Telecommunications Act are designed to augment the private sector, control the distribution of costs, and promote the national economy through encouraging Canadian ownership. The three policy functions traditionally seen as unique to public enterprise are a priority under federal legislation, which applies to every private telecommunications firm. The regulatory factors which govern a firm's operations changed significantly in the telecommunications sector during the early 1990s and now pursue comparable social and competition-based objectives through regulating private firms as opposed to public enterprise.

The structural workings of the telecommunications industry have also changed substantially. Technological advancements now allow multiple firms to provide comparable services in the same geographic area (SaskTel 2012). Through innovations in communication the telecommunications industry has become increasingly competitive (SaskTel 2013a). A private firm now has the capacity to enter the telecommunications market and provide competitive services. The structural conditions which determine the possibilities of service delivery have made a competitive market possible in the telecommunications industry. The existence of efficient competition removes the market

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4The roles traditionally seen as unique to public enterprise are augmenting the private sector, controlling the distribution of market outcomes, and promoting local goals (Chandler 1982)
failure of a natural monopoly traditionally applied to the telecommunications industry.

The regulatory and structural workings of the telecommunications industry have changed substantially through federal regulations and technological advancements. It seems as though the current state of the telecommunications industry would justify privatization because the traditional justifications for maintaining a public enterprise are also priority under federal regulations. Pursuing a competitive, modestly priced, widely accessible, and nationally focused telecommunications sector can be achieved through regulating the operations of private firms. However, the regulatory and structural advancements have only been seen from a national perspective.

The unique character of SaskTel stems from its relationship with the province. As a public enterprise SaskTel is afforded unique opportunities by Saskatchewan, such as borrowing funds directly from the provincial government (Government of Saskatchewan 1993). But, SaskTel may have lost some of its unique character when it became subject to CRTC regulation in 2000 (SaskTel 2014b). Through carefully observing the market performance of both SaskTel and MTS it will be possible to determine whether or not the special possibilities afforded to a public enterprise result in any advantages and disadvantages as determined by the three roles typically ascribed to public enterprise.

Through the concepts of augmenting the private sector, altering market distribution, promoting provincial goals, and evaluating political decision making it is possible to measure the performance of both SaskTel and MTS. If it is found that MTS performs the three roles to a greater extent than SaskTel, then it can be concluded that a public enterprise within the telecommunications industry does not offer any unique
benefits. But, the opposite may be found and lead to the conclusion that a public enterprise is worth pursuing in the telecommunications market because it offers at least one unique benefit in regards to the roles it can perform. To justify this comparative approach between two firms in separate locations it is necessary to clearly understand the motivations for creating and privatizing MTS within Manitoba and how this compares to the circumstances found within Saskatchewan.
CHAPTER THREE: COMPARABLE ENVIRONMENTS, CONTRASTING RESPONSES

The similarities that exist between Manitoba and Saskatchewan offer a homogenous setting. The uniformity of these provinces is established through discussing geographic, population and economic indicators. The comparable environments of Manitoba and Saskatchewan allow the consequences of each province's choice regarding public enterprise, within the telecommunications industry, to be isolated. The opposite reply of each province is enhanced through a brief outline of the history of MTS, with special attention given to the mid-1990s. These years require special attention because the bill to privatize MTS was passed in 1996 (Black and Mallea 1997). The comparison concludes that both of these provinces offer a uniform context; therefore, both SaskTel and MTS have and continue to function in homogenous settings in terms of their respective home provinces. This demonstrates that MTS is the best firm for evaluating the public enterprise structure of SaskTel since it is possible to isolate the actual impacts and results of privatizing a telecommunications firm.

Saskatchewan and Manitoba can be accurately described as similar areas due to their shared characteristics of geography, population demographics and economic makeup as described by available census data. In regards to geography, both of the prairie provinces cover similar land areas. Saskatchewan covers “588,239.21 square kilometres with a population density of 1.8 persons per square kilometre” (Statistics Canada 2012b). Manitoba covers “552,329.52 square kilometres with a population density of 2.2 persons per square kilometre” (Statistics Canada, 2012a). Both of the provinces are roughly
equivalent in regards to size, which is below the national average “of 8,965,121.42 square kilometres with a population density of 3.7 persons per square kilometre” (Statistics Canada 2012a).

Both provinces also exhibit similar trends in regards to their respective populations. The populations of Saskatchewan and Manitoba move in concert from 1996 to 2011. This is illustrated in Figure 2 below. The aggregate population of Manitoba during this time frame continued to outpace Saskatchewan, however the movements within these populations are comparable. Both experienced modest changes until 2006, at which point each one saw a noticeable increase in the number of residents.
Figure 2:

Populations of Manitoba and Saskatchewan

Source: Statistics Canada 1996; 2006; 2011a

Note: Since the Canadian Census takes place every 5 years, population numbers are only provided for 1996, 2001, 2006 and 2011.
Each location has had to deal with comparable issues of change throughout this time period as well. Both provinces exhibit sharp divides in regards to urban and rural residences. The urban and rural separation seen in Manitoba and Saskatchewan are demonstrated in Figure 3 below. In both provinces the rural populations accounted for significantly smaller proportion of the population. Rural areas also showed little change, either moving slightly or remaining constant. On the other hand, urban populations account for the majority of the populations in each province. Urban populations also considerably increased from 2006 to 2011.
Figure 3:

Urban and rural divide in Manitoba and Saskatchewan

Source: Statistics Canada 2011b; 2011c

Note: Since the Canadian Census takes place every 5 years, urban and rural population numbers are only provided for 1996, 2001, 2006 and 2011.
The Gross Domestic Product (GDP) of Saskatchewan and Manitoba also closely resemble one another. This is illustrated in Figure 4 below. More recently Saskatchewan has outpaced Manitoba in regards to provincial GDP (Statistics Canada 2013b). Until 2008 the provincial GDP of Saskatchewan and Manitoba moved in tandem though. In 2008 Saskatchewan experienced a noticeable spike in GDP while Manitoba continued to grow incrementally. However, this broad view of the economy may oversimplify the actual makeup of Saskatchewan and Manitoba. By briefly outlining the more detailed indicators of the labour market, prices and prominent industries observed in each province it is possible to more accurately describe their economic positions.

In regards to the labour market, Saskatchewan has a participation rate of 69.6% and an unemployment rate of 3.6%, whereas Manitoba has a participation rate of 68.3% and an unemployment rate of 5.5% (Statistics Canada 2013a). Both of these figures outperform the national averages, which report a participation rate of 66.4% and an unemployment rate of 6.9% (Statistics Canada 2013a).

