



# **Wireless policy loopholes hurt Canada and Canadians**

July 2013

**Bell**

# Executive summary

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- We welcome wireless competition on a level playing field
- Wireless prices are lower in Canada than in the United States
- Government rules designed to support small wireless start-ups are appropriate... but the unintended consequence is that US giants like Verizon can exploit 3 loopholes in the policy that limit Canadian competitiveness:
  1. Preferred access to the best Canadian spectrum at lower cost
  2. The right to access carrier networks built by Canadian companies
  3. The ability to buy wireless companies within Canada that Canadian companies cannot
- Verizon Wireless does not need government handouts – it's 4x the size of Bell, Rogers and TELUS combined
- No reciprocity: Canadians don't get the same deal in the US
- Urgent need to close policy loopholes before irreparable harm done

**Verizon exploiting these loopholes will result in an uncompetitive Canadian wireless market**

# Fact: Canadian wireless prices lower than the US



## Current wireless pricing comparisons

### Wall Communications report to the CRTC – July 2013

Low usage	Canadians pay <b>6% less</b>
Medium usage	Canadians pay <b>40% less</b>
High usage	Canadians pay <b>35% less</b>

### OECD 2013 Communications Outlook – July 2013

Canada has lower wireless prices in **14 of 21 pricing baskets** than the United States

Independent research shows Canadian consumers pay less for wireless service than Americans do

# Canada already is a world leader in wireless

## Competition

Many national and regional providers



## Networks

Wireless providers invested >\$22B in last 10 years



Available to 99% of Canadians



Available to 75% in 2013

“Canada has higher cumulative 4G LTE coverage than the US”

*Scotiabank, March 2013*

## Jobs and R&D

Wireless industry:

- Supports 280,000 jobs<sup>1</sup>
- Key driver of Canada’s digital economy
- Among Canada’s largest R&D spenders<sup>2</sup>:

<u>Company (rank)</u>	<u>\$M</u>
Bell (#3)	\$569
TELUS (#12)	\$183
Rogers (#21)	\$109

<sup>1</sup> Nordicity, 24 May 2013

<sup>2</sup> Research Infosource Inc., 2012

**The Canadian wireless market is a remarkable success, especially given our vast geography and low population density**

# 700 MHz the most valuable spectrum ever auctioned

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1. Most technologically advanced, productivity enhancing spectrum ever auctioned in Canada
2. Best spectrum for carrying data and video
3. Great for rural areas – travels long distances, fewer cell towers
4. Great for urban areas – penetrates buildings more easily
5. Best spectrum for consumers and business users alike
6. 700 MHz is essential for bringing the best wireless services like next generation LTE to rural and urban Canadians alike

**US auctioned this spectrum in 2008 without any restrictions  
on American incumbents**

## Loophole #1: Spectrum Auction

### Verizon can buy 2x the spectrum of a Canadian incumbent

#### Only 4 Prime Spectrum blocks available for Auction



Canadian incumbents eligible  
to buy 1 prime block each



Verizon eligible to buy 2  
prime blocks

**One of these Canadian firms could be  
locked out...**

**Bell**

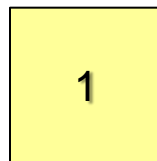
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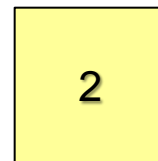


Canadian  
Player 1



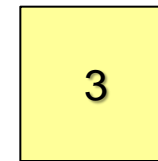
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Canadian  
Player 2

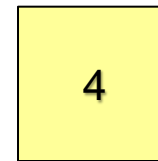


2

**verizon**



3



4

**Unfair that Verizon could buy two prime spectrum blocks, subsidized  
by Canadian taxpayers, while Canadian companies can buy just one**

## ***Loophole #2: Network build-out requirements*** **Verizon should not get a free ride on Canadian built networks**

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- Enhanced network access rules designed to support capital-constrained new players are not appropriate for big US companies
- With a capital budget 14x that of Bell, Verizon can afford to build its own network
- Mandated access gives Verizon immediate, national coverage by riding on networks that it took incumbents 30 years to build and 20 years to make profitable
- Government is discouraging facilities-based competition, investment and innovation – counter to its stated policy objectives

