

Canada's Airwave Auction Favors Newcomers to Wireless (Update3)

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Canada's government will block the country's largest phone companies such as Rogers Communications Inc. from buying some airwaves in an auction planned for next year, setting them aside for new wireless competitors.

The government, which is auctioning 105 megahertz of spectrum on May 27, will permit Quebecor Inc. and other companies that have less than 10 percent of the national wireless market to bid on an exclusive 40-megahertz block of airwaves.

"The Canadian wireless market is dominated by three companies that provide services across the country and control 95 percent of the market," Industry Minister Jim Prentice told reporters today in Toronto. "The introduction of new service providers will help make the Canadian market more dynamic, more competitive and more innovative."

The top mobile-phone companies -- Rogers, BCE Inc. and Telus Corp. -- had opposed the set-aside, saying it amounts to an unfair subsidy. Toronto-based Rogers, Canada's largest mobile carrier, is counting on the spectrum to boost sales of wireless data features. Its sales from those services, such as song downloads, rose 53 percent to C\$183 million last quarter, making them one of the company's fastest-growing sources of revenue.

"We're obviously disappointed," Ken Englehart, Rogers's vice president of regulatory affairs, said in an interview. "We have very competitive rates in Canada."

Falling Shares

Rogers and Telus, Canada's second-largest mobile-phone company, have fallen this month in Toronto trading, partly on concern that they may miss out on some spectrum. Merrill Lynch & Co. analyst Glen Campbell and **Veritas Investment Research's Neeraj Monga** cut their ratings on the companies.

"We think that the decision is flawed," said Michael Hennessy, vice president of broadband and content policy for Telus. "We don't think the investments we made to become a national carrier deserve that level of restriction."

Rogers shares, which have dropped 5.5 percent this month, rose C\$1.50 to C\$45.50 at 4 p.m. on the Toronto Stock Exchange. Telus, down 15 percent in November, climbed C\$1.40 to C\$48.91 today.

"It looks pretty good for the new entrants," Greg MacDonald, a Toronto-based analyst at National Bank Financial, said in an interview. "You can generally conclude that there's going to be a lower cost of entry."

Under the rules, BCE, Telus and Rogers must let the entrants use their networks for 10 years at market rates as the competitors build their own systems.

'Disappointing Decision'

"It's a disappointing decision," Mirko Bibic, chief of regulatory affairs at Bell Canada, BCE's telephone unit, said in an interview. "We're talking about multibillion-dollar entrants here, who are more than capable of entering on market terms."

Entrants also must be allowed to use rivals' antenna towers to ensure the "orderly development and efficient operation of radiocommunication in Canada," Prentice said.

"It's a bit of a surprise," Troy Crandall, an analyst at Montreal-based MacDougall, MacDougall & MacTier, said in an interview. "It's good for consumers, but the incumbents will say that the government gave out too much."

The auction may fetch C\$1.7 billion, Dvai Ghose, an analyst with Genuity Capital Markets in Toronto, said before the announcement. Ghose had assumed Prentice would grant the spectrum set-aside.

Cheaper Services?

Manitoba Telecom Services Inc. and Quebecor unit Videotron Ltee, Quebec's biggest cable TV operator, have lobbied for subsidized spectrum, saying they could offer cheaper mobile-phone services to consumers.

"It won't be a slam-dunk for anyone, even if there is new entry," Chris Peirce, senior vice president of government and regulatory affairs for Manitoba Telecom, told reporters in Toronto. "There's a lot to look at, but at the big policy level, it's in the right direction."

Manitoba Telecom and Videotron, which already offer some wireless service in their local markets, need more spectrum to expand in the rest of the country without having to resell services from BCE, Rogers or Telus. Canada has already licensed 190 megahertz in previous auctions.

The new rules include clauses that prevent the set-aside portions of spectrum from being "flipped" to larger companies, Prentice said. There could be a new market entrant as soon as the end of next year, he said.

Prentice's set-aside is a C\$200 million gift to companies, without any guarantee that consumers will benefit, Scott Brison, a member of the opposition Liberal Party, told reporters in Toronto. The government should have clarified its intentions for foreign-ownership restrictions before deciding on the rules, Brison said. Those rules prevent foreigners from buying Canadian phone companies.

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