TED ROGERS SCHOOL OF MANAGEMENT RYERSON UNIVERSITY

# How Competitive is the Canadian Residential Broadband Market? A Study of Canadian Internet Service Providers and Their Regulatory Environment

**Catherine Middleton**
**Annemijn van Gorp**

Ted Rogers School of Management
Ryerson University , Toronto, Ontario

Presentation to the 2009 Telecommunications Policy Research Conference, September 2009

# Background Information

- This presentation is based on a research paper, available at http://www.broadbandresearch.ca/ourresearch/middleton_vangorp_TPRC2009.pdf
- Please refer to the paper for the full context of the presentation
- Unattributed quotations in the presentation are from participants in the research study

# Broadband in Canada

- Who cares?
- Facilities-based competition between incumbent cablecos and incumbent telcos, duopoly
- Open access provisions for cable in place since 1999, uncommon

# Broadband in Canada

- Who cares?
- Facilities-based compet incumbent cablecos an duopoly
- Open access provisions for cable in place since 1999, uncommon

The cableco "doesn't even get out of bed to make an attempt. They don't want ISPs, they don't want wholesale business"

# Broadband in Canada

- Who cares?
- Facilities-based competition between incumbent cablecos and incumbent telcos, duopoly
- Open access provisions for cable in place since 1999, uncommon
- Unbundled local loop mandated in 1997
- **Is the market competitive?** We started talking to ISPs to find out.

# Assumptions about Competition

- The literature and most OECD governments/ policy makers state that the development of broadband infrastructure should be driven by competition
- Facilities-based competition (i.e. cable vs. DSL vs. wireless) is preferred
- Service-based competition (using existing facilities) is $2^{nd}$ best, but *may* encourage facilities-based competition over time

