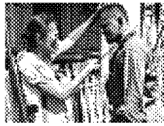


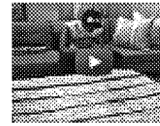
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## Wind Mobile pulls out of wireless auction

By RITA TRICHUR

*Ottawa's efforts to boost competition hurt as key foreign financial backer withdraws support to buy new licences*

Wind Mobile is dropping out of the federal spectrum auction after its key foreign shareholder yanked its financial support to buy new wireless licences – a development that deals a major blow to the government's efforts to ensure competition in the \$20-billion mobile phone market.

Industry Canada made the disclosure on its website late Monday, stating that Globalive Wireless Management Corp., which operates as Wind Mobile, had "withdrawn" from the auction. Amsterdam-based VimpelCom Ltd., Wind's main investor, informed the government of its decision hours earlier.

VimpelCom decided not to fund Wind's purchase of 700-megahertz spectrum because of ongoing conflict over Ottawa's foreign investment rules that, to date, have prevented it from taking formal control of the small Canadian carrier. The first round of bidding is set to begin on Tuesday; Wind was forced to drop out because it lacks the time to line up alternative financing.

Wind's decision hurts the government, which has set a goal of ensuring that at least four carriers compete in every region of the country.

Not only has the Conservative Party solicited political donations on its track record of "standing up for wireless consumers" against big telecom, but the government is currently funding a \$9-million national advertising campaign touting its competition policies for the wireless sector.

Without Wind's participation in the auction, Ottawa lacks a sustainable fourth player in the key markets of Ontario, Alberta and British Columbia, which have about 63 per cent of Canada's population. That's because Wind was the only independent new-entrant carrier to register for the 700-MHz auction. Mobilicity has been languishing under court-protection from its creditors since the end of September, while Public Mobile was sold to Telus Corp. late last year.

Without the new licences, Wind will grapple with a spectrum shortage that will hobble its ability to compete. The 700-MHz spectrum is considered the critical ingredient for building a next-generation long-term evolution (LTE) wireless network that provides faster data speeds to smartphone users and allows for features such as video streaming.

"Wireless costs are down almost 20 per cent in markets where Wind operates. It is a sad day for competition and real choice [for] Canadian consumers and businesses that Wind is unable to participate in the 700-MHz auction," Wind Mobile CEO Anthony Lacavera said in a statement.

"Wind has emerged as the fourth carrier in Ontario, B.C., and Alberta, but we have need of additional spectrum for LTE. Today's development leaves us with a spectrum shortfall we must still address."

"We decided that we were not going to sponsor or fund Wind Canada's participation in the 700-MHz spectrum auction at this time as we remain in discussions with the shareholder with majority voting rights and the government to craft a path forward to develop Wind Canada as a strong fourth player in Canada," said VimpelCom spokesman Bobby Leach. "We hope to have an opportunity in the future to perhaps re-apply and bid on spectrum, should the government decide to reopen another 700-MHz spectrum bid process."

Wind's decision to withdraw from the auction was not expected to have any immediate impact on its operations. Mr. Lacavera stressed that it is "business as usual" at Wind, which has roughly 675,000 customers. The Toronto-based carrier launched service on a 3G (third-generation) wireless network in late 2009 after spending \$442-million on wireless licences for the advanced wireless spectrum (AWS) band in a previous government auction.

Although Wind registered to bid in the 700-MHz auction, speculation has been rife since last fall that VimpelCom would ultimately refuse to fund Wind's expansion efforts. The European company is still smarting from a botched attempt last year to take formal voting control of Wind from Mr. Lacavera, and has stated in recent months that it would prefer a "clean exit" from Canada due to regulatory hurdles.

Not only is VimpelCom unable to formalize its control over Wind, but it is similarly blocked from auctioning off the business to any of the three major Canadian carriers. Ottawa introduced new rules for spectrum transfers, and Industry Minister James Moore has said that his government will not approve any deals that result in diminished competition.

Even though Ottawa changed the foreign investment rules to provide global carriers with the opportunity to take full control of small Canadian telecoms, VimpelCom was forced to withdraw its application to take control of Wind last summer. Sources have said that VimpelCom's withdrawal was a face-saving measure because the government was set to reject the deal on national security grounds.

Federal officials were said to be worried about giving a Russian entity control of Wind's network infrastructure, which was built by Chinese telecoms gear maker Huawei Technologies Co. Ltd. VimpelCom is based in the Netherlands but its major shareholder is a company controlled by Russian billionaire Mikhail Fridman. Moreover, sources say Ottawa was concerned also because Wind uses Huawei equipment on its so-called "core" network or the network's main backbone.

As a result of Wind's withdrawal, only 10 bidders remain in the 700-MHz auction, which was widely billed as the most valuable air waves that have ever come up for bidding in Canadian history. A shorter bidder list is good news for BCE Inc., Rogers Communications Inc. and Telus Corp. because they face less competition for those valuable wireless licences.

"The outcome of the auction will be positive for consumers because high-quality spectrum will soon be available across Canada, providing Canadians with dependable, high-speed wireless services on the latest technologies," said Jake Enwright, Mr. Moore's press secretary. "Whether to participate in the spectrum auction is up to the individual companies. We do not comment on their internal business plans."

The government most recently blocked the sale of another telecom, MTS Allstream Inc., to Accelero Capital Holdings over unspecified national security concerns. Accelero is the investment arm of Egyptian telecom tycoon Naguib Sawiris, the man who originally bankrolled Wind Mobile Canada before his interest was sold to VimpelCom. Sources have previously said that Accelero was looking to use Allstream's fibre network to provide enhanced "backhaul" services for Wind – an essential behind-the-scenes function that allows data from customers' smartphones to be transmitted from cell towers to carrier's backbone network.

"Foreign ownership restrictions for non-incumbents were lifted in 2012, but the first two applications [Wind and Allstream] for change of control in favour of a foreign investor have not been successful – this has been very damaging to foreign investor interest and confidence," Mr. Lacavera added.

Without 700-MHz spectrum, Wind's long-term prospects remain in doubt. It currently does not have sufficient spectrum to build a next-generation LTE wireless network that would allow it to better compete with Rogers Communications Inc., BCE Inc. and Telus Corp. Without an upgrade to LTE, Wind and Mobilicity also face a potential handset availability problem over the coming years.

(BCE owns a 15-per-cent stake in The Globe and Mail.)

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