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CONFIDENTIAL

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BY EMAIL

The Honourable Navdeep Bains, P.C., M.P.
Minister of Innovation, Science and Economic Development
C.D. Howe Building
235 Queen Street
OTTAWA ON K1A 0H5

Dear Minister,

Your office has informed us that the government is giving consideration to reversing the CRTC's March 22, 2018 decision on Wi-Fi first mobile resellers. The CRTC had concluded these resellers should not be given the same regulatory roaming privileges as facilities-based carriers that invest in network infrastructure. We strongly encourage the government not to reverse this decision.

The CRTC has now comprehensively examined this issue twice – in this most recent case, an analysis lasting more than 8 months – only to reach the same inevitable conclusion: that the Wi-Fi proposal would be technically unworkable and counter to the public interest. Importantly, the CRTC found any potential benefits associated with promoting Wi-Fi service resale would be far outweighed by the negative impact such changes would have on investments in Canada's wireless industry.

Overtuning the CRTC's decision would ultimately undermine Canada's standing as a global wireless leader, impair our industry's ability to take a leadership position in next-generation 5G networks, and effectively reverse the government's successful policy to encourage facilities-based wireless competition, investment and innovation.

Wireless is a capital-intensive industry, and there should be no doubt that capital markets in Canada and globally will view a reversal of the CRTC's Wi-Fi decision negatively. Wireless carrier share prices, which are already depressed, will deteriorate further and the cost of capital, particularly for smaller facilities-based carriers, will increase.

The negative impact of higher financing costs will be multiplied considering significant upcoming 5G capital requirements. The diminished outlook for Canadian wireless carriers also means that

investment will flow from Canada to the United States, where recent tax reforms are already providing an incentive to investors.

The impact on wireless network investment

As your government requested, the CRTC's Wi-Fi proceeding examined the impact on investment in detail – and concluded that the very significant negative impact on investment is simply not worth risking by changing what has been a very successful federal policy. Canada is renowned internationally for the coverage, quality and speed of its broadband wireless networks, lauded as the best in North America and outpacing those of the largest telecom operators worldwide. Our country's global wireless leadership is a technological investment and innovation achievement of which all Canadians can be proud.

Now, the wireless industry in Canada is at a pivotal moment. Facilities-based carriers are about to embark on a multi-year period of major investment to roll out the latest 5G networks. Not only will billions be spent in government spectrum auctions – for example 600 MHz, 3500 MHz, millimetre wave – but billions more will be needed to roll out 5G network infrastructure across the country. Without such investments, Canada will lag other countries in 5G deployment, and Canadians will miss out on the economic and social benefits that 5G services will bring.

The government should not want Canada to replicate the unfortunate situation in Europe, where similar policies promoting resale hampered innovation and investment – turning what was once a wireless leader into a laggard confronting an estimated €150 billion investment gap.

The impact on wireless competition

Those who argue that encouraging Wi-Fi resale will lower prices in Canada display a mistaken view of current market conditions and fail to grasp the damage that would be done to competition and consumers. Market entry by Wi-Fi resellers will impact all facilities-based investment, but it is the non-incumbent wireless carriers, whose investments have been actively encouraged by government policy for a decade, that will be hit first and hardest.

Over the last 10 years, Eastlink, Shaw and Videotron have invested to build wireless networks and viable wireless businesses. Videotron recently announced that it had passed the one million subscriber mark. While not a public company that releases subscriber numbers, Eastlink is very pleased with its progress in wireless and continues to invest to expand its operations, most recently in Saint John. Shaw/Freedom now has about 1.3 million subscribers, gaining 93,000 more customers in the last three months alone. As TD Securities remarked in response to Shaw's results: *"We have just seen a huge inflection in the wireless business, which sets the stage for multiple quarters in a row of strong results, increasing Street forecasts, and increasing Street valuations."*¹

In fact, in the most recently reported quarter Videotron and Shaw together gained more subscribers than Rogers and Telus combined, a result unthinkable just two years ago. It's clear that there is healthy and growing competition in Canadian wireless, with multiple national and

¹ TD Securities Inc., Shaw Communications Inc., *Huge Inflection in Wireless Growth*, April 13, 2018.

regional players and the full range of pricing and service options available from 10 different wireless brands in most centres.

