



COMMENTARY: Don't ease the rules - a Telecom Policy Review primer
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By Robert K. Yates

COMMENTS HAVE BEEN ATTRIBUTED to Industry Minister David Emerson recently on how the government might ease rules and stop forcing the two biggest Canadian telephone companies to seek government approval on phone services and prices.

This would let Bell Canada and Telus move more quickly and help them stem the losses of customers to competition.

The largest phone companies, albeit down from 100% share, still have over 90% of all of the local phone customers. How could easing the rules be consistent with Industry Canada's mandate, which includes ensuring there is a competitive marketplace, and not that the incumbents lose customers?

A market cannot be competitive if there are no competitors. And customers are not actually "lost" anyway. If one provider loses them, that just means they have switched to another provider. Unless the customers up and move to some other country, they still pay for services in Canada – services provided by Canadian companies with Canadian networks, operations and management. They might even just be lost to a competitor using the phone company's wholesale network services.

So nothing is really lost because of competition. Quite the contrary. As a country we gain from increased competition. It brings lower prices, which increases consumption. Product innovation and new services stimulate demand. All of this together creates economic growth. Growth means greater opportunity for investment.

It is a widely held view that a country's competitiveness relies on increasing investment in the information economy – so-called "ICT" for information and communications technology. Telecom is the backbone of ICT. Stimulating ICT investment will come from encouraging competition. Canadians will benefit from more competition, not less.

In any case, Bell Canada and Telus are themselves competitors. They compete nationally with each other as well as with companies such as MTS Allstream (a phone company with more than half its business outside its incumbent territory) and Rogers. There are also competitors that are more regionally focused, such as Quebecor (Videotron), Shaw and Cogeco.

But keep in mind the scale... Bell and Telus together account for over 60% of all Canadian telecom revenues. For the first half of 2005, Bell's operating profit (EBITDA) was larger than Rogers' total revenues – including the effect of Rogers' acquisition of Microcell and Sprint Canada (and excluding media assets in both cases).

Telus is close to four times the size of MTS Allstream. Telus will spend in new capital



investment almost the equivalent of Shaw Cable's entire revenues. Given their sheer size, Bell and Telus are in a great position to bring some real competition to the other's "territory".

The government will be doing nothing to encourage increased investment if all it ends up doing is helping phone companies protect their home turf by prematurely deregulating services.

It also should not be forgotten that there are a number of formal processes already underway relating to these issues. The Government is in the midst of a Telecom Policy review that was set in motion at the insistence of the phone companies. A public process to air some of the issues will happen next week in Ottawa.

One is that the phone companies would like the regulator to rely more on generic competition law rather than on tariff approval and other more traditional means of industry-specific oversight. For example, they would not be required to get government approval to change prices. This is presumably the "back drop" of Minister Emerson's comments.

On a similar theme, there is a phone-company led appeal to Cabinet of the CRTC's May 12 decision on voice-over-Internet protocol (VoIP) services. This appeal asks Cabinet to overturn a CRTC decision that would put VoIP services on the same regulatory footing as local phone service.

Bell itself markets VoIP service as "telephone service with advanced capabilities", although for Cabinet it uses the more high-tech terminology: "real-time voice communications using Internet Protocol". If the phone companies win the appeal this could mean they could selectively lower rates in markets where there is competition. In addition to being able to thwart competitors, this could also have a harmful effect on consumers in areas where competition has not yet emerged.

And there are two CRTC proceedings underway considering de-regulation of local services; also both initiated by phone company requests. One is on development of criteria for removing regulatory constraints for local phone service altogether. Initially these could be applied for Aliant in Atlantic Canada where upstart EastLink has captured share in key markets such as Halifax.

The second proceeding is considering the deregulation of specialized local high-speed network services, used for large businesses and provided on a wholesale basis to telecom competitors. The telephone companies have over 90% share in this market and account for 95% of the services of this type used by their wholesale customers. These two local service categories are the last bastions of regulation. Most other telecom services – long distance, data, Internet access, mobile, etc., are already exempted from any significant level of regulatory oversight.

So it can hardly be argued that the government is not paying attention to the agenda of the largest phone companies. There is a lot at stake in these proceedings. Hopefully it is not just the 90% players that are getting heard.

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Associates Inc. (LYA), a consultant to the telecom industry. LYA is providing consulting services to MTS Allstream in the context of the government's telecom policy review. LYA provides management consulting services to a broad array of clients in Canada and abroad in three areas: financial analysis and project valuation, market research, and regulatory support and policy development.