

## The State of the Wireless Market in Canada: The Case for a Fourth National Carrier

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The Public Interest Advocacy Centre (PIAC) believes strongly that Canada should have a fourth national wireless carrier. PIAC believes that a fourth national carrier will benefit consumer interests by increasing competition, reducing prices and improving service through enhanced competition.

PIAC's analysis of the current market for wireless services in Canada shows that consumers are not benefitting from the best possible services to meet their needs, and pay higher bills on average than other wireless customers around the world. Below we present some of the data that has led us to these conclusions.

### **ARPU**

Average Revenue per User (ARPU) is a widely reported and used piece of industry data that assesses the amount of revenue a company is receiving from each subscriber to a communications service. In the wireless mobile telephony services Canadians pay some of the highest prices in the world. This can be seen from recent data published by the OECD in their 2013 Communications Outlook report. ARPUs for consumers in major OECD countries were analyzed, and Canadians pay among the highest amount monthly for wireless services.

#### **Wireless Mobile Comparative International Data**

OECD Report: OECD Communications Outlook 2013

[http://www.oecd-ilibrary.org/science-and-technology/oecd-communications-outlook-2013\\_comms\\_outlook-2013-en](http://www.oecd-ilibrary.org/science-and-technology/oecd-communications-outlook-2013_comms_outlook-2013-en)

<b>Country</b>	<b>2011 ARPU (US\$)</b>
Japan	92
Australia	63
USA	60
Canada	59
Switzerland	47
Norway	45
France	43
Luxembourg	41
<b>OECD AVG</b>	<b>40</b>
Denmark	36
Ireland	35
Belgium	34
Israel	34
Iceland	33
Korea	32
Netherlands	31

During the most recently reported financial quarter (2Q2013), Canada's three incumbent carriers made between \$56.85<sup>1</sup> and \$61.12<sup>2</sup> per users of both pre-paid and post-paid services. Customers using pre-paid wireless services normally pay about 20% of what a post-paid subscriber pays for wireless services. Most customers in Canada are post-paid subscribers (78% of all wireless subscribers according to the CRTC's Communications Monitoring Report<sup>3</sup>), and pay significantly more than the blended ARPU reported. For example, a pre-paid Rogers customer ARPU in 2Q2013 was \$15.79, while a post-paid Rogers customer was paying \$67.36.<sup>4</sup>

What then are consumers paying for when they buy wireless service? Traditionally the incumbents have argued consumers in Canada pay more because of the expansive network services available across the country, and because of the data services that Canadians use. Examining the numbers tells a different story.

### Data versus Voice

Although the use of data services to access the Internet has grown over the past five years in Canada, the largest percentage of a Canadian's telephone bill is still made up of charges for voice services. This is reflected in reported ARPUs for Rogers and Telus who reported in the second quarter the amount of a subscriber bill that is made up of data and voice charges. As can be seen below over 50% of the average user's monthly bill is made up of charges for voice services.

#### Data versus Voice ARPU<sup>5</sup>

Source: 2Q2013 Company Financial Reports

	Rogers <sup>6</sup>	Telus <sup>7</sup>
ARPU (Blended)	\$59.30	\$61.12
Data ARPU	\$27.13	\$26.44
Data % of ARPU	45.75%	43.26%
Voice ARPU	\$32.17	\$34.68
Voice % of ARPU	54.25%	56.74%

The importance of voice revenue is further evidenced in the CRTC's 2012 Communications Monitoring Report, where voice revenues made up approximately 63% of the total revenues earned by the wireless operators (see Chart 5.5.2 Wireless and paging revenues components), while data made up only about 29% of total revenues. It appears that voice services are the fighting ground for retail wireless. That's good news – voice is an area where new entrants can easily be competitive by offering voice services at reasonable rates. The speed of a network data services is not as key to this segment. Instead more

<sup>1</sup> BCE Inc., Q2 2013 Supplementary Information, 8 August 2013, found at: <http://www.bce.ca/investors/financialperformance/quarterly/>.

<sup>2</sup> Telus, Q2 2013 Supplementary Investor Information, 8 August 2013, found at: [http://about.telus.com/community/english/investor\\_relations/financial\\_documents/quarterly\\_reports\\_archive](http://about.telus.com/community/english/investor_relations/financial_documents/quarterly_reports_archive), [Telus 2Q2013 Financial Data].