Prices, as determined by the consumer price index, follow a similar pattern with Saskatchewan reporting a value of 126.4 and Manitoba reporting a value of 124; both of these figures exceed the national average of 123.3 (Statistics Canada 2013a). In addition to these general trends, both provinces rely on similar industries to fuel economic progress. Saskatchewan and Manitoba rely on crop production, oil and gas extraction, mining, construction, retail and trade (Statistics Canada 2012c). These shared industries are largely due to their similar geographic and market positions.
Source: Statistics Canada 2010a; 2010b

Note: Data for 2011 and 2012 were unavailable in the source listed above. In order to ensure that GDP was calculated in a uniform way throughout this time period it was necessary to use a single source. Otherwise, the relative performance of each province could have been skewed due to the varying ways used to calculate GDP.
These provinces closely resemble one another in terms of geography, population, and economic conditions. Both are below the national average in terms of physical size and population density. Both experience similar population movements and have a comparable divide between urban and rural residents. The GDP of both provinces move in concert over this time period. Both have a higher labour participation rate and a lower unemployment rate than the national average. Finally, both rely on the same industries, albeit it to different extents, to fuel economic activity. Considering these characteristics, Saskatchewan and Manitoba occupy an approximately homogenous position within Canada. The shared position of each province lends itself to analyzing the performance of SaskTel and MTS since it is possible to isolate the impacts of each enterprise to a greater extent. From this shared foundation, it is possible to closely examine the motivations and actions of Manitoba's provincial government in regards to their privatization of MTS.

A historical account of privatizing MTS

As stated earlier, both firms were originally created to offset the effects of a natural monopoly through public enterprise schemes (Trebilcock and Prichard 1983). The only noticeable difference at the time was the regulatory framework of each firm. SaskTel has been directly overseen by and responsible to a Minister in the Provincial Cabinet since the early 1990s as required by *The Saskatchewan Telecommunications Holding Corporation Act* (Government of Saskatchewan 1993). SaskTel still remains under the control of the Provincial Cabinet, but this public enterprise has also been subject CRTC regulations since 2000 (SaskTel 2014b). MTS was subject to regulation through public utility boards
as a public enterprise (Trebilcock and Prichard 1983). MTS also became subject to CRTC regulations, before privatization, in 1994 (MTS Inc. 2014c). The regulations of the CRTC have applied equally to public and private enterprise since 2000. Even though the regulatory regime has become uniform, the shared ownership structures of MTS and SaskTel ceased to exist in 1996 due to privatization.

Several noteworthy circumstances, justifying both ongoing public enterprise as well as moving towards privatization, surrounded MTS in the mid-1990s. First, in regards to public enterprise, the leader of the Manitoba Conservative Party Gary Filmon stated that he had no intentions of privatizing Manitoba Telephone System, a historic Crown Corporation in Manitoba, while pursuing re-election (Marketing Magazine 1996). However, a year later, facing broad resistance from a number of players Premier Gary Filmon passed a bill in the legislature which allowed MTS to be sold (Marketing Magazine 1996; Black and Mallea 1997). In addition to this political aspect, MTS experienced a shift in objectives after privatization. Under the structure of a public enterprise MTS was required to undertake actions that would create a communications platform that was modestly priced and universally accessible to all Manitobans (MTS Inc. 1996). However, as a private firm MTS is now following the sole objective of reducing costs and generating profits (MTS Inc. 1998). It seems as though the private market could maintain this former public mandate through regulations and competition though. The most prominent effect was that privatizing the public firm inhibited the ability of the provincial government to use MTS as a tool to promote the needs and wants of residents in order to develop a more equitable, advanced and accessible province (Black and Mallea
1997). But, this loss of control has also been proclaimed as inevitable or even advantageous.

At the time of the sale MTS was the most indebted telephone company in Canada, carrying a debt load of $843-million (Roberts 1996). But, MTS also held $1.5 billion in assets and maintained its capacity to generate revenue, leading some to the conclusion that this debt load was not unaffordable (Black and Mallea 1997). However, it was also generally thought that a recapitalization effort and corresponding infrastructure upgrades were required for the public enterprise to sustain its competitive position in the ever changing telecommunications sector (Roberts 1996). These needed upgrades to the infrastructure were expected to cost $500 million (Roberts 1996). This desire to remain competitive was crucial since a majority of the company's revenue came from providing services and goods that were competing in the same market place as private firms (Roberts 1996). Therefore, the public enterprise's excessive debt load was threatening the competitive position of the firm due to the required upgrades (Roberts 1996). At the same time, SaskTel had fewer employees and was more profitable (Roberts 1996). Therefore, some contend that the privatization of MTS was an unsolicited shift necessitated by the firm's current position. Once the decision to privatize MTS was made, the actual process of implementing this choice had to be carried out.

MTS was valued at $700 million and sold on the market place through a public share offering (Roberts 1996). Of this $700 million, half of the earnings were returned to MTS in order to pay down the firm's debt load (Robert 1996). The other half was spent on provincial debt and interest payments (Roberts 1996). Through the sale, Manitoba was
able to obtain a one time payment used to reduce the debt obligations of the province.

This offering also contained several stipulations.

Any one group or individual was only able to hold 15% of the shares, foreign ownership could not amount to more than 33.3%, and Manitobans had the first chance to purchase shares (Roberts 1996). Even as privatization was being implemented, this right of centre government maintained the practice of interfering in the market place. But, as of 1998 anyone was able to invest in MTS (Den 1996). Subsequently the province of Manitoba and its residents lost sole ownership of the telecommunications firm. In addition to this, MTS held assets totalling $1.5 billion prior to its public share offering (Black and Mallea 1997). The telecommunications firm also had the lowest rates for local and long-distance services which were artificially maintained through its public enterprise structure (Marketing Magazine 1996). These facts have led to the speculation that MTS was sold at a price that was under its actual market value. Through this narrative, it becomes clear that the government of Manitoba no longer takes responsibility for the conditions of MTS due to privatization. However, it is also apparent that the act of privatization carries large risks, both socially and economically.

