THE VANCOUVER SUN

CRTC Internet decision gouges users

If the ruling survives federal scrutiny, consumers will pay in excess of $2 per gigabyte for bandwidth usage

By David Buffett, Special to the Sun February 3, 2011

Netflix Chief Executive Officer Reed Hastings. Under proposed new rules, watching movies over the Internet using a service such as Netflix will cost customers more as Internet service providers would charge more for increased bandwidth.

Photograph by: Mike Cassese/Reuters, Mike Cassese/Reuters

Canada lags in broadband performance (speed and price) relative to other developed nations -- and many developing countries. At the same time, all components and costs required to deliver Internet access have gone down, and yet prices for Canadian consumers are going up. Why is that?

We agree that there is cost associated with using more bandwidth, and the user should probably bear that cost via usage-based billing.

Radiant Communications and many other Internet service providers stated this in front of the Canadian Radiotelecommunications Commission on Jan. 26. What we disagree with is the implementation methodology of usage-based billing.

For two decades the CRTC used a cost-plus approach, with telecommunications companies submitting detailed cost models and being granted reasonable returns.

For the first time, the recent CRTC ruling uses a retail-minus approach, which means that consumers will pay significantly more for additional usage than the actual costs incurred. What may not be widely understood is how much that extra capacity costs: it's nowhere near the inflated overage fees that the large Internet service providers want to now charge.

The cost associated with transmission and switching on a modern network is a non-issue -- less than five cents per gigabyte and dropping fast.

If the CRTC ruling survives federal government scrutiny, however, consumers will be paying in excess of $2 per gigabyte. (That's about a 400-per-cent markup.)

Simply put, consumers are getting gouged and have little choice in the matter because Canada has little competition in the Internet service market.

A Jan. 28 article in The Vancouver Sun, "Usage-based billing: A concept whose time has come," mentions that the major players invest large amounts of private capital to maintain the infrastructure. However, much of our present infrastructure was built almost entirely under the protection of a government monopoly, outright subsidies and foreign ownership restrictions placing barriers to protect large providers. Canadian citizens paid for the infrastructure long ago.

A quick look at quarterly financials reveals that only a very small fraction of the revenue made today by the large telcos is invested back into maintaining an aging network that the "big three" haven't improved in many years but from which they've made huge profits.

The "it costs money" argument doesn't hold water for major Internet service providers.

The article was framed in such a way that it looks like the independent ISPs only piggyback on telco networks and are resellers.

This is not the case. The independent providers have their own offices, their own networks and already pay for data. Independent companies like Radiant, for instance, pay for Internet upstream, and also lease the lines to reach every consumer downstream.

These fees more than pay for the maintenance and upkeep of our infrastructure.

What this CRTC ruling is really about is protecting incumbent telco businesses and delivering profits to their shareholders. There is no harm in private corporations doing this but it's being done in an anti-competitive manner.

There is an inherent conflict-of-interest to cry foul about Internet congestion, while in the same breath promoting their companies' video and Internet TV assets.

For instance, if a customer subscribes to IP-TV with an ISP (Netflix, for example), the video downloads are subject to the user-based billing.

If a customer subscribes to IP-TV with Bell or Telus, the downloads are not subject to user-based billing.

ISPs such as Radiant agree with charge-for-usage, but believe that it should be based on a model that reflects the cost to deliver and that is fair and competitive.

With the recent CRTC decision, Canadian consumers and businesses that are already paying the highest costs for the Internet in the developed world will now also be paying inflated usage rates.

That translates into poor international competitiveness, poor productivity, reduced investment infrastructure, stifled innovation and consumer choice.

David Buffett is CEO of Radiant Communications Inc., which delivers Internet services to over 4,000 businesses across Canada.