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Director General, Telecommunications Policy Branch,
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DGTP-002-07 Consultation on a Framework to Auction Spectrum in the 2 GHz Range including Advanced Wireless Services

Wispra Inc. ("Wispra") was the founder and a shareholder of W2N Inc. ("W2N"), an unsuccessful bidder for nationwide PCS spectrum in the 2001 PCS auction.

Wispra respectfully submits that the most important issue in the proposed auction of Advanced Wireless Services ("AWS") spectrum is a set aside for new entrants. Providing a set aside is the only way that Canada will have increased competition for mobile wireless services and that Canadians will receive the resultant benefits of increased choice, lower prices and increased productivity.

Canada's current mobile wireless industry structure with three nationwide carriers has produced limited competition, low penetration and high prices for Canadians. It is well known that Canada ranks 29th out of 30 OECD countries in mobile wireless services penetration rates. Even more disconcerting is Canada's rank as 86th in penetration out of the 209 countries reported by the ITU¹ for 2005. Canada was just behind Mauritius, just ahead of Panama and among many other countries that Canada is not usually compared with. Many started service well after Canada. Perhaps Canada could not reach Luxembourg's 155% penetration or even 100% penetration like 27 other countries, but we should have done better than 52.5%.

Why are limited competition, low penetration rates and high prices bad for Canada when they produce such profitable and growing mobile wireless companies? They are bad because the benefits from mobile wireless services should accrue to Canadians and not go to the incumbent service providers. Canada has one of the lowest labour productivity growth rates in the OECD,² 18th out of 24 countries reported for 1995 to 2004. Information Technology in general and mobile wireless in particular have been recognized as major contributors to productivity growth. This spectrum auction is a major opportunity for Industry Canada to increase productivity growth by making the right policy decision.

¹ <http://www.itu.int/ITU-D/icteye/Indicators/Indicators.aspx#> 2005

² Productivity, Prosperity, and Business Taxes *Niels Veldhuis & Jason Clemens*, Fraser Institute, January 2006.

Isn't a set aside against the principle of letting the market decide? No, the market can only decide in a competitive marketplace where there is open entry and exit of competitors. This is not the case for cellular/PCS/AWS where the requirement to operate on licensed spectrum is an impenetrable barrier to entry for new entrants without a license. By their sheer size and position the incumbents are ideally positioned to bar entry of any new entrant by bidding up the price of spectrum licenses, whether or not they need the spectrum to provide services, as they have done before. It is necessary for government policy to act where there is not an open entry marketplace to ensure increased competition by introducing a set aside.

Why is a set aside necessary to increase mobile wireless competition? Without a set aside for a new entrant, the incumbent carriers will outbid any new entrant as they did in the 2001 PCS auction. Just a 10% reduction in cellular/PCS prices would reduce incumbent revenues by over \$1B per year or by more than \$10B over the 10 year spectrum license term. It is sound business strategy for the incumbents to pay \$1B or more for wireless licenses in the AWS auction just to keep out a new entrant, if they were allowed. It is not a sound business decision for a new entrant to pay uneconomically high prices for spectrum licenses when it also needs to build a new nationwide network infrastructure and create a market presence. In 2001, where there was no set aside, W2N Inc. bid over \$300M for just 10 MHz of PCS spectrum in the Toronto area alone and was outbid by all three of the incumbent carriers. In a subsequent conversation with an executive of an incumbent carrier, the President of W2N Inc. was told that they would have bid double \$300M to keep out a new entrant.

Wispra respectfully submits that Industry Canada is in a position to set the industry structure and thereby determine the growth and prices for mobile wireless services in Canada for the foreseeable future by its decision on whether or not to set aside spectrum for a new entrant.

Wispra strongly recommends that the Department benefit from the experience of previous auctions and select increased competition in mobile wireless services with all its benefits to Canadians of increased choice, lower prices and increased productivity by choosing to set aside 30 MHz of spectrum for a new mobile wireless competitor.

Yours truly,

A handwritten signature in black ink that reads "Joe Church". The signature is written in a cursive, flowing style.