Foremost, Manitobans experienced a rate increase for services (Black and Mallea 1997). The newly privatized MTS claimed the increase in price was due to increased costs which applied to the now private enterprise and the firm was also required to provide dividend payments to shareholders (Black and Mallea 1997). Privatization also led to a loss of jobs as some services were contracted out and assets were sold (Black and Mallea 1997). This action has also carried a political cost. At the time of privatization a
survey of five hundred eight residents, conducted by the Criterion Research for the CBC, revealed that 67% of those that responded opposed the privatization of MTS (Roberts 1996b). The more noteworthy point though is that 78% of the rural population was against privatizing the public firm, which was also the support base for Premier Filmon's government (Roberts 1996b). In addition to this, the majority of the urban population of Winnipeg was against privatization (Roberts 1996b). This polling process typically has a margin of error of 4 percent, 19 times out of 20 (Roberts 1996b). But, only a small number of people participated in this poll. Subsequently, the Progressive Conservative Party, under Gary Filmon, lost the next election in 1999 to the NDP (Canadian Parliamentary Review 1999). This left leaning party has successfully remained the majority government in every following election thus far (CBC News 2011). It should be noted that the PC party was under investigation for possibly altering the voting process and attempting to manipulate election results at the time (Anon 1998). Therefore, it is possible that the PC party failed to hold power based on ethical grounds as opposed to the privatization of MTS. The culmination of these observations have led some to the conclusion that the actual effects of privatizing MTS are debatable (Roberts 1996c). From this historical foundation it is now possible to evaluate the market performance of each firm. Through evaluating the annual reports of each firm from 1995 to 2012 it will be possible to adequately judge the performance of each firm in accordance with their capacities to play the three policy roles traditionally reserved for public enterprise.
CHAPTER FOUR: MEASURING FIRM OUTPUTS

The objective of this work is to determine whether a public enterprise, which is subject to legislative mandates and direct government control, or a private enterprise, which pursues its own interest of profit maximization, performs each one of these described policy functions better. By outlining the regulations of the telecommunications market as well as the market performance of SaskTel and MTS it is possible to evaluate the three separate roles a public enterprise can traditionally occupy. The three unique functions are augmenting the private sector, controlling the distribution of market outcomes, and province building (Chandler 1982). The market indicators are taken from the annual reports of each firm and the information published on each website. This comparison allows any unique conditions or behaviours exhibited by either firm to become more apparent. Therefore, it will highlight any differences between private and public enterprises in the telecommunications industry and make it possible to determine if SaskTel does in fact perform at least one of these functions better than MTS. First, the evaluation will initially compare more general indicators in order to understand the performance of each firm. From this broad foundation it is possible to then narrow down the relevant measurements in order to compare the performance of each firm in terms of the three policy functions.

The indicators which outline the general performance of each firm are operating revenues and expenses. Operating revenues are the gross income earned from offering goods or services in the market place (MTS Inc. 2013a; SaskTel 2013a). This measurement will make it possible to understand the relative performance of each firm in
terms of their earnings from 1995 to 2012. This is illustrated below in Figure 5.
Figure 5:

Source: SaskTel and MTS Annual Reports


Over this eighteen year time period MTS has produced a higher average operating revenue. However, it should also be noticed that from 1995 to 1997 SaskTel had higher returns. SaskTel was out-performing its fellow Crown Corporation, Manitoba Telephone System. Several experts have claimed that the risk-averse management style which existed in the public enterprise MTS prevented it from expanding into different jurisdictions and services (Roberts 1996a). Once privatization developed and grew, Manitoba Telecom Services performed similarly or, more often, outpaced SaskTel since 1998. The most noticeable change occurs from 2003 to 2005. The sharp and consistent increase over this two year time frame is largely due to MTS' acquisition of Allstream (MTS Inc. 2006). This is the country-wide section of the firm MTS Inc. which provides an entrepreneurial customer base with accessibility, structural oversight, and expertise-based services (MTS Inc. 2005). It has been claimed that acquiring Allstream would not have occurred if MTS remained a public enterprise due to the large amount of risk which the firm had to incur (Seymour 2007). But, it should also be noted that MTS' operating revenues have been consistently falling since 2005, while SaskTel's has shown more consistent increases. But, even with the decreases in MTS' returns it continues to outpace SaskTel. From this returns perspective, it is possible to accurately view costs as well.

Operating expenses are the costs which must be incurred in order to effectively provide the relevant goods and services (MTS Inc. 2013a; SaskTel 2013a). This factor is be able to provide the total amount of costs each firm has incurred. This can be seen in the figure below in Figure 6.
Figure 6:

Operating expenses

MTS and SaskTel

Source: SaskTel and MTS Annual Reports


This graph illustrates that both firms were subject to consistently increasing costs up to 2001. A constant climb in the costs required to offer services as well as a decrease in traditional operations, such as long distance telephone services, played a significant role in these growing rates (MTS Inc. 2002; SaskTel 2002). Cost movements and service innovations are a common theme in the telecommunications industry. The dramatic increase from 2003 to 2004 seen within MTS' expenses is again largely based on the firm's purchase of Allstream (MTS Inc. 2005). This shift will also be a consistent theme throughout this analysis. Also, MTS continued to hold a higher level of costs than SaskTel. But, the costs of MTS have been steadily declining since 2005 while SaskTel's costs only began to drop in 2009. Based on the averages of these two firms MTS is in a stronger position.

MTS generated an average revenue of approximately $1,198 billion from 1995 to 2012. This firm also incurred an average expense of approximately $859 million from 1995 to 2012. From these averages it is possible to calculate that MTS had roughly $339 million more in revenues than costs. In turn, SaskTel created an average revenue of roughly $880 million over the same time period and incurred an average cost of $590 million. SaskTel maintained an average of $290 million in excess revenues compared to costs. From this broad performance context, it is possible to look at the specific functions a public enterprise has been traditionally intended to play.

Section 1 focuses on the capacity of each firm to enhance the private sector. Section 2 discusses the ability of either firm to play a distributive role within society. Finally, Section 3 will discuss the capability of each firm to contribute to provincial goals.
Section 1: augmenting private industry

This section discusses the role of economic development which attempts to advance private markets by defining the public enterprise as a lender and subsidizer. The reliance on the private sector and competition in order to foster growth allows the open market to have a larger impact on the current economy than state policies (Chandler 1982). SaskTel seems initially opposed to such an undertaking since this public firm was created to take the place of private enterprise. MTS appears to represent a manifestation of promoting the private sector since this firm was provincially operated but it has been privatized with the intention of providing comparable telecommunications services. SaskTel and MTS provide comparable services and each service holds a similar significance for each firm (MTS Inc 2013a; SaskTel 2013a). SaskTel is presently in direct competition with private firms as it offers similar services. The capacity of each firm to promote the private sector is measured through comparing the revenue produced through local access services and the net profit generated by each firm.