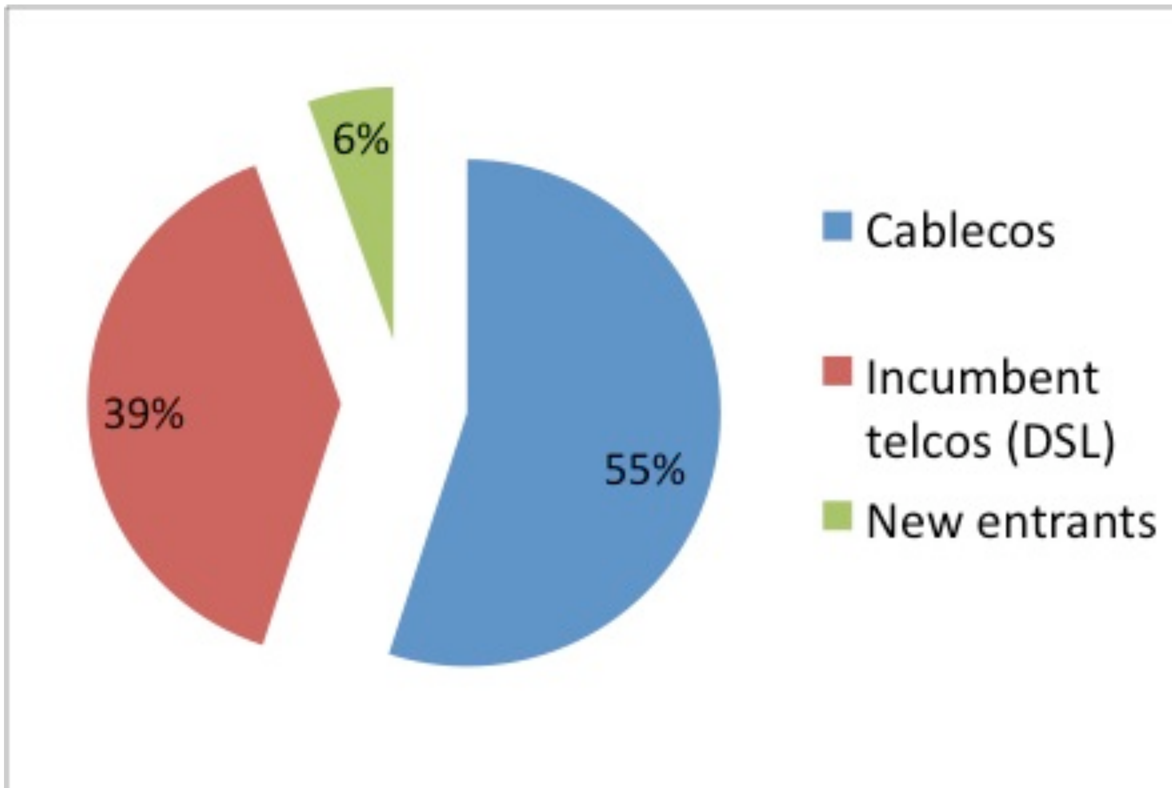
# Benefits of Competition

- Rivalry in pricing and services
- Low barriers to entry for new providers
- Competitors can establish "a reasonably sustainable market position"