<sup>3</sup> CRTC, *2012 Communications Monitoring Report*, 5 September 2012, <http://www.crtc.gc.ca/eng/publications/reports/policymonitoring/2012/cmr.htm>

<sup>4</sup> Rogers, Supplemental Financial Information Second Quarter 2013, 24 July 2013, found at [http://www.rogers.com/web/Rogers.portal?\\_nfpb=true&\\_windowLabel=investor\\_1\\_1&investor\\_1\\_1\\_actionOverride=%2Fportal%2Fconsumer%2Finvestor%2FshowFinancialReportAction&\\_pageLabel=IR\\_LANDING](http://www.rogers.com/web/Rogers.portal?_nfpb=true&_windowLabel=investor_1_1&investor_1_1_actionOverride=%2Fportal%2Fconsumer%2Finvestor%2FshowFinancialReportAction&_pageLabel=IR_LANDING), [Rogers 2Q2013 Financial Data].

<sup>5</sup> Telus and Rogers only are included here as Bell does not provide data in its quarterly reports as to what portions of its blended ARPU are made up of data or voice revenues per user.

<sup>6</sup> See Rogers 2Q2013 Financial Data above.

<sup>7</sup> See Telus 2Q2013 Financial Data above.

competitive rates for basic services is what is required – largely a function of the number of national competitors in the market.

### **Capital Expenditure on Wireless Facilities**

The incumbents like to say that they are better able and more committed to building out services for consumers through network expansion. For example in their 2Q2013 release Bell CEO George Cope stated: “At Bell, we’re dedicated to bringing the world’s most advanced communications services to Canadians – fast-growing mobile LTE and fibre networks delivering new choices in wireless, TV, Internet, media and business communications.”<sup>8</sup> However, Bell itself spent only 9.3% of its wireless revenues on capital expenditures for wireless services in the second quarter of 2013. That is down from 12.6% of total wireless revenues from the same period last year (2Q2012).<sup>9</sup>

This is a relatively low figure compared to capital expenditures in the US across the wireless industry. CTIA, an industry wireless telecoms organization in the US, reports that in 2012 the US wireless carriers spent approximately 16.3% of annual revenues on capital expenditures to build out their networks and services.

Like voice and data service spending by consumers discussed above, these relatively low investments in capital expenditures show that the incumbent wireless carriers are not necessarily widely investing in their Canadian mobile networks at industry standard rates.

### **The Importance of a Fourth Carrier to Canadians**

The issues discussed above show that the Canadian market is not as competitive as it could be compared with others around the world. It also shows that there is room in the market for a fourth national carrier that offers competitive pricing for even the most basic services such as voice.

Internationally, governments have recognized the importance of a fourth national carrier. In submissions by the United States Department of Justice (DOJ) to a US District Court challenging the merger of T-Mobile and AT&T, the DOJ states unequivocally their support for a fourth national carrier in the US. The DOJ’s complaint makes clear that in the wireless market competition, and competitive decisions, happen at the national level among national carriers:

“The national decision-making of the Big Four carriers results in nationwide competition across local markets. Each of the Big Four firms making a competitive choice regarding a pricing plan, or other national competitive attribute, will consider competitive conditions across the United States, as the decision will take effect throughout the United States. Because competitive decisions affecting technology, plans, prices, and device offerings are typically made at a national, rather than a local, level, the rivals that affect those decisions generally are those with sufficient national scale and scope [...] Indeed, customers in local markets across the country often face very similar choices from AT&T, T-Mobile, Verizon, and Sprint, regardless of whether local or regional carriers also compete in any particular CMA.”<sup>10</sup>

Further, the DOJ considers the negative effects of the elimination of a fourth national player and the difficulty that regional players have in filling the gap:

“[...] places [consumers] at a significant cost disadvantage, particularly for the growing number of customers who use smartphones and exhibit considerable demand for data services. The local and regional providers also

<sup>8</sup> George Cope quoted in BCE Inc, “BCE reports second quarter 2013 results,” News Release, 8 August, 2013, [http://www.bce.ca/assets/investors/Q2\\_2013/Q2\\_2013\\_Press\\_release.pdf](http://www.bce.ca/assets/investors/Q2_2013/Q2_2013_Press_release.pdf).