Local access revenues have consistently fallen for both firms recently, from the early to mid-2000s (MTS Inc. 2013a; SaskTel 2013a). This is largely accredited to changing customer preferences for wireless services as demands change over time, as well as increased competition as non-traditional providers are able to enter the market place easier since historical barriers to participation have become less significant (SaskTel 2013a). This measurement addresses promoting the private sector because it demonstrates each firm's capacity to respond to a changing market structure, as seen in Figure 7 below.

5 MTS and SaskTel rely on wireless, local access, and Internet-based services to make up a majority of their earnings (MTS Inc 2013a; SaskTel 2013a)
Figure 7:

Local access revenues

![Graph showing local access revenues from 1994 to 2014 for MTS and SaskTel, with data from 1996 to 2013a for both companies.]

Source: SaskTel and MTS Annual Reports


MTS has been able to manage the recent changes, and subsequent effects, in the telecommunications sector better than SaskTel. Even though both firms have experienced the common industrial theme of changing interests and increased competition, MTS has maintained higher returns since 1999 in regards to local access, with exceptional growth occurring once Allstream was purchased by MTS. Therefore, SaskTel does not occupy a unique position in regards to addressing this dramatic change in the market place either.

The second measurement used to evaluate the role of augmenting the private sector is the capacity of each enterprise to successfully generate profits. The net income measures a firm's ability to augment the private sector by focusing explicitly on the purpose of a firm. A firm is meant to maximize profit through providing competitive goods and services, while attempting to limit both competition and costs (Parkin and Bade 2006). A public enterprise is often categorized as following a similar mantra. A public enterprise can be a substitution for the private firm because it still engages the factors of production and produces goods and services in a competitive environment for the purpose of generating profits; the state substitutes itself for the private sector (Chandler 1982; Laux and Molot 1988). The net profit generated by each firm is illustrated below in Figure 8.
Figure 8:

Net profit

Source: SaskTel and MTS Annual Reports


MTS outperforms SaskTel in regards to its net profits. This is the most volatile measurement thus far since it does not follow a general trend for either firm. But, there are several significant observations. First, there is a significant decrease in SaskTel's profits from 1995 to 1997. This is due to increased competition and a subsequent loss in the telecommunications market share within Saskatchewan (SaskTel 1997). Second, MTS experienced a significant increase in its profits from 2003 to 2004 due to the acquisition of Allstream as observed earlier. But, profits fell sharply from 2004 to 2005 and, after rebounding, fell again from 2006 to 2007. The initial decrease was due to an increased level of competition in the telecommunication industry, a change in customer preferences, and unpredictable alterations in significant business alliances (MTS Inc. 2006). The rebound experienced in 2006 was due to an aggressive expansion of the company’s current services and strategies, as well as significant efforts to reduce costs (MTS Inc. 2007). The next drop, from 2006 to 2007, was largely due to the adverse economic conditions of the global economy, increased competition, and changes in customer demands (MTS Inc. 2008). Even though MTS seems more volatile when considering its ability to produce profits, it is capable of producing a higher average level of profits within this time frame. Therefore, MTS also seems better situated to successfully perform the role of a firm. A public enterprise does not seem to offer any unique benefits in regards to augmenting the private sector.

MTS outperforms SaskTel in each measurement. The consistent dominance of the private firm is not a surprise however. The policy function of augmenting the private sector promotes and relies on private industry to deliver services to a community.
Therefore, it is expected that a private firm will perform this role in a more pronounced way than a public enterprise. This is largely due to the purpose of operating MTS.

MTS, as a private enterprise, is principally driven by increasing shareholder returns and reducing costs (MTS Inc. 2013a). A profit maximizing orientation allows MTS to absorb market shocks and generate profits in a far more effective manner than SaskTel. In addition to this, it becomes apparent that SaskTel is in direct competition with private firms, which places a public enterprise at the centre of competitive practices.

Regulatory changes have also been introduced in the telecommunications market. An objective of the Telecommunications Act is to maintain an efficient and competitive market in the telecommunications industry (Government of Canada 1993). The CRTC achieves the objective on maintaining a competitive market by subsidizing the costs of smaller telecommunications companies (CRTC 2011). Federal regulations foster a competitive telecommunications market place by performing the role of subsidizer for smaller firms.

The policy role of building up the private sector cannot act as a justification for maintaining the public enterprise of SaskTel. The private enterprise, MTS, is better situated to achieve this goal based on its market performance. Federal regulations which govern the operations of the telecommunications market also perform this role by allowing smaller firms to enter the market. The controlled and mapped actions of SaskTel do not result in any unique behaviours or effects when compared to the self-interested actions of the comparable private enterprise MTS.
Section 2: equitable distribution

This section addresses the distributive function a public enterprise can occupy which increases the government's control over the economy through direct intervention in order to achieve social goals. This role is designed to alter some part of the current market allocation in order to bring about a more equitable society (Chandler 1982). The consequences of this role are often limited in terms of geography, as costs and benefits are concentrated within the Crown corporation's home province (Chandler 1982). MTS is not formally required to participate in this distributive role, but it is subject to regulations and competitive market conditions which significantly impact the behaviour of MTS. SaskTel participates in this due to its legislative mandate to bring about desired social ends, such as providing affordable and accessible services (Love 2003). Altering market performance in order to form an equitable society can be evaluated through comparing both the amount of labour each firm chooses to employ as well as each firm's respective level of capital expenditure. These shed light on each firm's willingness to alter its behaviour in a competitive market in order to bring about the social ends of higher employment levels and enhanced services. These measurements are required since the goal of providing more universal services at inexpensive prices is no longer unique to SaskTel.

Federal regulations were introduced in 1992 by the CRTC which created a subsidy framework designed reduce the cost of providing services in rural and isolated locations (CRTC 2000). The subsidy was updated towards the end of 2000, and it is now based on the income generated by telecommunications firms (CRTC 2000). This was a fundamental change in the telecommunications industry. The CRTC removed the locally focused price
control mechanisms and implemented a country-wide, income centred subsidy in order to allow firms to offer accessible and modestly priced services throughout Canada (SaskTel 2001). The subsidy applies to both public and private firms.