**Our network is our product – government would not have forced Canadian Tire to help Walmart enter Canada by giving it prime retail locations and products**

## **Loophole #3: Acquisition of Canadian companies reserved for Americans** **Canada's newest wireless companies would sell below market value**

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- Wireless start-ups are seeking acquirers
- Current policy prevents incumbents from acquiring entrants for 5 years – moratorium expires in 2014
- Policy's intention was to prevent spectrum speculation, not harm entrants' shareholders who put risk capital to work – but this has happened
- Interference is unwarranted and unnecessary as Competition Bureau has jurisdiction to approve/deny mergers
- Policy undermines market stability, distorts values and reduces incentive to invest

**Regulations have placed Bell, Rogers and TELUS in an uncompetitive position – forbidden from acquiring Canadian start-ups while US acquirers can scoop them up at depressed prices**

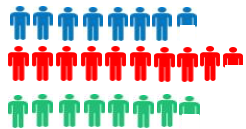


# Verizon does not need advantages

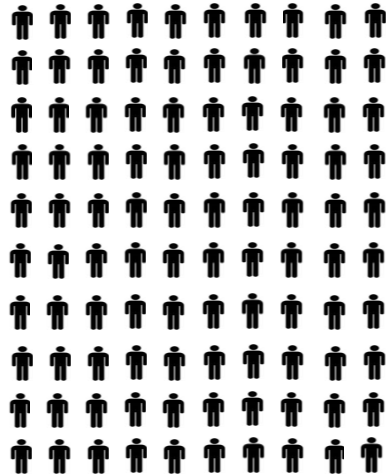
## Wireless subscribers Q1 2013

Canadian incumbents

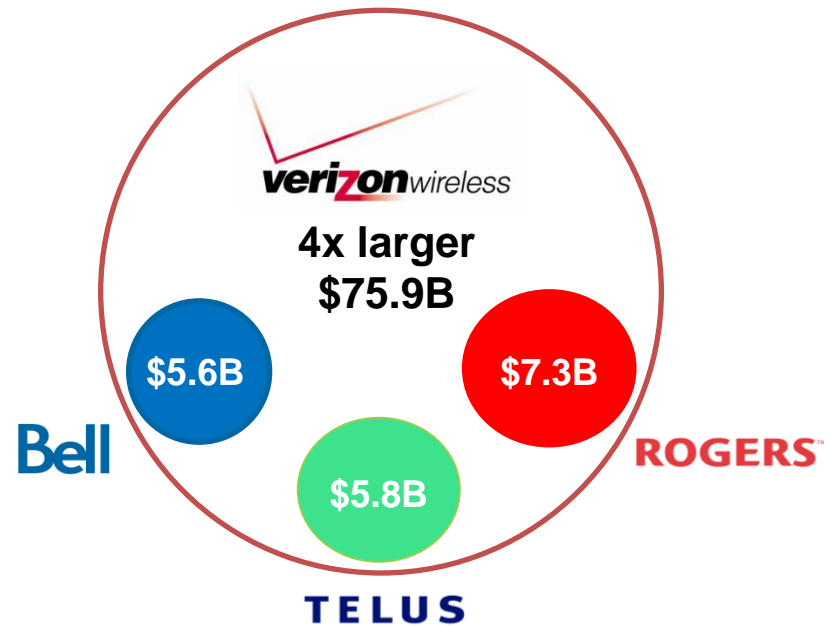
24.8 million



100 million



## Wireless Revenue 2012



Bell is prepared to compete with anyone but rules should not be tilted in favour of a massive US company

# Even Verizon agrees a level playing field is essential

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## Level playing field

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“I am concerned about it [potential spectrum auction]. I think the industry should be concerned about kind of **picking winners and losers** in something like that. We have been very vocal in a responsible way with everyone in Washington about the importance of **a level playing field.**”

Dan Mead, Verizon Wireless President & CEO,  
Jefferies Global Technology, Media and Telecom Conference  
May 8, 2013

## No special treatment

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“T-Mobile’s and Sprint’s **request for special treatment** and protection against bidding competition should be viewed against the backdrop of their financial ability to bid robustly for spectrum. **These are not ‘mom and pop’ businesses lacking the resources or sophistication to compete for the pool of available spectrum.** ... Both companies are clearly capable of bidding robustly...”

