Hamilton Chamber Of Commerce
Favours Alternatives to Usage Based Billing (UBB)
for Internet Connectivity in Canada

Issue:

Whether the Canadian Radio and Telecommunications Commission (the "CRTC") and the Government of Canada should approve usage based billing (UBB) practices as the only means of billing for Internet connectivity in Canada?

Background:

CRTC Decision

In January 2011, the CRTC released its final decision in setting rates for established telecommunication providers such as Bell Canada and Rogers to charge their wholesale internet service providers ("ISP") customers based on bandwidth usage.[1] The decision was scheduled for implementation on March 1, 2011.

Wholesale ISPs are independent businesses that purchase large blocks of Internet connectivity and then resell that connectivity to multiple consumer and business customers. Until recently, wholesale ISP's purchased internet connectivity from telecommunication providers for prices determined by connection speed.

Many wholesale ISP's offered "unlimited" bandwidth plans to retail consumers and businesses as a way to differentiate their services from the plans offered by Bell and Rogers who have discontinued their own unlimited plans to their direct retail customers in recent years. Instead, Bell and Rogers now offer plans with a fixed "usage cap" and a per-gigabyte surcharge when usage exceeds those caps.

For example, in August 2010 Rogers offered a rural service with 2 megabit per second (Mb/s) connection speed and a $100 maximum monthly charge and no usage cap. This was later replaced by a plan that charged $60 per month for 10 gigabytes (GB) of bandwidth and $5.00 per GB above that. As of April 2011, Bell and Rogers have overage charges that range from $2.50 to $20.00 per GB on their standard retail internet accounts.

The CRTC decision, presently suspended, will eventually force all wholesale ISP's to switch to UBB billing practices for their own retail consumers and businesses, reducing options available to retail consumers and businesses.

When the CRTC decision attracted critical media and consumer attention, the Federal Minister of Industry asked the CRTC to review the decision. The then Federal Minister of Industry, as well as all the then Opposition Parties, indicated that they would not accept the current CRTC decision governing UBB practices.

History of Internet Connectivity in Canada

[1] CRTC Telecom Decision CRTC 2011-44 http://www.crtc.gc.ca/eng/archive/2011/2011-44.htm

From the infancy of the consumer internet in 1995 to about 2005, Canada was generally a leader in many metrics of internet adoption – household penetration, connection speeds, even pricing was superior or competitive with other industrialized nations. Recently this has reversed significantly.

A just-released *World Economic Forum* report on "Global Information Technology" rates Canada as 23rd in the world for the cost of fixed-connection Internet, and 68th in the world for the penetration of data subscriptions among wireless device users.[2] In June 2010, the Organization for Economic Co-Operation and Development (OECD) reported that Canada was 22nd out of 24 in wireless broadband, and had slipped to 12th out of 31 developed countries in fixed broadband penetration, down from an earlier peak ranking of 2nd.[3] In September 2010, the OECD reported that that bandwidth costs in Canada ranked 22nd out of 34 industrialized countries, with a median cost per Mbit that was more than double that of countries such as Greece, UK, and Austria, and more than five times greater than Japan, France or Korea. Finally, the OECD ranks Canada 21st out of 34 countries in average broadband speeds, with average connectivity speed less than half that of countries such as Portugal and France.

Impact of UBB Billing to the Business sector

There are a number of elements of the new "Digital Economy" that rely on affordable and ubiquitous high speed connectivity:

1. Cost Competitiveness

Use of the internet is an increasingly significant cost for many companies. Whether it is use by staff for reference, collaboration or cloud computing purposes or communication with customers via websites, social media or video streams, bandwidth usage is increasing.

High bandwidth costs have put and will continue to put Canadian companies at a disadvantage with competitors located in other countries.

2. Business-to-Business Efficiency

With UBB billing practices, Canadian businesses pay twice for the cost of sending the same data via the Internet as usage charges apply at both ends of the transmission.

For example, if two locations of a Canadian business work together on a media project and wish to transfer 16 GB of data from one location to the other, the current cost of sending this data via the Internet would result in approximately $80 to $320 in bandwidth charges based on the UBB rates currently charged by Bell and Rogers and approved by the CRTC. Alternately, they could use an overnight courier ($25-75) to deliver a 16 GB USB drive.

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[2] World Economic Forum IT Report 2011 http://www.weforum.org/reports/global-information-technology-report-2010-2011-0?fo=1

[3] OECD Broadband Statistics June 2010 http://www.oecd.org/document/4/0,3343,en_2649_34225_42800196_1_1_1_1,00.html

3. Global Internet Services

In many respects, Canada is regarded as a potentially strong player in global Internet commerce. Our privacy protections are recognized as considerably in advance of those in the US. We also feature a highly educated and tech-aware workforce.

