

Canada Loosens Foreign Ownership Rules for Telecom Firms

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Canada will loosen restrictions on foreign ownership in the telecommunications industry and reserve new airwaves for small carriers to attract investment from outside the country and spur competition.

Canada will allow foreign companies to buy operators with less than 10 percent of market share by revenue, Industry Minister Christian Paradis told reporters outside Ottawa today, and let those companies grow market share beyond that level without merging with or acquiring rivals. The move, which applies to new entrants like Public Mobile Inc. and Mobilicity, will "remove a barrier to investment for companies that need it most," Paradis said.

Paradis also said the government will reserve wireless spectrum for small phone companies at an auction next year and cap at 75 percent the amount of what it calls "prime" spectrum that the country's three big phone companies -- BCE Inc., Rogers Communications Inc. and Telus Corp. -- will be allowed to buy.

The move is an effort by Prime Minister Stephen Harper's government to respond to calls from new entrants for help to remain in business without undermining the ability of the major incumbents to service growing demand for data services.

"It's an attempt to keep all constituents happy," said **Neeraj Monga**, an analyst at **Veritas Research** in Toronto. "Those who wanted a set-aside got it and those who wanted a cap, got that."

While the government had said it would consider scrapping foreign ownership restrictions altogether, the more modest change announced today will do little to entice foreign carriers to invest in Canada, said **Monga**.

Nobody in Play

"I don't think there's any urgency on the part of any foreign players to enter Canada because of these changes," **Monga** said in a phone interview. "I don't believe it puts anyone in play."

Montreal-based BCE fell 1.5 percent, Toronto-based Rogers dropped 1.6 percent and Vancouver-based Telus lost 1.4 percent before the announcement was made after Toronto stocks closed at 4 p.m.

"We've always said a fair and open auction is the best way to ensure Canadians have access to the best and latest technology," said Rogers spokeswoman Patricia Trott in an e-mail. "This is an important announcement and we're taking the time to review the decision and what it will mean."

Anthony Lacavera, chairman of recent entrant Globalive Holdings, said the decision "creates the illusion of a competitive framework."

Insufficient Spectrum

"The way those frequency blocks are broken down, new entrants are just not going to be able to acquire sufficient spectrum" to compete with the incumbents, Lacavera said by telephone.

Telus is studying the details of the government's announcement and did not have any immediate comment, said Amelie Cliche, a spokeswoman for the Vancouver-based firm. A spokesman for BCE did not immediately return requests for comment.

The government will limit the amount of purchases that companies like BCE and Telus can make. It is dividing the spectrum to be sold into four of the most commercially valuable blocks and capping the

amount each major incumbent can acquire to one block. That ensures at least 25 percent of the prime spectrum will be reserved for new entrants.

No-frills Service

After buying reserved spectrum in 2008, Public Mobile, Mobilicity, Wind Mobile and Quebecor Inc.'s Videotron have all begun offering mobile service in the past two years, targeting Canadians with no-frills services often not tied to contracts.

"It gives the Mobilicities and the Winds," opportunity to grow some share," said Brownlee Thomas, an analyst at Forrester Research Inc. in Montreal. "Maybe it's an advantage to the likes of Videotron."

The auction for the 700 megahertz band will take place in the first half of 2013. The government will also auction spectrum in the 2500 megahertz band one year later, according to the statement.

The last spectrum auction in 2008 raised C\$4.25 billion (\$4.27 billion) for the government, which has promised to eliminate its C\$31 billion budget deficit by the fiscal year starting April 2015.

The 700 Megahertz band is coveted by wireless providers because devices using that frequency are better able to receive signals inside buildings and in rural areas.

Data-hungry Devices

Companies like BCE and Rogers say that they need the spectrum to feed data-hungry smart phones and tablets, a market where new entrants have little presence, and that they are the only carriers with the scale to build the faster networks consumers are demanding. The announcement comes as the Conservatives look for business investment to drive the economic recovery and boost productivity.

"Today's announcement will not lead to cheaper cell phone bills or better rural service," said Geoff Regan, a lawmaker and spokesman for industry issues with the opposition Liberal Party. "Without a competitive telecom market, Canadians will continue to pay some of the highest prices for voice and data in the developed world."

The government pledged in March 2010 to relax foreign ownership rules, which prohibit foreign investors from having majority stakes in telecommunications companies. Today's decision is "taking the lid" off the issue of foreign ownership restrictions, which should eventually disappear, said Thomas.

"I would expect they would eliminate all restrictions on foreign ownership, given there's a tremendous oligarchy in Canada which has a very bad impact on prices," she said.

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