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NEWS RELEASE

Unrealistic Business Models and Misguided Regulatory Oversight Led to Telecommunications Collapse

Future competition will be driven by technological innovation, not regulatory actions, says author.

***Institute for
Research on
Public Policy***

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Montreal – The Institute for Research on Public Policy (IRPP.org) today released a study by Yves Rabeau entitled “The Schumpeterian Wave In Telecommunications: Policy Implications”.

Rabeau, a professor in the Department of Business Strategy in the Faculty of Management at the Université du Québec à Montréal, argues that unrealistic expectations and poor business models contributed to the collapse in the telecom sector.

The study documents how telecommunications companies invested vast sums in high-speed networks in the late 1990s. Rabeau explains that these investments were made on the basis of business models driven by explosive growth in e-commerce that have yet to materialize.

The resulting overcapacity of competing networks led to steep price declines for telecom services, thereby reducing shareholder value, driving many telecom companies into bankruptcy and contributing to a broader economic slowdown in Canada.

Rabeau says the CRTC could have limited overbuilding by issuing licences for the use of existing telecommunication networks. This would have avoided the enormous investment duplication that took place. But instead, the CRTC focused on encouraging competition in local telephone markets dominated by former monopolists such as BCE and Telus.

The author says these efforts have been largely ineffective. The CRTC’s approach leads to “an economic impasse,” which according to Rabeau creates “a competitive regime where this is not naturally cost-effective and at the same time limits the flexibility of the ex-monopolists”. Given the relatively small size of Canada’s local telephone market, the author doubts that meaningful competition will ever take hold.

Rabeau concludes that competition among communications technologies is the key to a dynamic and competitive market for telecom services. High-speed wireless networks, Internet telephony, and cable are beginning to compete with one another as well as with traditional telephone companies, providing consumers a broader choice of communication

services. "Technological progress may well be able to accomplish what complex regulation of the local market could not," he writes.

"The Schumpeterian Wave In Telecommunications: Policy Implications" is the latest *Choices* study to be released as part of the IRPP's Economic Policy and Growth series. It is now available on-line in Adobe (.pdf) format on the Institute's Web site (www.irpp.org). Please find the summary attached.

For more information or to request an interview, please contact the IRPP.

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