



Competition Bureau Study on the Broadband Industry Paints a "Largely Positive Picture"

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On August 7th, 2019, Canada's Competition Bureau published the results of its [year-long market study](#) on competition in the broadband internet industry. The study found that most Canadians are happy with both their choice of internet service providers, and the performance of their internet service. The Bureau intends for this study to play a meaningful role in its input into future regulatory reviews and its enforcement of the *Competition Act*. For telecommunications industry stakeholders, the study is broadly positive, confirming that the Bureau appreciates the significant cost of broadband expansion, robust competition and the important role played by wholesale internet providers.

Maintaining and Deploying Networks is Expensive and Important

The study notes that most Canadian households access the internet through wired networks operated by telephone and cable companies ("facilities-based providers"). The study acknowledges that deploying broadband networks is "expensive, challenging and risky", and notes that new fibre optic cable deployment costs a [reported one thousand dollars per household](#). Additionally, maintaining and expanding these networks requires sizeable investments. Because of these significant costs, most Canadian households have access to only two facilities-based internet providers. The study recognizes that the deployment of additional wired networks is unlikely to occur.

Due to the limited number of facilities-based providers, the Canadian Radio-television and Telecommunications Commission mandates that the largest providers must offer wholesale access to their networks, at prescribed rates, to wholesale-based competitors. The study estimates that wholesale-based competitors serve more than 1 million Canadian households and play an important role in the competitive landscape of the broadband industry. The study acknowledges that wholesale-based competitors can increase the negotiating power of some households *vis-à-vis* facilities-based providers. It also acknowledges that access requirements can have a negative effect on facilities-based providers' willingness to make necessary investments to maintain and evolve their physical networks. Facilities-based providers face an "existential challenge in respect of their ability to provide competitive internet services", as they must spend billions to upgrade networks "or face competitive extinction", while hoping that the CRTC maintains wholesale pricing that allows them to recoup costs.

The Bureau's acknowledgement of challenging and competitive industry dynamics could be perceived as a departure from some of its previous positions on competition among telephone and cable companies.

For example, in its 2016 [position statement](#) regarding Bell's acquisition of Manitoba Telecom Services, the Bureau described coordinated effects in mobile wireless networks whereby "firms who repeatedly compete in the same market can develop an unspoken understanding that each firm will respond cooperatively to the behaviour of the other firms". In the context of the broadband internet industry, this week's study acknowledges both static and dynamic competition among internet providers (*i.e.*, competition to win and keep customers, and competition to introduce better networks and new technologies) and that such rivalry is an important source of competition, without referring to potential coordinated behaviour.

Improving Technology May Increase Competition

The study finds that existing alternative internet technologies (*e.g.*, satellite and so-called "fixed wireless") generally do not represent compelling alternatives to wired networks. However, the study acknowledges that as wireless networks improve, the supremacy of wired network connections may be challenged. 5G wireless services currently being deployed globally may be capable of delivering the same high speeds as wired connections. The report acknowledges that the availability of 5G may allow new providers to compete for more Canadian households. The report's conclusion suggests that technological advancements could exacerbate the "existential challenge" faced by facilities-based providers as they struggle to justify the costs of updating and maintaining physical infrastructure in the face of new infrastructure-light, wireless competition.

Customers Value Bundling

The Bureau's study also incorporates extensive consumer survey and behavioural economic evidence. In particular, the study finds that two-thirds of respondents had their internet services bundled with other services and two-in-five respondents had three or more services bundled together. The Bureau researched how consumers perceive bundling and found that messaging around cost savings and convenience were persuasive in consumer decision making, and that consumers' preference is not solely driven by "rational cost-benefit analyses". This finding suggests that facilities-based providers offer value (perceived and actual) to consumers not just through wired networks, but through a slate of bundling options.

Conclusion

In sum, the Bureau report paints a picture of robust competition in the broadband industry, including both static and dynamic competition, as technology evolves. In particular, the report recognizes competition among both facilities- and wholesale-based competitors, the importance of investment and the significant role that new technology will play. Armed with the findings of its study, the Bureau will be in a better position to evaluate regulatory and policy issues, as well as potential enforcement activity, in the telecom industry.

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