These new players are building networks and winning customers. If the CRTC's decision is overturned, Eastlink, Shaw and Videotron will be the first to lose customers to Wi-Fi resellers, directly impacting their ability to sustain their investments in network expansion and improvement. Reversing the CRTC's Wi-Fi resale decision would sacrifice the success of these facilities-based competitors for uncertain resale competition. Wireless network enhancements and service innovations available to Canadians would decrease as a result, as was the case in Europe, where the introduction of 4G has been termed a disaster.

The impact on successful government policy

In addition to being contrary to government's longstanding policy to promote facilities-based competition in Canada, reversing the CRTC's Wi-Fi decision will undermine several other recent government initiatives.

For example, the CRTC itself has launched a proceeding that will require Bell, Rogers and Telus to introduce data-only wireless Internet plans. These new services will be available to all consumers, on the latest wireless network technology, on both a prepaid and postpaid basis. The CRTC's data-only proceeding is ongoing but these new services will go a long way in addressing any remaining concerns about pricing and affordability.

Also at the encouragement of the government, Bell recently launched Lucky Mobile, a prepaid wireless service targeting cost-conscious consumers with prices starting at \$20 a month. Already available in multiple markets, we plan to roll out Lucky across the country – and fully expect our competitors to respond to our renewed focus on the prepaid market with their own new or enhanced low-cost alternatives. If the Wi-Fi decision is reversed, however, all facilities-based carriers will need to re-evaluate their plans in this segment of the market.

The evidence shows that wireless prices in Canada are actually falling. A December 2017 analysis by Nordicity reported that in the last decade prices have dropped by between 33% and 37% for typical wireless service plans. As your own department noted in a release at the time: *"Cellphone plan prices drop for millions of Canadians."*² The same report found that regional facilities-based providers like Eastlink, Shaw and Videotron generally offer lower prices than the incumbents.

This surely reflects the success of the government's existing policies, while new data-only wireless Internet plans resulting from the CRTC proceeding will add to the low-cost options already available to Canadians. For more information on the state of the Canadian market, I have attached a document that examines pricing trends for wireless services in Canada, clearly showing both their increasing affordability and value.

² https://www.canada.ca/en/innovation-science-economic-development/news/2017/12/cellphone_plan_pricesdropformillionsofcanadians.html

The impact on Canada's global standing in wireless

Long-standing government policy has successfully created an environment of competition, innovation and growth in Canadian wireless. At Bell, for example, our world class LTE network now reaches 99% of all Canadians, a milestone achieved in 2017. Bell was first in North America to launch Quad Band LTE-A service, capable of delivering speeds of up to 750 Mbps, and we were first in Canada to successfully deploy Gigabit speeds. All of this in a market ranked 1st out of 86 countries by the Economist Intelligence Unit in terms of wireless and wireline broadband affordability.

This level of technological innovation and service expansion requires significant amounts of capital investment. BCE accesses approximately 30% of our required capital on global markets, as do other telecom providers in Canada – a combined total of \$35 billion each year. The confidence that capital markets have shown in Canada to date reflects the success of the facilities-based wireless policy that has in place for the entire 33-year history of wireless in Canada. Changing the rules to favour Wi-Fi resellers would certainly impact the market value of the communications sector in Canada severely, immediately and over the long term.

Minister, Canada cannot afford a negative global perception of our communications policies and industry structure at any time – and certainly not when capital requirements for our industry are rising alongside the growing global economic structural challenges facing our country.

Right now, our country is a proven global leader in wireless investment and innovation. We have world-class network speed and quality, and unprecedented service coverage across a vast and diverse national geography. We have a highly competitive marketplace offering the full range of service and pricing options to Canadians across the country.

Recognizing that a policy encouraging facilities-based investment in wireless has been instrumental in delivering such positive outcomes, the CRTC has twice made the right choice on Wi-Fi resale. Reversing its decisions, and undermining the government's own track record of success in wireless policy, would have numerous clear and harmful consequences for wireless consumers, workers and service providers throughout Canada.

I would be pleased to discuss these issues with you in more detail at your earliest convenience.

Sincerely,

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George Cope
President and CEO - BCE Inc. & Bell

Attachment