However, this hotbed for innovation is only viable if Canada is competitive with respect to internet connectivity costs. With high bandwidth rates, it is difficult to make a reasonable business case for starting or relocating new global Internet businesses in Canada.

4. Barrier to Innovation

Even if Canadian digital businesses can absorb the current high connectivity costs sought by Bell and Rogers, Canadian consumers are increasing burdened with their own high connectivity costs making them less likely to embrace innovative new products or services delivered via the Internet.

For example, Europe and the US have many indigenous music-streaming and video-streaming services offered via the Internet, including Spotify (Europe) and Netflix (US). However, Canada has no significant Canadian-based player in this market. Both Spotify and Netflix have publicly complained that bandwidth caps are restricting their growth in Canada. Netflix has even announced a "reduced quality" mode with reduced bandwidth requirements that is aimed specifically at the Canadian market.[4]

Cost of Delivering Internet Connectivity

There is considerable debate as to how much it actually costs Bell and Rogers to deliver additional bandwidth. While there is debate on how such costs should be calculated, a commonly quote figure is that it costs about 1 cent to deliver one GB of data over high speed infrastructure, and about 7 cents per month to provide and maintain the necessary infrastructure.[5] For one GB, Bell and Rogers charge rates of between $2.50 and $20.00 to retail consumers and businesses.

In testimony to the CRTC, Rogers has admitted that when determining the price to charge for UBB, "the price does not necessarily reflect the cost of supplying the network capacity"[6]. Bell Canada CEO George Cope has stated that " almost all" [of its recent increased profit and revenue growth] is "coming from usage based billing as the demand for Internet use explodes through the use of video services" and it is Bell

[4] Netflix in Canada http://arstechnica.com/tech-policy/news/2011/03/data-caps-claim-a-victim-netflix-streaming-video.ars

[5] Montreal Gazette April 2011 http://www.montrealgazette.com/business/Canadian+ISPs+they+need+money+critics+Internet+fees+cash+grab/4545806/story.html

[6] Rogers Submission to CRTC http://www.scribd.com/doc/51751411/Cable-Carriers-Joint-Comments-TNC-2011-77-Mar28-11

Canada's intention to "monetize" that growth "for our shareholders through the bandwidth usage charges".[7]

While "profit" is admittedly not a dirty word, it is clear that Bell and Rogers are not motivated by concerns over cost-recovery in their delivery of Internet connectivity to wholesalers. Instead, there is legitimate concern that the drive for UBB is motivated by anti-competitive impulses in that CRTC approval of UBB practices would effectively prevent wholesale ISP's from offering unlimited bandwidth plans to retail customers and businesses in direct competition with Bell and Rogers.

For instance, Bell's fibre optic service ("Fibe") delivers television programming via Internet Protocols to its customers, but such delivery is not subject to Bell's own UBB practice. Bell argues that the Internet Protocols that it uses to deliver Fibe service are semantically not part of the true public "Internet" because they are exclusive to Bell only. However, competitive sources of similar television programming such as Netflix cannot avoid UBB since they can only acquire their Internet connectivity through the telecommunication networks controlled by Bell and Rogers. Bell's Chief Regulatory Officer simply defends its practice by saying that "Fibe TV is completely different."[8]

Conclusion

Canada is falling further and further behind on the world stage with respect to Internet connectivity, making Canada less competitive, less efficient and less innovative. Many see an advanced and affordable high speed bandwidth infrastructure as being an essential element in the new global knowledge-based economy.

In September 2010, the OECD reported that Canada is among only 4 of 34 countries in their broadband survey to have universal prevalence of usage caps among its major internet providers.[9] Many countries have made commitments to offer their residents average connectivity speeds of 100 Mb/second with no bandwidth caps and 30 of 34 countries have either no UBB at all or else have options for plans with no usage caps, including many of Canada's major competitors in the global economy.

With only two truly nation-wide commercial broadband infrastructure providers (Bell and Rogers), it is necessary to ensure that their anti-competitive impulses are not allowed to undermine Canada's competitiveness in the new global knowledge economy.

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[7] Bell Canada to Investors
http://www.bce.ca/data/documents/reports/en/2010/q2/BCE_TRANSCRIPT_q2_10.pdf

[8] Bell Parliament Testimony
http://www2.parl.gc.ca/HousePublications/Publication.aspx?DocId=4953635&Language=E&Mode=1&Parl=40&Ses=3#Int-3739006

[9] OECD Sept 2010
http://www.oecd.org/document/54/0,3746,en_2649_33703_38690102_1_1_1_1,00.html

RECOMMENDATIONS:

The Canadian Chamber of Commerce urges the CRTC and the Government of Canada:

1. To ensure that Canadian businesses and their customers continue to have the option of acquiring Internet connectivity with no usage caps at billing rates that are competitive on the global stage.

✓ This policy supports Private Sector Jobs and Prosperity Growth in Hamilton (insert checkmark ✓)