

# Rogers's acquisition of Shaw will lead to a reduction in competition, but a potential increase in investment

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Rogers Communications announced, on 15 March 2021, that it planned to fully acquire Shaw for CAD20 billion (USD16 billion). The deal is not expected to close until 1H 2022 because three federal agencies, including the regulator (CRTC), need to approve the transaction.

In this article, we analyse the impact that the merger could have on the Canadian telecoms market, discuss the potential synergies between Shaw and Rogers and highlight the key issues that are likely to arise during the regulatory review.

## Rogers's acquisition of Shaw will further widen the gap between the 'big three' and the other Canadian operators

Bell, Rogers and TELUS (the so-called 'big three') have historically dominated the telecoms market in Canada. Together they accounted for 90% of the mobile revenue in Canada in 2020 and for close to 60% of the fixed broadband revenue. Shaw, the fourth-largest operator in Canada in terms of revenue, provides fixed, mobile and pay-TV services across parts of Canada. It offers fixed services in Alberta, British Columbia, Manitoba and Saskatchewan (Western Canada). Shaw's revenue share of the fixed broadband market in Canada fell to 13% in 2020, despite its significant investments in hybrid fibre-coaxial (HFC). Indeed, it made the entirety of its fixed footprint gigabit-capable in August 2020.

Conversely, Shaw's performance in the mobile segment has been continually improving since it acquired WIND Mobile in December 2015. Shaw's mobile subscriber base grew by 12% year-on-year in November 2020 (4.6% market share), despite its limited mobile coverage (it covers just 50% of the Canadian population and only covers major urban centres). This growth can be attributed to Shaw's affordable, large data bundles. It also launched fixed-mobile convergence offers in August 2020 to further increase its appeal to consumers.

Telecoms tariffs in Canada are some of the highest in the world. Indeed, Canada had the third-highest mobile ARPU in the world in 2020, behind the USA and Switzerland. The high cost of network roll-outs (due to the country's large landmass and low population density) can partially explain these tariffs, but the general lack of competition among operators is also an important factor. The acquisition of Shaw would lead to a decrease in competition in the Canadian telecoms market, particularly in the mobile segment, and would further increase the big three's dominance.

## Acquiring Shaw will help Rogers to expand its operations in Western Canada and should increase the pace of its 5G roll-out

Rogers forecasts that it will achieve synergies of CAD1 billion per year 2 years after the transaction closes. These synergies include "lower wholesale charges and network costs, as well as the elimination of duplicative

technology and infrastructure” and we expect that they will be particularly relevant for the roll-out of 5G. Indeed, Rogers will be able to use Shaw’s extensive 1.4 million-kilometre fibre network for its 5G backhaul.

The acquisition of Shaw’s fixed network will also lead to a reduction in high-speed fixed infrastructure overbuilding and will improve Rogers’s presence in the fixed segment in Western Canada. In particular, Shaw’s gigabit-capable HFC network will enable Rogers to compete with TELUS, the incumbent operator in the region. The CRTC may consider this increase in competition in Western Canada to be a significant positive factor.

The merged company will cover more than 8 million premises with next-generation access. This is significantly more than is covered by TELUS, but less than that covered by Bell. This large high-speed fixed network could push Rogers to follow up on the success of Shaw’s converged strategy and launch fixed–mobile convergence services.

However, there will be minimal synergies in the B2B segment. Shaw and Rogers have both historically focused on small and medium-sized enterprises and have a limited presence in the large enterprise segment. It is therefore likely that TELUS and Bell will continue to dominate this segment should the merger go ahead.

## The Canadian authorities may mandate Rogers to make some concessions before agreeing to the acquisition

There is a parallel between this deal and T-Mobile’s acquisition of Sprint in the USA. The two US companies argued that the transaction would create synergies, enhance 5G development and improve rural networks. The acquisition was eventually approved, but T-Mobile had to divest part of Sprint’s spectrum and all of its prepaid activities. Shaw acquired spectrum in the 1700MHz (AWS) range at a discounted rate to promote competition in the market back in 2014. Rogers may be asked to give this spectrum back for fairness purposes. It may also need to divest Shaw’s spectrum in the 600MHz band because it already has extensive spectrum available using this frequency. The CRTC has set aside some spectrum in the upcoming mid-band (3450–3650MHz) auction (scheduled for June 2021) to offer to small and regional operators at a discount. It is now unlikely that Shaw will be eligible for this offer.

A Canadian minister commented, in August 2020, that there were “concern[s] that these [wholesale] rates may undermine investment in high-quality networks” following regulatory changes to fixed wholesale rates. This highlights that network investments are the government’s priority, rather than lowering telecoms prices. This stance is particularly relevant to the acquisition of Shaw because Rogers announced that it would invest CAD2.5 billion (USD2 billion) in 5G networks, establish a CAD1 billion (USD800 million) fund to connect rural areas of Canada and invest a further CAD3 billion (USD2.4 billion) in other technological developments. These investments will be a key argument in favour of the acquisition given the government’s current priorities.

The CRTC has been discussing the introduction of mandated MVNO rights in Canada, which MNOs have vehemently opposed. It approved the first full MVNO licence in the country in January 2021, though mobile wholesale rules have not yet been published. The CRTC is therefore likely to mandate mobile wholesale access on Rogers’s network as part of the review process in order to limit the impact of the merger on competition. It could also ask Rogers to lower its fixed wholesale rates. This set of restrictions, combined with Rogers’s potential launch of fixed–mobile convergence services, the significant increase in network investment and the possible increase in competition in Western Canada, could make this acquisition a net benefit to the Canadian economy.