**Canadian Spectrum Auction of 2300 MHz and 3500 MHz Licenses**

**COMMENT – February 11, 2004 – ROUND 5**

Industry Canada's auction of 2.3 GHz and 3.5 GHz licenses completed five rounds by the 10 a.m. today. Total bid values are $9.9 million. There have been no bids on 68% of the licenses and very little bidding on 2.3 GHz licenses (14 markets out of 172 license areas).

Although "it ain't over till its over", two observations at this point:

- After the irrationalities and skewed results of the two previous auctions held in Canada (24/38 and Additional PCS), the reputation of auctions may have kept many players away resulting in the low interest level. Many may have thought it better to let others bid, then make deals post-auction. An auction result is a function of who shows up to bid. Once Telus shed its points early on, there was one less "big" bidder. There are now only 3-4 large bidders and five licenses per market being auctioned.

- The lack of interest in WCS 2.3 GHz licenses may be a consideration for the CRTC in its deliberations concerning the satellite radio (DARS) broadcasting applications. If there are very few WCS licensees, the potential interference issues between WCS and DARS would be a relatively unimportant issue.

There are a number of characteristics of the auction dynamic so far that are worth highlighting:

- Bidders hiding their strategies:
    - Buying maximum points to mask strategy. Telus dropped from 5,892 points to only 131 and are focusing bidding in Quebec; no doubt their original strategy.

- Bell Canada also chose to hide its strategy but by using waivers. They have now shed points (down to 1,352 from 2,833) but still have a number of alternatives. Bell's strategy appears to be to cover Telus ILEC territory as well as secondary markets within its own ILEC territory.
- SaskTel had bought points sufficient to cover Saskatchewan. However, they are using the points in BC (i.e. they are likely on a "Navigata" strategy).

- Focus is on the largest market. Toronto represents 36% of the value of the bids placed to date (more than double its market weight). This is consistent with its over-weighting in the two previous auctions (24/38 and Additional PCS).

- Regional markets go for attractive prices. This was also the case in the two previous auctions (as was heightened interest in the London and Kitchener/Guelph markets as in 24/38). Many markets are still at the opening bid price. With the large number of licenses available, smaller bidders are likely to win licenses in their areas.

- Some smaller bidders have been moving bids around even though they are standing high bidder – which could result in penalties.

Given the evolution of events, the auction is likely to end very quickly. As with the UK auction in 2003, the ultimate outcome is becoming clear after only a few rounds. The UK auction went until Round 41 but there was only one license per market. In other words, losing bidders had no choice but to overbid to stay in. With 5 licenses per market in the Canadian auction and very few large bidders, this phenomenon is not likely to occur here.

*The views expressed herein are solely those of Lemay-Yates Associates Inc.*
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