But, the CRTC did anticipate rate increases when implementing this price control mechanism (CRTC 2000). Local rates were expected to climb for some customers, but the price increases were also expected to improve competition of the telecommunications industry (CRTC 2000). Increasing the costs to certain customers while minimizing the costs to others is a form of cross-subsidization. The subsidy for serving remote locations is designed to create a more equitable and accessible telecommunications industry in Canada (CRTC 2000).

Public enterprise is no longer unique in its desire or ability to provide widely accessible and modestly priced services based on the regulatory changes at the federal level. Furthermore, SaskTel only sought to meet the social objectives of accessibility and lower costs in Saskatchewan, while the CRTC promotes these same objectives throughout the country. The subsidy regime that is carried out by the CRTC has replaced the once unique ability of a public enterprise to manipulate prices in the telecommunications sector.

Maintaining a public enterprise which participates in a competitive market, such as SaskTel, can be seen as a form of protective policy as it attempts to mitigate competition (Parkin and Bade 2006a). It relies on a planned market structure as it involves active government involvement (Parking and Bade 2006a). Such a policy orientation follows the employment argument which states that a lack of income and poor employment prospects
in one location will force economic activity to slow (Parking and Bade 2006a). This could possibly lead to increased government spending through welfare payments, which continues to ripple throughout the relevant market and leads to more job loss in the same area (Parkin and Bade 2006a). Therefore, the levels of employment engaged by each firm will highlight the ability, or inability, of public enterprise to knowingly alter the amount of labour it chooses to utilize. Employment levels would be manipulated in order to bring about the desirable end of maintaining a higher level of employment in the province. These figures are represented in Figure 9 below.
Figure 9:

![Graph showing total number of employees over years]

Source: SaskTel and MTS Annual Reports


Before moving into the analysis, a caveat must be pointed out. Each firm reports its employment figures in different ways. MTS' figures include all employees, both full-time and part-time, and does not include the average salary earned by an employee (MTS Inc. 2013a). SaskTel reports only include full-time permanent employees, except for the years from 2006 to 2009, and does include a measurement for the average salary of a full-time employee (SaskTel 2012). Ultimately each firm is measuring different performance indicators for most of this time period. Therefore, it is necessary to standardize this measurement in order for it to play a useful role in measuring the distributive function each firm may play.

Standardization can be achieved by limiting the analysis to the years each firm reported employment figures in the same way. These isolated years and their related levels of employment are illustrated below in Figure 10.
Figure 10:

Standardized number of employees

Source: SaskTel and MTS Annual Reports


Note: This graph only uses the years in which SaskTel and MTS reported employment figures in the same format.
This approach still poses an issue though because neither MTS nor SaskTel stipulate where the employees are located, i.e. inside or outside of their respective home provinces. However, such an approach, although limited, reveals an interesting trend. MTS engages a consistently higher level of employees than SaskTel. MTS has an average employment level of roughly 5,937 while SaskTel has an approximate average of 5,059. In addition to this aggregate level, both firms reduced the size of their labour forces from 2008 to 2009. Even though this data makes it impossible to distinguish between part-time and full-time employees as well as the locations of these employees, it is possible to determine that SaskTel does not offer a unique market position in regards to the number of employees it engages to provide services. This public enterprise does not seem to actively manipulate the amount of labour it chooses to hire. Rather, the level of employment hired by SaskTel seems to correspond to the circumstances of the private market.

The ability of each firm to control the distribution of current market outcomes can also be determined by the level of capital expenditure investments made by each firm. Capital refers to the materials and structures required to provide goods and services (Parkin and Bade 1996b). Through measuring in capital expenditure it is possible to compare the ability of each firm to invest in the materials needed to increase the accessibility and quality of the services each one offers. MTS as a private firm follows the primary objective of maximizing profits (MTS Inc. 2013a). Under private ownership capital investments only occur to increase profits. SaskTel is required to follow the objectives of providing affordable and widely accessible services (SaskTel 2013a). Due to the equitable and universal orientation of public enterprise it could be assumed that
SaskTel would manipulate its level of capital investments in order to improve upon the access and quality of services. This becomes especially true when it is realized that a public enterprise has the ability to function at cost, instead of being required to produce a profit (Black and Mallea.1997). The amount of capital expenditure investments made by each firm are illustrated in Figure 11 below.
Figure 11:

Source: SaskTel and MTS Annual Reports


Before privatization, and into 1997, SaskTel spent more on capital expenditures than MTS. However, MTS consistently invested more funds in capital expenditures than SaskTel since 1999. The most notable increases occurred from 1999 to 2000 and again from 2000 to 2001. In 2000 MTS vigorously increased both its network and the availability of its services (MTS Inc. 2001). The continuation of these costs as well as the introduction of advanced infrastructure accounted for the increase from 2000 to 2001 (MTS Inc. 2002). The sharp decline from 2001 to 2002 was due to reduced spending on both baseline operations and the broadband network (MTS Inc. 2003). Over this time frame MTS invested an average of $246 million, whereas SaskTel only invested an average of $167 million. MTS invests more in the capital it requires to provide services and goods than SaskTel. The competitive market performance of a private enterprise results in higher capital investments than the legislated requirements of the public enterprise SaskTel.

Operating SaskTel as a public enterprise does not result in a specialized market position based on the measurements of employment and capital investments. The national subsidies introduced by the CRTC regulate the prices charged by both public and private enterprises. SaskTel also seems either unwilling or unable to manipulate the market further in order to further pursue its prescribed social ends of accessibility and cost through increasing the amount of capital expenditures. These results may not be terribly surprising since SaskTel openly participates in an increasingly competitive market and is therefore subject to competitive conditions, to a certain extent (SaskTel 2013a). Therefore, based on the measurements of employment and capital expenditure within the
telecommunications industry SaskTel does not occupy a unique position in regards to its ability to control the distribution of current market outcomes in order to bring about a more equitable society. Thus far SaskTel has not demonstrated a noticeable benefit in regards to fulfilling the roles of augmenting the private sector nor controlling the distribution of market outcomes.

Section 3: province-building

The activities of province building have been practised by every political party, regardless of ideological orientation (Chandler 1982). It centres on pursuing political, social and market benefits in a certain area at the expense of other locations (Chandler 1982). The primary concern is the specific location (Chandler 1982). The Telecommunications Act addresses the role of promoting local preferences through regulating the ownership of Canadian telecommunications firms, which maintains a certain threshold of national ownership (Government of Canada 1993). But, the desire to maintain Canadian ownership has been changed, allowing for more international investment.

