

Hang up on call for cellphone subsidies

Mark Goldberg

Financial Post

Thursday, March 29, 2007

Nearly 60% of Canadians have mobile phones and yet the headlines read "Lament for a Wireless Nation." Three in five of us now have cellphones. We hear people wringing their hands about the need to limit cellphone use in schools, vehicles, restaurants and other points of refuge. A recent analyst report asserts "Canadian wireless adoption is a national disgrace." The report bemoans our "dismal" mobile penetration rates as being comparable to Gabon.

Europeans are seen as having more than one phone per man woman and child. The Americans are beating us. The experts ask how can our economy compete when countries like Turkey and Tunisia have more cellphones per capita than Canada?

There are new frequencies coming up for auction next year and Industry Canada is canvassing for comments about whether its rules should make it easier for a new mobile-service provider to enter the market. Some people suggest that frequencies should be set aside for new entrants, allowing them to pay less than full market rates. Other incentives have also been suggested to encourage new players.

In effect, the Industry Canada consultation is asking: How far should the government go to artificially stimulate competition?

We need to clearly understand that setting aside spectrum amounts to a government subsidy. Do we need or want to rely on a government-managed marketplace for communications services?

A recent study found that average Canadian mobile-phone users pay more than Americans. The same study showed that low-volume users pay 27% less in Canada. That's right. For some users, Canada has more affordable rate plans than the United States. As a result, heavier users may have the most to gain if we migrated to U.S.-style pricing, while low-volume users may have everything to lose. Will low-income Canadians lose their price advantage as an unintended consequence of government manipulation of the market?

I suggest that the availability of attractive low-end rate plans shows that the marketplace is already working to attract those people who have not yet found the need to go unplugged. More than a million Canadians signed up for cellphone service for the first time last year.

The United States has some of the lowest wireless rates in the world, yet U.S. cellphone penetration also lags Europe. Perhaps we need to look beyond wireless pricing; the high quality and low cost of traditional phone service is a major factor in slowing our adoption of alternate wireless technology. The study comparing Canada's wireless penetration to Gabon neglected to mention that Gabon has only three wireline phones per 100 people, less than 5% of Canada's teledensity.

The Industry Minister recently issued directions to the CRTC to "rely on market forces to the maximum extent feasible" and to "neither deter economically

efficient competitive entry into the market nor promote economically inefficient entry." It would seem to be incongruous for Industry Canada to recommend a policy that interferes with an unencumbered auction process.

Is a spectrum set-aside for new entrants economically inefficient? Any reduction in the amount paid for spectrum is lost revenue for the government. Should taxpayers subsidize competitive entry? To be consistent with the Minister's policy direction, it seems to me that new entrants should buy spectrum for its full value, competing openly against the existing carriers without a taxpayer subsidy.

What if the government interfered with an open auction process and created more favourable conditions for a new wireless carrier? Would consumers benefit from lower prices or would the new entrant enjoy higher profits because of our government's largesse? What kind of climate are we creating for investment in infrastructure? On the surface, it may be appealing to have government intervention to try to increase the level of competition, but what are the unintended consequences?

If the new entrant can't afford the full value of the spectrum, can they afford to build a quality national network? What is the impact of non-Canadian ownership restrictions on the auction? Should taxpayers subsidize spectrum speculators waiting for foreign- investment restrictions to be lifted?

Comparing Canadian wireless prices to overseas rates is an irrelevant exercise. Outside North America, wireless services are paid for using a system known as Calling Party Pays (CPP). Incoming calls may be free, but wireline users pay to make outgoing calls. I don't think we want to start paying for wireline calls.

Canadian wireless minutes of use are higher than most other countries. Prices don't seem to be inhibiting our use of wireless. Canadian rates per minute, already lower than most of Europe, have fallen substantially and can be expected to continue along that trajectory. Hundreds of calling plans are available and service providers are continuing to get more creative with their bundling.

As a consumer, I would like rates to fall even more -- I like free, to tell the truth. But, as a taxpayer, I question using government intervention to artificially stimulate an additional competitor. Let the marketplace work.

- - -

- Mark Goldberg is president of Thornhill-based Mark H. Goldberg & Associates Inc., a telecommunications industry advisory firm.

© National Post 2007

CLOSE WINDOW

Copyright © 2007 CanWest Interactive, a division of [CanWest MediaWorks Publications, Inc.](#) All rights reserved.