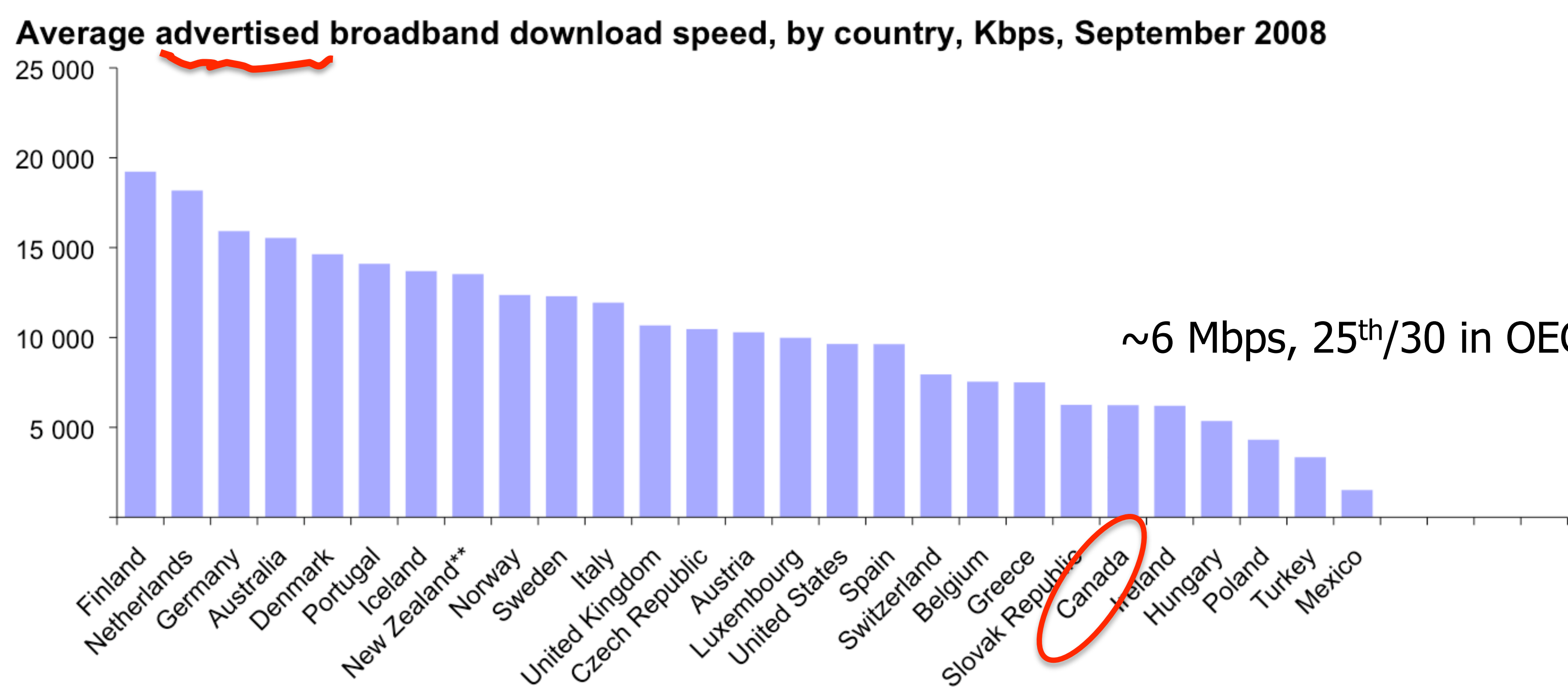
# Benefits of ^ Effective Competition

*"The fastest connections, lowest prices and most innovative services are in areas where there is a range of consumer choices for broadband."*