Under former regulations a telecommunications firm in Canada was only able to provide services if 80% of the board of directors were Canadians and that Canadians held at least 80% of the firm's voting shares; or if the telecommunications firm accounted for 10% or less of the revenues generated by the entire telecommunications industry (Government of Canada 1993). However, ownership requirements were recently changed through amending the Telecommunications Act (Government of Canada 2012). A
A telecommunications firm in Canada is now able to compete in the market even if it does not meet the ownership requirements of 80% and holds more than 10% of the telecommunications revenue, provided that additional revenue is not generated by taking over or controlling another telecommunications firm, nor its assets, in Canada (Government of Canada 2012). Ownership remains a concern of the federal government, but the restrictions on entering the market have been lightened. Ownership regulations are unnecessary in the case of SaskTel because the public enterprise remains under the jurisdiction of Saskatchewan. MTS is subject to ownership concerns as a private company.

However, SaskTel and MTS both show a willingness to promote the areas in which they operate. This is demonstrated by the levels of volunteerism practised by each firm. MTS created the *MTS Volunteers* and *My Community programs* to participate in and promote communal well-being (MTS Inc. 2012). SaskTel created the *SaskTel Pioneers* which also promotes communal objectives and events by having employees and their families contribute over fifty-thousand volunteer hours to causes (SaskTel 2013b). The capacity of each firm to promote local goals and the communities in which they operate can be measured through the level of funds provided to the government, either in the form of taxes or dividend payments, as well as the amount of debt held by each firm. These measurements make it possible to determine how significant SaskTel's relationship is with the province of Saskatchewan.

A private firm, such as MTS, is subject to income taxes due to its ownership structure (Trebilcock and Prichard 1983). A public enterprise, such as SaskTel, is not
subject to such a levy (Trebilcock and Prichard 1983). Income tax is the most appropriate measure for MTS because it directly contributes to the revenues held by both tiers of government within Canada (MTS Inc. 2013a; Parking and Bade 2006a). Since the purpose of a private firm is to increase profits and decrease costs, MTS clearly has an incentive to reduce any mandatory outlay as much as possible. Therefore, the income taxes paid by MTS are not voluntary and subject to both provincial and federal oversights (MTS Inc. 2013a). Such funds contribute to both the province and the country. SaskTel's relationship to this locally focused function seems to once again stand in direct opposition to that of MTS.

Foremost, SaskTel is not subject to the same taxes (SaskTel 2013a). Therefore, the most appropriate way to measure the allocation of financial assets to local goals is the dividends paid by SaskTel to the province. These dividend payments go directly into the provincial treasury and promote both the cultural and market settings of the province by delivering services and building the required networks (SaskTel 2013b). This direct allocation to the province is required in the legislation which governs SaskTel (Government of Saskatchewan 1993). SaskTel has an incentive to provide larger dividends to the province as a whole. SaskTel's outlays also remain within Saskatchewan and bolster local efforts at the expense of contributing comparable funds to the entire country.

MTS has an incentive to reduce any contributions and the outlays that are paid go towards the entire country as well as Manitoba. SaskTel has a mandate and strong incentive to increase the payments made for the sake of advancing the province and any
payments remain in Saskatchewan. The differences between public and private enterprise are the incentives to provide and the concentrations of their respective financial contributions. The tax and dividend measurement of each firm are demonstrated below in Figure 12 and Figure 13.
Figure 12:

**MTS:**

income tax payments

![Chart showing income tax payments for MTS](chart12.png)

Source: MTS Annual Reports


Figure 13:

**SaskTel:**

dividend payments to the province

![Chart showing dividend payments for SaskTel](chart13.png)

Source: SaskTel Annual Reports

These graphs reinforce the concepts described earlier. MTS contributed an average of approximately $55-million over this eighteen year period, whereas SaskTel contributed an average of approximately $72-million. Therefore, on average SaskTel contributed $17 million more than MTS, all while MTS held stronger revenues. There are also noticeable changes from 1995 to 2012.

In regards to MTS, the most noticeable changes occurred after privatization and again in 2004 to 2005. After privatization took place MTS was subject to income tax, an expense it was able to avoid as a public enterprise, accounting for the steep climb seen after 1996. The significant reduction seen from 2004 to 2005 was largely due a one-time gain, a reduction in tax-rates, and non-capital losses which carried forward into 2005 (MTS Inc. 2006). The next year, 2006, MTS experienced a significant increase which was largely due to the inability to claim non-capital losses as well as an aggressive expansion of services (MTS Inc. 2007). In regards to SaskTel, the most noticeable change took place from 2006 to 2008.

The drop from 2006 to 2007 is not especially surprising since net profit and operating revenues only increased slightly over the same time period (SaskTel 2008). The dramatic rebound from 2007 to 2008 is related to the more noticeable returns of operating revenues and profits. 2008 was the first time the public enterprise achieved operating revenues in excess of $1.1 billion (SaskTel 2009). Therefore, SaskTel does seem to fulfil the role of fostering local goals in a more pronounced way through providing a larger return to the province. But, the dominant performance of SaskTel is not universal throughout this time period as MTS pays more in tax than SaskTel provides to the
province in a number of years, especially in 2004 and 2006. To help determine more decisively the performance of each firm, an additional metric is required.

The role of promoting local and provincial goals can be measured through the debt held by each firm. The provincial government holds public debt for the operations of SaskTel (Government of Saskatchewan 1993). Through discussing this metric it will be possible to determine the extent to which SaskTel is able to shelter itself from the open market since this public enterprise is able to borrow directly from the government. Accessing funds at rates which are unavailable to the private sector allows SaskTel to reduce the level of risk it is exposed to. The debt levels are measured through the amount of debt held by SaskTel according to annual reports. This debt is borrowed from and guaranteed by the provincial government (Government of Saskatchewan 1993). MTS is not able to access such favourable debt conditions as this expense is the responsibility of the private firm alone. However, through discussing this firm's debt load it will be possible to compare market performance and observe which firm is able to mitigate or avoid the risk of taking on larger debt loads. This will be measured through MTS' reported long-term debt load according to annual reports. These debt figures can be seen in Figure 14 below.
Figure 14:

Debt held by MTS and SaskTel

Source: SaskTel and MTS Annual Reports


MTS has a much more volatile and, on average, higher debt load throughout this time period. However, when both firms were operating as a public enterprise MTS had a long term debt load in excess of $1 billion, which far exceeded SaskTel's public debt obligations. After privatization took place a portion of the proceeds from the sale were used to pay down MTS' debt, which accounts for the dramatic fall from 1996 to 1997. The significant increase from 2003 to 2004 is once again due to MTS' acquisition of Allstream which required a substantial investment (MTS Inc. 2005). The second noticeable spike occurs from 2008 to 2009 as MTS' debt load climbed quickly. This debt was obtained at very advantageous rates and allowed the company to produce a strong budget as it moved forward, according to Pierre Blouin the Chief Executive Officer of MTS at the time (MTS Inc. 2009). In regards to SaskTel, the debt held by this public enterprise is noticeably lower than MTS'.

