



RYERSON UNIVERSITY

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Question 1: What criteria should be used to judge whether the Canadian 700 MHz auction is a success or failure ?

INITIAL OBSERVATIONS:

1. Success or failure is defined differently by the various stakeholder(s) that is (are) affected;
2. Reasonable and balanced criteria should reflect the legitimate goals of all stakeholders including:
(i) Customers; (ii) Mobile Operators; (iii) Third Party Services Providers and Applications Developers; (iv) Technology Vendors; as well as (v) Others, e.g. Investors;
3. An auction's success or failure often does not become fully apparent for several years.

EXAMPLES OF CRITERIA:

- (a) **Outcome of spectrum assignments** - Efficiency of awards and credibility of winning bidders;
- (b) **Impact on downstream competition** - Prices, performance, and services available to customers;
- (c) **Financial return to the Treasury** - Fair but not so large as to inhibit or delay network investments;
- (d) **The implementation of social policy** - Contribution to reducing the "digital divide";
- (e) **Legal challenges to the auction's outcomes** - Number, credibility, duration, and results.

Unfortunately adoption of a modified version of the U.S. 700 MHz band plan to harmonize Canada with the U.S. as closely as possible makes a successful outcome of this auction less likely. The risk of failure has been exacerbated by the actions of the two major U.S. 700 MHz licensees - Verizon and AT&T - to propagate non-interoperability.



Question 2: What warning signs should Canada heed from other spectrum auctions held around the world?

CONSIDER:

- (a) **Prices of spectrum licenses** and their impact on the financial and investment capacity of winning bidders - *Examples: India, 3G European auctions, 4G auctions in U.K., Netherlands, Czech Republic;*
- (b) **Post-auction fulfillment of obligations attached to the licenses** , and the consequences of non-compliance – *Examples: U.S., Germany, Brazil;*
- (c) **Effects of license conditions** such as bidding eligibility, coverage and roaming obligations, payment requirements, and the efficacy of measures to prevent collusion – *Examples: U.S., Czech Republic, Mexico, Canada;*
- (d) **Legal challenges** to the outcomes of auctions – *Examples: Mexico, Chile, Canada;*
- (e) **Participation in secondary markets** for licenses awarded at auctions – *Examples: U.S., Australia, New Zealand, Guatemala, Canada;*
- (f) **Post-auction consequences for downstream competition** – *Examples: U.S., France, Mexico;*
- (g) **Disputes between various public sector actors** about auction conditions and outcomes e.g. Regulator, Sector Ministry, Treasury, Competition Authority, Appeals Courts– *Examples: Canada, India, Brazil, Chile.*

The results and consequences of recent spectrum auctions and secondary market transactions in the U.S. provide several salutary lessons about potential pitfalls. In contrast France and Brazil have adopted dissimilar but more balanced approaches to the challenge of stimulating and sustaining competition while recognizing that rivalry between mobile networks tends to a natural oligopoly.



Question 3: Would the further lifting of foreign ownership rules guarantee greater competition in the Canadian wireless sector and lower prices for the Canadian consumer?

OBSERVATIONS:

1. **Liberal rules for foreign ownership** neither guarantee greater competition nor leave a market inevitably subject to domination by large multinational foreign-owned operators;
2. **Markets dominated by one or a small number of domestic operators** with influential political and legislative connections, e.g. Mexico, and to a lesser extent Canada, can benefit from the entrance of well-resourced foreigners;
3. **A foreign-owned operator** can be a vehicle for introducing innovative ideas and “best practices” pioneered elsewhere, but may stumble if it tries to transplant business models lock, stock and barrel from one country to another without considering local conditions;
4. **The effectiveness of competition** and hence the price/performance of mobile services available to customers is generally affected more strongly by other policy and regulatory decisions than the question of foreign ownership.

“Patriotism is the last refuge of a scoundrel” - Samuel Johnson

“When a whole nation is roaring patriotism at the top of its voice, I am fain to explore the cleanness of its hands and purity of its heart” - Ralph Waldo Emerson



A CORE QUESTION FOR POLICY MAKERS AND REGULATORS:

WHAT IS A DESIRABLE SUPPLY-SIDE STRUCTURE FOR THE MOBILE BROADBAND MARKET?

Benefits of Maximum Efficiency - Costs per Mbps/ Km² - Point to a “Natural Oligopoly”

BUT

Benefits of Competition Point to Encouraging New Entrants

An oligopoly that is not intelligently regulated will fail to deliver a fair share of the benefits of efficiency to customers and is likely to inhibit innovation at the services level