# Sustainable market position for entrants?

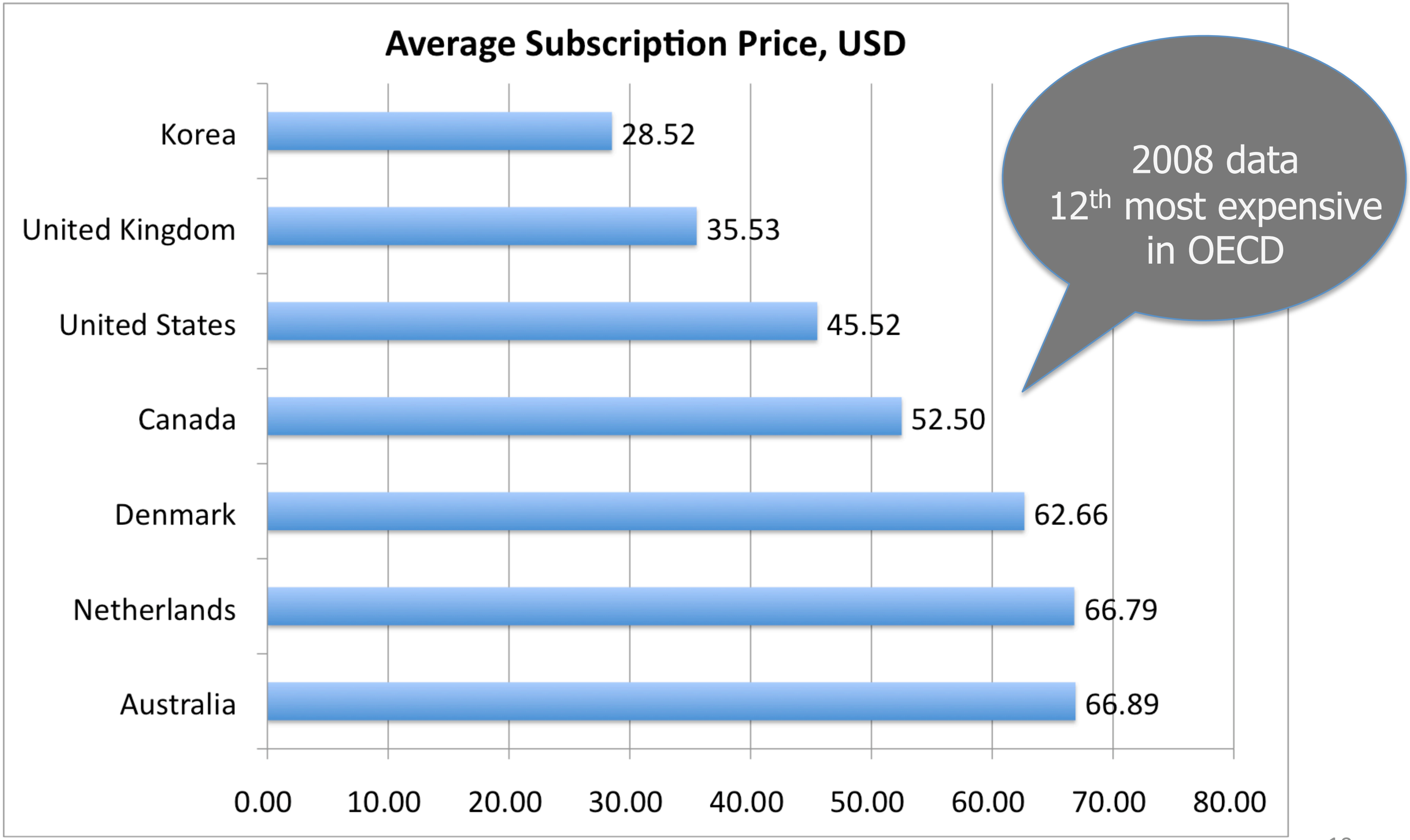


# Fastest connections?




~6 Mbps, 25th/30 in OECD

# Lowest prices?



# So… Is Competition Working?

- Incumbent telcos argue that the market is "fiercely competitive", "vigorous competition"
- Starting to see some higher speed services in the big cities
- There hasn't been much competition on prices and speeds. This may be changing, but…
  - FB competition on 'soft' aspects, e.g. bundling, add-ons
  - Throttling is an issue, also download caps

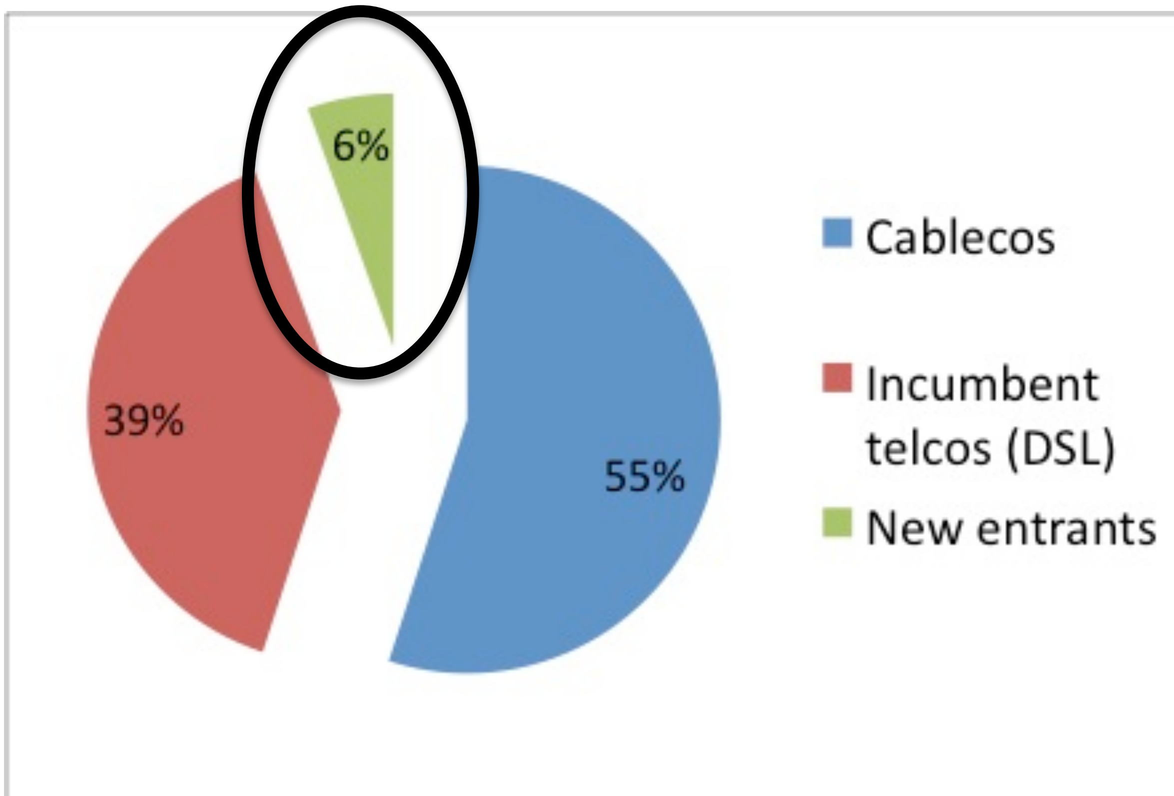
"I don't know how competitive I could even say it is today. If you look back in the dial-up days, the independent ISPs made up a very large chunk of the competitive market. It was actually independent ISPs that started dial-up Internet. The ILECs came later to that market. So at one time there were many, many, many players in that broadband access market. Now it's almost primarily the cable companies and the phone companies."