In terms of this measurement it appears as though SaskTel is able to outperform MTS. This public enterprise is able to sustain lower and more stable level of debt. This may be due to its privileged access to loans which are guaranteed by the provincial government. Through interfering in the natural market outcomes, SaskTel seems able to regulate its debt load more effectively. This lower level of debt may also be due to the legislation regulating SaskTel. This Crown corporation is not permitted to hold outstanding temporary loans in excess of a total sum of $1.3 billion (Government of Saskatchewan 1993). These interferences seem to successfully reduce the risks incurred by SaskTel. As a public enterprise it is able to access lower rates for needed funds and it is subject to a strict debt ceiling as described within the *Saskatchewan Telecommunications*
Holding Corporation Act. However, it should be noted that this debt, unlike MTS, is guaranteed by the province. This results in the public enterprise pursuing profits while having the public incur more of the risk (Allan 1998; Laux and Molot 1988). Based on the market performance though, SaskTel contributes more to the local area in terms of dividends, and it is able to hold lower levels of debt as a public enterprise which exposes SaskTel to lower amounts of risk. SaskTel is able to outperform MTS in terms of province-building activities. However, the interpretation and value of this province-building role seem open to subjective evaluation and largely depends on perspective.

The private enterprise was never created to function as a province building tool, and therefore any resulting forms of it is generally due to current regulations and self-interest, such as taxes or company image. In addition to this, MTS performs a stronger communal role within a national context because it allocates both time and funds to areas outside of its home province, unlike SaskTel.

SaskTel was created to function within a provincially centred context. Its primary focus continues to be making telecommunications services universally accessible and affordable to the people within its home province (SaskTel 2013a). Therefore, SaskTel seems as though it would fundamentally perform a stronger province-building role and the results of this measurement support this claim. Based on the definition of this metric, a public enterprise limits its contributions to the local area intentionally so that local initiatives receive priority. To a certain extent, it stands against the open market by intentionally distorting the allocation of resources in order to better its local area at the expense of others. As a public enterprise SaskTel is able to hold a unique position in terms
of fostering province-building initiatives when compared to a private enterprise. It may be argued that MTS is better at performing this communal role because it actively effects the entire country. But, it either contributes a similar or smaller amount of resources to an entire country than its public counterpart provides to a single province.

Section 4: results

SaskTel was initially created to construct a province-wide telecommunications system which was both widely accessible and reasonably priced (Love 2003). These principles of accessibility and affordability are public objectives meant to facilitate the well-being of the province as a whole. But, public regulations and a competitive market place largely perform these roles now.

The telecommunications industry continues to become more competitive (MTS Inc. 2013a; SaskTel 2013a). Such increased competition is commonly seen as leading to an efficient market. This is a setting where the self-interested actions of both consumers and producers cause goods and services to be distributed in such a way that no individual could obtain a better situation without forcing another person to hold a worse position (Weimar and Vining 2011). Therefore, private firms are now independently motivated to expand their communications networks in order to bring about the greatest level of profits. Subsequently, the motivations to establish a universally accessible and affordable infrastructure are now promoted by the regulations of the CRTC. In addition to this, private firms such as MTS also directly contribute to communal programs which are meant to better the social and environmental conditions of the places in which they
conduct business (MTS Inc. 2013c). From these realizations it becomes apparent that a public enterprise in the telecommunications sector is no longer unique in its desires to promote the private sector nor control the distribution of economic outcomes. However, public enterprise does outperform its private counterpart in one role.

SaskTel is able to occupy a unique position in regards to the ability of a public enterprise to promote province building undertakings as demonstrated by its abilities to provide dividend payments to the province, avoid taxes paid by its private competitors, and take on debt at reduced costs. The dividends provided by SaskTel to the provincial treasury promote the social and financial conditions of the entire province (SaskTel 2013b). These funds directly support the province and its residents as a group as opposed to a limited return to certain and dispersed individuals. MTS only provides returns to those individuals which have chosen to invest in the company directly as shareholders or through paying the required taxes (MTS Inc. 2013a). This return to shareholders is a primary objective of MTS (MTS Inc. 2013a).

SaskTel is also able to forgo the expense of tax payments which would remove funds from the province and add to the revenue of the federal government. The action of promoting local goals only focuses on improving Saskatchewan, not the country as a whole. SaskTel is also unique in its ability to shelter itself from the open market. This specialized ability is due to SaskTel's public enterprise status. It is commonly recognized that Crown corporations can access funds at specialized rates (Trebilcock and Prichard 1983). A public enterprise can obtain grants and loans that either have fewer requirements or lower interest rates than the private market would dictate (Trebilcock and Prichard...
Such a firm can also have the ability to guarantee payments by borrowing against the government's credit (Trebilcock and Prichard 1983). Both of these practices represent a government backed subsidy (Trebilcock and Prichard 1983). SaskTel is able to procure required funds at lower rates than a private enterprise. The risk incurred by the government and residents of Saskatchewan by this public borrowing power is mitigated by the current performance of SaskTel.

SaskTel continues to operate and produce outcomes that are comparable to MTS. In addition to this, SaskTel is estimated to have a total value ranging from $1.7 to $3.2 billion (CBS News 2013). These results highlight SaskTel's unique relationship with the province of Saskatchewan. The augmented ability of public enterprise to promote of local goals also seems to clarify the actions of political decision-makers.

The role of province building is not subject to the common political divides of left and non-left parties (1982). Non-left parties typically view public enterprise as a possible foundation for influencing market processes as it reduces the vulnerability to open markets (Chandler 1982). Left parties claim that public enterprise can allow some political and economic advantages to be redistributed or deconcentrated as well as permit a certain level of government planning to exist (Chandler 1982). The right-leaning Saskatchewan Party has said it does not intend to privatize any of the public enterprises listed in the Crown Corporations Public Ownership Act, which includes SaskTel (Atkinson 2012). The concentration benefits within Saskatchewan to the advantage of all residents, the reduction of outlays to jurisdictions beyond provincial boundaries, and the ability to shelter SaskTel from the competitive market correlate directly with the roles
desired by each end of the political spectrum. This seems to greatly improve the political feasibility of maintaining SaskTel under its current public enterprise structure.
CHAPTER FIVE: CONCLUSION

Does a firm's organization as a public enterprise alter its behaviour and/or the effects it produces when participating in a competitive market? Two hypotheses are utilized in this research.

