CMCRP
Canadian Media Concentration Research Project

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Bell's Bid to Buy MTS is Bad News

The Canadian Media Concentration Research Project is pleased to respond to the Competition Bureau's invitation to Canadians to share their views on the merits of Bell Canada Enterprises' (BCE) May 2, 2016 bid to acquire Manitoba Telecom Services (MTS) for $3.9 billion.

Bell's Bid to Buy MTS is a big deal but it is also bad news – for Manitobans, and all Canadians. If the acquisition is approved, the communication industry in Manitoba will be radically transformed. As a result, Manitoba's largest provider of telecommunications, Internet, and next-generation TV services would be added to BCE -- already the largest company of its kind in the country at nearly twice the size of its closest rivals (Rogers and TELUS). If approved, the transaction would lessen competition substantially and also fly in the face of the Competition Bureau's own recent findings regarding the need for more competition in the mobile wireless services market.

While Bell frames its acquisition of MTS as a bid to help bring Manitoba out of the past and into the future with its pledge to invest $1 billion over five years to build state-of-the-art fibre optic networks, expand Bell's Fibe TV service and increase wireless 4G LTE network coverage, we reject that story. The close look at the data and existing trends in this report shows that MTS is *more* profitable and invests relatively *more* capital in its networks than Bell. MTS's significant and timely investments in 4G LTE wireless networks, high-speed broadband, and next-generation IPTV services all show that its operations compare favourably with or better than anything Bell offers in its own territories.

Our review of pricing comparisons between Manitoba, on the one hand, and Ontario, B.C., and Alberta, on the other, also demonstrate that mobile wireless prices are significantly lower in Manitoba. Price increases by the national carriers have been less in Manitoba than elsewhere, as well, due to the disciplining effect that MTS has on their behaviour.

At the same time, MTS' average operating income and EBITDA between 2010 and 2015 have been *higher* than at BCE. Furthermore, MTS offers unique and innovative options that people value greatly, notably unlimited mobile data and residential broadband internet services and pick-and-pay television bundles that are not available from BCE, despite last year's CRTC rulings requiring that such choices be made available to all Canadians by all providers. MTS has been offering people such choices for more than a decade.

Allowing the merger to proceed would diminish the number of mobile wireless competitors in Manitoba from four to three. Mergers and acquisitions that reduce the number of wireless carriers from four to three have been strongly opposed by regulators in many countries around the world. When AT&T sought to take over T-Mobile in 2011, the US Department of Justice scuppered the deal. Since then, T-Mobile has flourished by offering innovative services like unlimited data plans and free international roaming. Two weeks ago, European regulators also blocked a four-to-three merger between mobile operators Hutchison and O2 in Britain, citing concerns over the potential for sharp increases in bills and anti-competitive behaviour.

The Canadian Government has spent the better part of the last decade bending over backwards to increase competition in the wireless space. These efforts have begun to bear fruit in Quebec, where Videotron has rapidly expanded, and the Maritimes, where Eastlink now offers an affordable alternative to the national carriers. Supporters of Bell's bid for MTS downplay the benefits that independent competitors have brought to Canadians, but experience in Canada and around the world shows that having four or more rivals leads to more competitive pricing, and a greater diversity of service offerings–-a virtuous circle which helps reduce barriers to adoption and innovation. This is vitally important since Canada ranks poorly (32^{nd} out of 40 OECD and EU countries) when it comes to mobile phone adoption. Wireless markets that go from four to three carriers also usually see a steep rise in prices, and more restrictive, costly data caps.

It is also unlikely that any new competitors will enter the market in Manitoba following the transaction because the most likely candidate, Shaw, lacks the spectrum in the province needed to do so. There are also concerns that Rogers could be left in the lurch once its current joint network sharing agreement with MTS expires if this deal goes ahead.

Lastly, giving the green light to Bell's bid for MTS would be tantamount to condoning the rent-seeking behaviour that the Competition Bureau itself has condemned, and would set a dangerous precedent for other provincial markets where competition has just begun to gain a toehold. Based on our assessment, we recommend the following three potential options, in rank order of preference:

Recommendation 1: Block the merger.

Recommendation 2: Require divestiture of spectrum licences, towers, retail locations, and subscribers to an independent competitor.

Recommendation 3: Require open-access provisions for the new entity.

A PDF version of our full report and executive summary can be found here.
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