# What about Local Loop Unbundling?

| | |
|---|---|
| Canada | The requirement to unbundle local loops was initially mandated by the CRTC in 1998. Following a comprehensive review of the regulatory requirements for the provision and pricing of wholesale services, in 2008 the CRTC reaffirmed the requirements to unbundle copper loops at cost-based prices. |

What we need to know is "how effective was the unbundling and what were the outcomes?"
(Taylor Reynolds, OECD)

"I might as well have been selling washers and dryers. There are endless things I should have done instead of being an ISP, really there are just a few of us left."



# Degrees of Unbundling

- Resale ('white label' DSL, 'rebilling')
- Wholesale aggregated DSL (not quite bitstream)
- Line sharing (incumbent still provides voice)
- Full unbundling

- Ladder of investment suggests that market entrants will increase investment in their own facilities over time, but…

# Issues of Concern to Independents

Wholesale DSL may be subject to:

- Traffic shaping practices
- Usage-based billing
- Speed restrictions

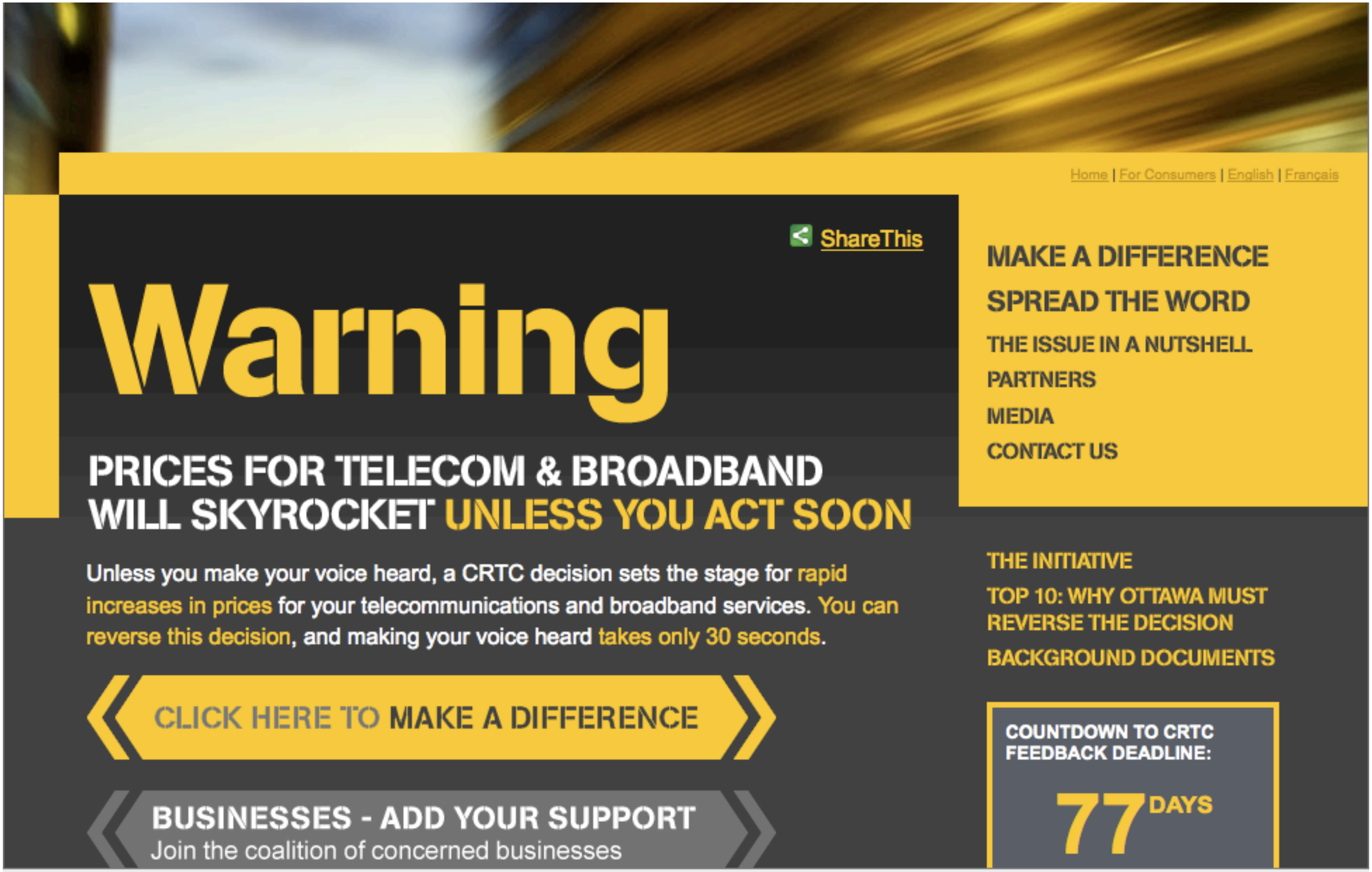
Limited possibilities for differentiation of services, reduced choice for consumers