<sup>9</sup> 2Q2013 Rogers 11.4% -- down from 14.2% for 2Q2012; for year 2012 was 16.7%; 2Q2013 Telus 11% -- down from 13% 2Q2012; for year 2012 was 12%. Please see Rogers and Telus 2Q2013 Financial Data noted above.

<sup>10</sup> *United States and Plaintiff States v. AT&T Inc., T-Mobile USA, Inc. and Deutsche Telekom AG*, DOJ Amended Complaint, 16 September 2011, at paras 18-19.

do not have the scale advantages of the four nationwide carriers, resulting in difficulties obtaining the most popular handsets, among other things [...] Moreover, because each of the four nationwide firms typically offers prices, plans, and devices on a national basis, the regional and local providers - none of whom has a national share of more than 3 percent - exert little influence on these aspects of competition.”<sup>11</sup>

In the United Kingdom, regulator Ofcom stated four nationwide carriers beneficial to consumers. In unveiling its plans for the UK 4G wireless auction:

“Ofcom has concluded that UK consumers are likely to benefit from better services at lower prices if there are at least four credible national wholesalers of 4G mobile services. Therefore, in the interests of competition, Ofcom has decided to reserve a minimum amount of spectrum in the auction for a fourth operator.”<sup>12</sup>

Like the evidence provided in the UK and US, PIAC believes there are strong competitive effects when a fourth wireless provider enters the national market. Further, evidence shows that Canadians are not receiving the best possible services from their mobile wireless carriers and that there is room in the market for a new entrant to provide consumers with value for even the most basic services.

In the limited number of markets where there is a fourth regional or quasi-national (e.g., WIND or Mobilicity) player there have been significant benefits to consumers in Canada. This is especially true among high-use, high-end users. This can be seen in a recent report prepared for the CRTC<sup>13</sup>:

**Canadian Mobile Wireless Service Rates**  
*Incumbents versus New Entrants*

Baskets	Vancouver	Toronto	Montreal	Average
<b>Level 1 Basket (low-volume use, 150 min/month)</b>				
Incumbents	\$ 34.53	\$ 34.38	\$ 34.80	\$ 34.57
New Entrants	\$ 24.43	\$ 22.95	\$ 28.08	\$ 25.15
Percentage Differential	-29%	-33%	-19%	-27%
<b>Level 2 Basket (average use, 450 min and 250 text per month)</b>				
Incumbents	\$ 51.82	\$ 51.48	\$ 50.87	\$ 51.39
New Entrants	\$ 35.55	\$ 38.37	\$ 44.68	\$ 39.53
Percentage Differential	-31%	-25%	-12%	-23%
<b>Level 3 Basket (high-volume use, 1,200 min, 250 text and 1GB data per month)</b>				
Incumbents	\$ 98.82	\$ 98.82	\$ 99.22	\$ 98.95
New Entrants	\$ 55.20	\$ 56.80	\$ 75.45	\$ 62.48
Percentage Differential	-44%	-43%	-24%	-37%

Averages calculated on a market share and population weighted basis.  
Wall Communications 2012

PIAC believes a fourth national carrier emerging from the 700 MHz Auction would increase competition, lower prices and improve wireless service for Canadians. The present 700 MHz auction rules are carefully designed to encourage this possibility, as are current Industry Canada rules and regulations restricting the transfer of licences gained by new entrants as part of the 2009 AWS Auction.

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*ibid*, at para 35.

<sup>12</sup> Ofcom, “Ofcom unveils plans for 4G auction of the airwaves”, 24 July 2012, <http://media.ofcom.org.uk/2012/07/24/ofcom-unveils-plans-for-4g-auction-of-the-airwaves/>.

<sup>13</sup> CRTC, *Price Comparisons of Wireline, Wireless and Internet Services in Canada and with Foreign Jurisdictions*, report prepared by Wall Communications Inc., 6 April 2012, <http://www.crtc.gc.ca/eng/publications/reports/rp120406.htm>.