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Thought-leading Commentary

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A Canadian Wireless Battle of Consequence

An unusual showdown of sorts has developed in the Canadian wireless market, one that is bound to have both intended and unintended consequences. What makes it unusual is not the fact that the incumbent carriers have taken their case against government industry policy to consumers nor that the federal government has responded with a campaign of its own. This time, the interesting angle is that both parties are targeting the same audience: the Canadian consumer.

While industry has battled government regulation time and time again, governments regularly seek support from voters to strengthen their mandates. In this high-stakes undertaking, in order to strengthen their respective sides, both industry and government are not unlike two foes poking a sleeping bear.

This leads to two questions. First, what is there to gain for both sides? In other words, what are the intended consequences? Second, are there potentially unintended consequences? Since the first is rather obvious – an intended consequence could be the other side backing down – let's explore the more hidden side: the possible unintended consequences.

The potential danger for both sides could be a newly empowered consumer, who, after being prodded with the stick of "wireless liberation" awakens to realize that, effectively, he or she is in charge. While in classic competition theory the consumer is indeed in charge, the degree does vary depending on the structure of the market. What is ironic is that the wireless market in Canada is actually more consumer-friendly than its fixed-line cousin. Have you seen any national campaigns for or against the two-player fixed-line oligopoly? Not recently. Canadians simply accept it. However, in a converging communications and media world, the sleeping bear is opening its eyes to new technological alternatives while choosing when, where and how to consume their content.

Fixed-line communications in Canada is a competitive utility that is more competitive than regulated utility monopolies with wireless being more so but less than the food retailers, for example. The risk for the wireless industry in today's showdown is also the potential reward: an empowered consumer. Consumers could wrongly demand a strong fourth entrant and the elimination of foreign ownership rules, only for the industry (and its jobs, capital and profits) to be sold to non-Canadian multinationals. Then, given Canada's size, future wireless investment may have to stand in line behind other larger markets.

This is a risky endeavour for government, too. What if the voter is swayed to the belief that industry is right: that large multinationals do not need handouts to enter the Canadian wireless market? Government does not have a great track record in industry experimentation nor in voter-targeted advertising. Recall the awkward situation in 2008 when government permitted a foreign-backed new entrant to win wireless spectrum and then was denied the right to launch its service as it was deemed “foreign controlled”. This was an embarrassment for Canada. How did government respond? It overturned the ruling and experimented further by liberalizing foreign ownership rules for small players and recently it tilted spectrum auction rules away from the incumbents. The latest news (albeit still unconfirmed) is that a large multinational is interested in the spectrum auction and a couple of the struggling new entrants. It seems to be a tall order for government to maximize spectrum auction proceeds, attract additional capital for the starved new entrants, and create a viable fourth national carrier – all without smothering the incumbents who have led the country’s wireless innovation. The unintended risk for government is an empowered voter who, in addition to judging government on its own actions, could see its telecom policy as a failed experiment and thus alter their support in a future election.

In the end, the strategies of both parties – the wireless industry and the federal government – entail intended and potentially unintended consequences. The question becomes which represents the greater risk: losing the battle for intended consequences or triggering the unintended – a stronger consumer, and, possibly, an end to foreign ownership restrictions, and, potentially, the wholesale sell-off of the Canadian telecom market. One thing is certain: have your smartphone charged and keep it focused as one or both of the parties in this unusual battle is bound to awaken the consumer.

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About DICEMARK CAPITAL

DICEMARK CAPITAL and its affiliates were founded by Chris M. Diceman, CFA – a seasoned capital markets professional. Leveraging his extensive experience with corporate capital issuers, intermediaries, buy-side investors, the media and regulators, Chris has brought his leadership, analytical and communications skills to a role as a corporate director.

Prior to forming DICEMARK CAPITAL, Chris spent over a decade as a credit analyst with the global credit rating agency DBRS Ltd., where he led the analysis of a universe of 75 global communications and media companies. Chris was an active participant in the agency's rating committee, working in a collaborative environment that garnered him extensive knowledge of other industries, ranging from retail and real estate to industrial products. Prior to his tenure at DBRS, Chris was a manager at State Street Trust Company Canada, serving the largest institutional asset managers in Canada.

A Chartered Financial Analyst (CFA), Chris is a member of the CFA Institute, the CFA Society Toronto and the Institute of Corporate Directors.