Verizon Reply Comments to the FCC on  
US Incentive Auctions  
March 12, 2013, page 25

## No limits on auction participation

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“**Allowing all interested parties to participate fully** in the forward auction **without limits on that participation** is not only statutorily mandated, but it will ensure that the 600 MHz spectrum is put to its highest and best use...”

Verizon Comments to the FCC on  
US Incentive Auctions  
January 25, 2013, page 39

## No regulatory hand-outs

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“**But there is no basis for the Commission to give certain large companies a regulatory hand-out... so they can acquire spectrum... at a substantial discount** over the price that would otherwise be received.”

Verizon Reply Comments to the FCC on  
US Incentive Auctions  
March 12, 2013, page 27

## No reciprocity: Canada receives nothing in return

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- Canada's international trade relationships based on principle of reciprocity with developed countries like the United States
- US auction in 2008 for this same spectrum did not grant special rules favouring any large player, let alone foreign entrants
- Government's policy decisions have already weakened the investment community's confidence in our industry

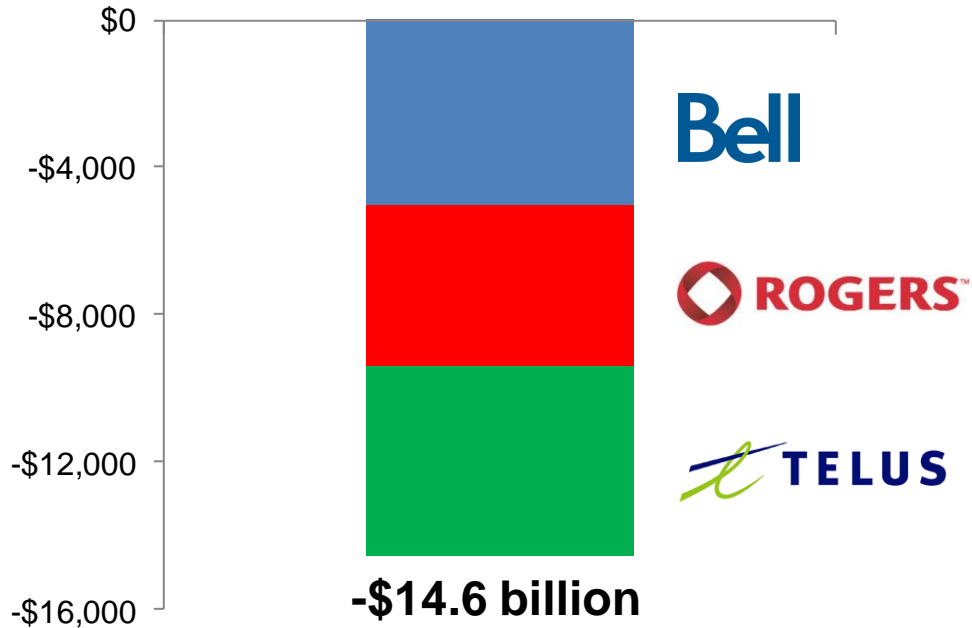
**Can you imagine Bell Canada getting special access in  
New York City, Chicago and Los Angeles?**

# Government policy has already had adverse impact

The value of Bell, Rogers and TELUS declined by over \$14 billion as a result of wireless market uncertainty



Decrease in Market Capitalization  
(May 22 - June 27) (\$B)



The loss of over \$14 billion in value is equivalent to the combined market capitalization of Tim Hortons and Canadian Tire

# Unintended economic consequences of Verizon entry

## Canadian jobs at risk

**“This will mean significant layoffs** which could easily trump the hiring to be done by Verizon, which besides a needed presence in retail outlets, should be able to initially handle a lot of functions (marketing, billing) from the United States.”

Adam Shine, National Bank Financial  
June 26, 2013

## Rural Canadians left out

“Unlike the national incumbents in Canada, **we wonder if Verizon has a strategy for wireless broadband in rural markets**, a key political consideration for the current Conservative Government.”