Hypothesis: SaskTel does not outperform MTS in any of the traditional policy roles described by Chandler (1982). Therefore, the public enterprise does not offer any unique advantages when compared to the private enterprise.

Alternative: SaskTel does noticeably outperform MTS in regards to at least one policy role described by Chandler (1982). Therefore, the public enterprise does offer certain unique benefits when compared to the private enterprise.

Based on this analysis, the original hypothesis is false. SaskTel does outperform MTS in the role of province building which means that the ownership of a firm in the telecommunications sector does alter its behaviour in a competitive market.

This is due to the unique opportunities and abilities available to a public enterprise. SaskTel is able to provide dividends to the provincial government, avoid paying the same taxes as its private competitors, and maintain a lower debt load through government guaranteed borrowing. SaskTel is able to concentrate benefits within Saskatchewan at the expense of contributing to areas outside of the province. The capacity of SaskTel to favour its home province increases the political feasibility of maintaining the public enterprise.

However, operating a public enterprise within the telecommunications sector is not universally unique or beneficial when considering the current context of the
telecommunications sector, overall firm performance, and the other roles traditionally prescribed to public enterprise. The telecommunications industry has changed significantly in terms of regulation and structure. The CRTC has introduced several regulations to meet stated federal policy objectives. The regulations are intended to increase competition, accessibility and affordability of services, as well as Canadian ownership within the telecommunications industry. Structural changes have also made it possible for multiple firms to offer comparable services in the same locations.

In addition to industry wide changes, MTS generally outperforms SaskTel because it produces higher revenues on average from 1995 to 2012. In addition to this, MTS holds a dominant position in regards to the role of promoting the private sector. This result is expected though because MTS’ structure as a private enterprise increases the level of private activity by default. The performance of MTS in regards to the function of promoting an equitable distribution of economic outcomes is more surprising.

SaskTel does not employ a higher level of labour nor does it invest more funds in capital expenditures. These findings suggest that SaskTel, even under the structure of a public enterprise, does not hold a unique position in its ability to fulfil the distributive function as it is not able to alter the market outcomes of employment levels nor the level of investment it makes in needed capital. SaskTel does not offer any unique benefits in terms of market performance when considering the policy roles of augmenting the private sector and controlling the distribution of economic outcomes to form a more equitable society.

However, SaskTel does outperform MTS in regards to promoting local goals.
SaskTel as a public enterprise returns dividend payments directly to the community it serves and maintains a lower debt load. Any contributions made by SaskTel are kept within the province of Saskatchewan. MTS on the other hand provides a smaller amount of communal funds, mandated through taxation, and holds a higher debt load. These taxes are collected by the federal government which supports the entire country. The emphasis placed on the location of each firm, and where its funds are concentrated, could alter the value placed on SaskTel.

Residents of Saskatchewan would most likely view the current situation as favourable, while those outside of the province may see SaskTel as less beneficial to the country than MTS. However, by definition, the goals pursued through province-building are limited to a chosen geographic area; in terms of SaskTel this area is Saskatchewan. Therefore, SaskTel does outperform the private firm MTS in terms of province-building due to its heightened allocation of dividends to the province as well as this public enterprise's capacity to function with a noticeably lower debt load.

SaskTel is also exempt from certain costs which are required by a private enterprise in the same industry. First, SaskTel is not subject to the same tax regulations as a private enterprise. Second, SaskTel is also able to borrow funds at below market rates which are unavailable to private enterprises. Both of these unique advantages allow SaskTel to reduce its costs and concentrate benefits within Saskatchewan. The special characteristics of SaskTel are due to its connection and structural relationship with the government as a public enterprise. These benefits result in unique market performances in regards to the ability of SaskTel to promote local goals.
Based on this analysis and measurements it is possible to support the conclusion that SaskTel does hold a unique position within the competitive market of the telecommunications sector since it noticeably outperforms the private firm, MTS, within the policy role of promoting the local area over other locations. This leads to the conclusion that a public enterprise within the telecommunications industry does offer unique advantages. This is evidenced by the returns given directly to the province, the exemption from taxes which are mandatory for its private competitors, and the ability to borrow funds at below market rates.

These findings highlight three significant policy implications. Foremost, SaskTel remains politically feasible due to its pronounced ability to promote province-building undertakings. Both non-left and left parties have implemented this type of public enterprise (Chandler 1982). Non-left parties view it as a way to influence market processes, and left parties view it as a way to implement government planning and redistribution (Chandler 1982). Second, SaskTel must continue to provide valuable dividends to the province and maintain a lower debt load in order to remain feasible. The telecommunications sector is constantly evolving in terms of technology, customer demands, competition, and regulation. If these conditions reduce the performance or outputs of SaskTel, it can lose value for the province and lose its remaining public policy function. At that point it will become vulnerable to privatization. Finally, in any competitive, market driven industry it is difficult to accurately determine the long-term value of a firm. Continuous changes require a firm to make adjustments and seek out new approaches. In the case of SaskTel, it is important to subject public enterprise to
consistent scrutiny in order to ensure that it remains an asset, and not a liability, for the province as a whole.
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APPENDIX: DATA TABLES

Summary table

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Source: SaskTel and MTS Annual Reports


Notes: The summary statistics above were not written in the annual reports of MTS or SaskTel. But, the data used to calculate these figures were. The data provided by each firm is outlined in the Data Table below. The figures above are reported in 2002 Dollars (x 1,000,000)
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Source: SaskTel and MTS Annual Reports


Notes: The Data Table above has been broken into five separate, continuous pieces in order improve the display and clarity of the data. The figures above are reported in 2002 Dollars ($1,000,000). Operating revenues are used in Figure 5; Operating expenses are used in Figure 6; Local access revenues are used in Figure 7; Net profits are used in Figure 8; Employment levels are used in Figure 9; Standardized employment levels are used in Figure 10; Capital expenditures are used in Figure 11; Income tax payments are used in Figure 12; Dividend payments are used in Figure 13; Debt levels are used in Figure 14.