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The Merger between Rogers and Shaw

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Abstract: The communication industry is an essential issue of people's livelihood, which has received the attention of government regulators and the public. As one of the largest mergers in Canada, the merger between Rogers and Shaw caused too much attention from the public. This paper discussed the status of the Canadian Telecommunication industry, the reasons why Canadian Government approved the merger, the potential risks of the merger to the participants in the communication market and the influence of Rogers' service disruption on national business and the merger. In addition, on the basis of macroeconomic theories, the author provides some remedial and preventive measures to combat similar future risks as well as the short-term and long-term effects of restrictions on the merger. At the last, the paper claims that the merger will increase the market power of Rogers, and it requires Canadian government to take action to regulate the telecommunication industry to improve people's welfare because it closely connects with everybody's life.

Keywords: merger, business outage, regulator effect

1. Introduction

The proposed merger between Rogers Communications Inc. and Shaw Communications Inc. is a significant development in the Canadian telecommunications industry. The main reason that the government regulators need to approve the merger is that the merger will lead to the scale of the economy and increased efficiency, which reduces competition in the market and promotes the long-run development of the industry.

For different industries, the competitiveness level is various. If competition is high, the suppliers have less power to set prices and the price is determined by the market. For example, in the perfect competition market, the price is set by the market and the profits that suppliers receive would be zero. The price equals to marginal cost. However, in the monopoly market, there is a sole seller in the market. To maximize the profit, the supplier will set the price when marginal revenue equals marginal cost. Of course, the price level in the monopoly market is higher than the price level in the perfect competition market.

The outage experienced by Rogers in Jul 2022 caused a negative impact on the merger because it revealed the weakness of the less competitive market. Moreover, the outage had wider implications for both companies and the telecommunications industry in Canada as the reputation of Rogers was severely harmed and it made it more challenging for Rogers to meet some of the regulatory conditions placed on the merger [1]. The proposed merger between Rogers and Shaw is a significant develop-

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ment in the Canadian telecommunications industry, and its potential impact on competition, consumers, and the wider industry makes it worth discussing and analyzing.

2. The Current Status of the Canadian Telecommunication Industry

2.1. The Background of the Telecommunication Industry

The telecommunications industry in Canada is an oligopoly market. The Canadian Telecommunications industry provides a vital service to Canada's 38 million inhabitants, connecting Canadians to each other and the world through phone, internet, satellite, wireless, and cable services [2]. The three largest telecommunications companies in Canada - Bell Canada, Rogers Communications, and Telus - continue to dominate the market, with a combined market share of around 90% in wireless and 80% in wire-line broadband. Since the number of suppliers in the market is small, the suppliers in the market have extremely high market power. Hence, the suppliers are able to set high prices to raise their profits. In fact, Canadian customers are paying some of the highest prices for broadband and wireless service in the world, according to Moscrop (2022). There is no doubt that the merger would exaggerate this situation.

In the communication industry, the Canadian Government is trying to expand broadband access in Canada, particularly in rural and remote areas. The Canadian Government has announced plans to invest billions of dollars in expanding broadband infrastructure, which could potentially create new opportunities for smaller players in the market. This investment could also have wider economic benefits, such as increased productivity and job creation in rural areas. In addition, there have been some recent regulatory changes in the Canadian telecommunications industry. In 2019, the Canadian Radio-television and Telecommunications Commission (CRTC) issued a new wireless code that aims to improve consumer protection and promote competition. The code includes provisions such as clearer contract language, caps on data roaming charges, and new rules for unlocking phones, which helps to promote competition in the sector and assist in appealing to smaller companies to enter [3].

Overall, the Canadian telecommunications industry remains highly concentrated, but there are some potential changes on the horizon that could impact the industry in the coming years. The merger between Rogers and Shaw, expanding broadband access, and regulatory changes could all have significant implications for the industry and its stakeholders.

Government regulators need to approve the merger of two companies like Rogers Communications Inc. and Shaw Communications Inc. because mergers can have significant implications for competition, consumers, and the public interest. If a merger results in a significant reduction in competition, it could lead to higher prices, reduced innovation, and lower quality of service for consumers. Therefore, government regulators play a crucial role in ensuring that mergers do not harm competition and consumers.

In Canada, mergers involving telecommunications companies are subject to review by both the Canadian Radio-television and Telecommunications Commission (CRTC) and the Competition Bureau. The CRTC is responsible for ensuring that mergers are in the public interest and do not harm competition or consumers, while the Competition Bureau assesses the impact of mergers on competition and takes action if it determines that a merger would be likely to substantially lessen or prevent competition [4].