BUT: these would not be problematic if the independents co-located and used their own equipment

- No statistics available, but we believe co-location is not very common

# Much Uncertainty for Independents

- To date, market entrants have had little traction with the regulator
- Several hearings regarding the wholesale broadband market underway or upcoming
- Independents are now seeking public support for fight against incumbent wholesale practices




http://www.competitivebroadband.com

# ISP Ideas for Improving the Situation

- Broadband has ‘fallen off’ the government agenda in Canada, needs attention again
- Effective regulation of wholesale broadband is essential, improve accessibility to regulator for non-incumbents
- Structural/functional separation
- Reduced regulation (let the incumbents and independents figure it out on their own)

# Conclusions and Questions

- LLU is not a yes/no proposition, need to understand how it works, level of control
- Is there a future for the independent ISP in Canada? Should there be?
- What should the regulator be doing to ensure competition? (part of its mandate)
- What about transitioning to Next Generation Networks? What is needed to ensure competition for higher speed networks?

# References


- Slide 6 – Australian Competition & Consumer Commission (2009). *Fixed Services Review Declaration Inquiry for the ULLS, LSS, PSTN OA, PSTN TA, LCS and WLR: Final Decision.* Canberra: Commonwealth of Australia.
- Slide 7 – Organisation for Economic Co-operation and Development (2008). *Broadband Growth and Policies in OECD Countries. Paris: OECD*. (p. 49)
- Slide 8 – Canadian Radio-television and Telecommunications Commission (2009). *Communications Monitoring Report*. Ottawa: Canadian Radio-television and Telecommunications Commission. http://www.crtc.gc.ca/eng/publications/reports/policymonitoring/2009/2009MonitoringReportFinalEn.pdf.
- Slides 9, 10 – OECD Broadband Portal, http://www.oecd.org/document/54/0,3343,en_2649_34225_38690102_1_1_1_1,00.html