Dvai Ghose, Canaccord Genuity  
July 2, 2013

## Lower quality services

“Be careful what you wish for. The consequences may be very different than what is intended: We’ll get low prices, but **we’ll also get networks that don’t adequately support future generations of mobile devices and services.**”

Dr. Jeffrey Church and Andrew Wilkins of the  
University of Calgary, The Globe and Mail  
July 8, 2013

## Prices will not be lower

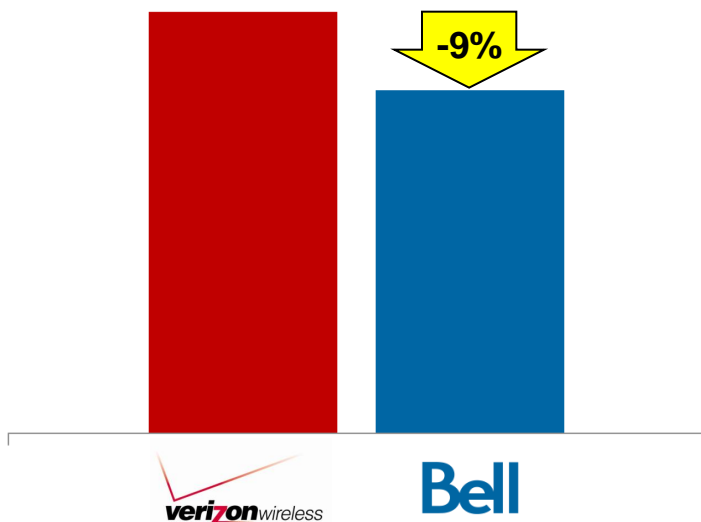
“To be clear... **Verizon is unlikely to act as a price disruptor.**”

Greg MacDonald, Macquarie Capital Markets  
June 27, 2013

# Don't expect lower prices from Verizon

## Bell smartphone service plans cost less than Verizon's

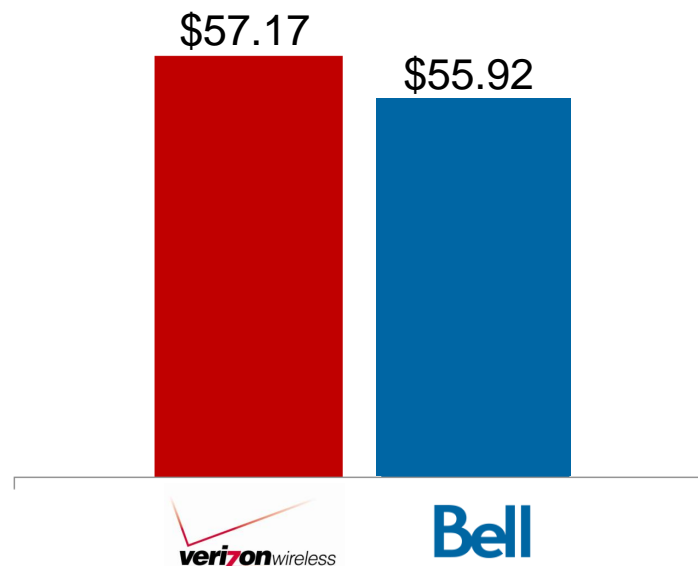
Cdn\$ / month



Unlimited local minutes and text, voicemail, nation wide calling & 1 GB of data; July 19, 2013

## Bell has lower customer average monthly bills

Cdn\$ / month



Q1 2013 average revenue per customer

**Average monthly bills are lower from Bell than Verizon**

# ***Solution: Close the loopholes before the September 17 auction deposit deadline***

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- We welcome more wireless competition, but on a level playing field
- Government policies were designed to help small new wireless entrants... and they should remain in place if companies with the scale of a Verizon do not enter the market
- But if companies like Verizon do enter the market, the loopholes must be closed before irreparable harm is done:
  1. All wireless carriers should be able to bid for the same amount of spectrum
    - if Verizon can bid for 2 prime blocks, we should be able to bid for the same
  2. Require major international entrants like Verizon to build out their own networks across Canada
  3. If a Canadian wireless company seeks a buyer, Canadian carriers should be allowed to bid for them too – not just Americans

**Verizon does not need and should not get special treatment in Canada – it's profoundly unfair to Canadians**