In the case of the proposed merger between Rogers and Shaw, the Canadian Government approved the merger subject to certain regulatory conditions. These conditions were designed to mitigate potential negative impacts on competition and consumers and included commitments to maintain pricing, expand rural broadband services, and divest some spectrum assets to smaller competitors.

Overall, government regulators need to evaluate the merger of two companies like Rogers and Shaw to ensure that the transaction does not harm competition, consumers, or the public interest. If

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Government supposes that the merger is conducive to the national welfare, then the merger should be approved. This is an important role that helps to promote a healthy and competitive marketplace.

2.2. The Factors of Approval

The first reason that regulators would approve the merger is that it is beneficial to consumers. The merged entity will be able to offer a broader range of products and services to consumers, including improved internet speeds, expanded wireless coverage, and increased investment in rural broadband services. This benefits consumers by providing them with more choices, a better quality of service, and more affordable pricing.

The second reason is that the merger might not harm competition in the telecommunications market as long as certain conditions are met. These conditions included commitments to maintain pricing, expand rural broadband services, and divest some spectrum assets to smaller competitors. More importantly, Rogers' plan to sell Shaw's Freedom Mobile assets to Quebecor Inc. would ensure there would be four strong players in major markets so that the merger would encourage competition. [5]. By addressing these concerns, the regulator was able to approve the merger while protecting competition and promoting a healthy and competitive marketplace.

The third reason is that the merger is good for the public interest. It included factors such as the impact on employment, investment, and regional economic development. The merger would have a positive impact on promoting job opportunities and business, so it was aligned with broader societal goals and priorities.

Overall, the Canadian regulator approved the merger of Rogers and Shaw based on careful consideration of the benefits to consumers, the impact on competition, and the broader public interest. By imposing regulatory conditions and closely monitoring the merged entity, the regulator was able to promote a healthy and competitive telecommunications industry in Canada while protecting the interests of consumers and the broader public.

3. The Impact of the Outage on Rogers

No wonder the outage of Rogers brought severe damage to the reputation. Not only for the business Rogers but also for the whole business in Canada and public safety, especially in the telecommunication industry, which is in an oligopoly market. From the angle of the economy, social welfare is not optimal in a less competitive market. If the market is perfect competition, there is no deadweight loss and the total surpluses are maximized. In this situation, the market is entirely efficient. However, as the competition level decreases, the equilibrium price will go up and the efficiency will decrease. For example, in the monopoly market, the efficiency level is the lowest and the deadweight loss is the highest. If there is no government intervention, the telecommunication industry will become closer to the monopoly market and the total surplus will decrease.

Although the merger will decrease market efficiency, the Government was willing to agree with the merger before the outage as the merger may work to increase efficiency and bring the benefits, such as economies of scale and economies of scope. The announcement of the merger information between Rogers and Shaw was published on March 15, 2021 [6].

However, the outrage of Rogers' service on July 5 directly and significantly impacted the decision of the Government. The likelihood of approval has changed and the merger will be less likely to be approved. The main reason is the change in competition. If the merger is finished, the number of players in the market will decrease and the choices of services for consumers will decrease, too. For example, as what happened on July 5, a high percentage of consumers will lose Network service. Imagine that there is only one supplier in the market and an outage happens. All consumers in the country will lose network service and the outage will lead to huge and unrecoverable losses. If the number of service providers in the market is large, the outage of a single provider will not cause a big problem. And consumers can still use the 911 call service.

More importantly, the outage could damage Rogers' reputation and lead to a loss of customer trust. This could potentially impact the company's financial performance and ability to compete in the industry. It could also make it more difficult for Rogers to meet some of the regulatory conditions placed on the merger, such as commitments to maintain service quality and invest in network infrastructure.

On the other hand, the outage could highlight the importance of reliable telecommunications services and increase public scrutiny of the merger. Some researchers claim the outage of Rogers was the failure of the Canadian telecommunication system when the maintenance update destroyed the whole network [7]. The Canadian Government needs to closely monitor the impact of the merger on service quality and reliability, given the potential for increased consolidation in the industry.

4. Canadian Government's Countermeasures to the Merger

At present, the Government has decided to prevent the wholesale transfer of wireless spectrum licenses to Rogers Communications Inc. from Shaw Communications Inc [8]. One concern to be taken into consideration is that the merger would cause increased prices for all Canadians. The inflationary environment already adds high costs to Canadians. And monopolistic behaviour and a lack of competition contribute to higher prices [8]. At the same time, the monopoly would add more uncertainty for the industry if the technological conditions are not sophisticated enough to support thousands of users. All in all, the Competition Bureau will more likely restrict the merger between two big companies to some extent.

The service disruption had a negative impact on the profitability of Rogers. The regulators may add more restrictions on the operation of Rogers to make sure that the possibility of further outrage will make it less likely to appear in the future. Rogers may need to incur more costs to maintain its operation. Also, the regulators might also set a requirement on the Network service price. For example, the regulators may add a price ceiling to reduce the high price that consumers pay for the Network service. Furthermore, regarding the sale of Freedom Mobile to Quebecor, the regulator claimed that the promise of not selling to a third party for at least ten years would be an asset for the deal [9]. All in all, the regulators will focus on improving the network service and network reliability and try to control service prices to reduce costs that each household needs to pay under the current high price level environment.

5. The Effect of Restrictions on Rogers

The merger would no doubt increase the market power and the profit of Rogers, without restrictions to encourage competition in the industry. The merger might bring some troubles for customers and the industry [10]. The restrictions on Rogers have some negative impact on its profitability. In the short run, Rogers needs to take time to investigate why the service disruption happens and take action to reduce the problems in case the same situation happens again in the future. In addition, Rogers needs to pay compensation to its consumers to cover the five days of Network disruption because the outage seriously harmed the business of millions of companies and individuals, even for people who were trying to call 911 for any emergency at that time. The Government may even ask Rogers to pay penalties for the service outage. Besides these new restrictions, regulators may require a company to provide more detailed reports on their network performance, maintenance, and outage response processes as much as Rogers can protect the interest of the public. This can help regulators to monitor the company's compliance and identify areas for improvement. On top of that, Regulators may require Rogers to invest in network improvements or redundancies to prevent future outages or disruptions.

This could include investing in backup systems, increasing network capacity, or implementing additional safeguards against service disruptions. Last but not least, regulators might require Rogers to disclose publicly information about an outage, including the cause of the disruption and the steps being taken to prevent future incidents. This can help to increase transparency and accountability for the company and the whole industry. And all of those will increase operating costs and decrease profitability in the short run. As a matter of fact, as one of the main players in the telecommunication industry, Rogers has the responsibility and obligation to take practical actions to prevent the outage from happening again and to actively prevent other possible risks [11].

In the long run, the restrictions of regulators imposed on Rogers have several aspects of the effect. First, if regulators require Rogers to provide more detailed reports on its network performance, maintenance, and outage response processes, this could help the company to identify areas for improvement and increase transparency with customers and investors, which is beneficial to providing better service for customers and enhancing the goodwill of Rogers in the long run. However, if the reporting requirements are overly burdensome or require significant investment in new systems or processes and customers cannot retain the trust in Rogers, it might increase the company's operating costs and impact profitability. Second, if regulators impose a relatively modest fine on Rogers, it may not have a significant impact on the company's operations or reputation. However, if the fine is substantial, it could damage the company's reputation and impact its financial performance. In addition, repeated fines for service disruptions could lead to increased scrutiny from regulators and further damage to the company's reputation in the following decades.

On the other hand, if Rogers passed all the conditions and completed the merger with Shaw, it could become the second-largest telecommunication company in Canada, and its market power would enhance, so it is capable of raising the price of network service. In this way, its profitability would definitely increase in the long run. However, it will harm the benefit of low-income consumers, so the Competition Bureau did not support the merger [12].

In summary, the effects of restrictions or penalties imposed on Rogers following an outage will depend on the severity of the penalties, the company's ability to comply with them, and how customers and investors respond to the situation. If the company responds quickly and effectively to the outage and takes steps to address any weaknesses in its network or outage response processes, the impact on the company's long-term reputation and profitability may be limited. However, if the company fails to respond adequately or if the outage is particularly severe, the impact could be more significant.

6. Conclusion

In conclusion, the merger between Rogers and Shaw had a massive impact on the telecommunications industry, and government regulators approved the regulation from an economic point of view. However, the service disruption that Rogers experienced in July will directly impact the merger decision. The Government, as a result, will be less likely to approve the merger decision owing to its huge influence on national business and public welfare in the whole country, so regulators imposed more restrictions on this merger. Also, in the short run and in the long run, the profitability of Rogers is negatively impacted under the restrictions. And it takes time for Rogers to retain its reputation and to approve the market that its Network service is reliable. Once the merger is completed, the market power of Rogers would increase, and its profitability would grow up in the long run.

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