## Patriotic but pricey

*A bid to inject foreign competition into a cosy local industry falters*

Dire warnings have been sounded in Canada's press about an imminent foreign invasion, aided by the treachery of the government. A thundering article in the Toronto Star compared Stephen Harper, the prime minister, to Benedict Arnold, a general who switched sides to fight for the British during the United States' war of independence. Mr Harper's offence—"[betraying] the interests of his country for a foreign power", as the Star put it—was to try to tempt a foreign mobile-phone operator to come to Canada. Quite what Canadians have to fear from more competition in their pricey phone market is unclear.

The government is planning an auction in January of 700-megahertz spectrum, for which bidders must register by September 17th. The local "big three" providers—Bell, Rogers and Telus, which between them control 90% of the mobile market—can each bid for one of four blocks of spectrum available in all of Canada's 14 service regions. Other firms can buy up to two blocks each. Unlike the big three, newcomers are also free to snap up the handful of ailing operators that opened shop when the government tried to encourage more competition in the industry in 2008.

This has irked the big three, which dominate broadband and pay-television as well as telephony. The companies have run a publicity campaign against what they say amounts to preferential treatment of foreign rivals. The campaign, "Fair for Canada", ran more than a dozen full-page ads in the Globe and Mail newspaper (in which Bell has a 15% stake) during a fortnight in August. The campaign is backed by phone workers' unions, as well as the national chamber of commerce.

Much of the fear among the big three was based on the possibility that Verizon, a phone giant from the United States, would enter the Canadian market. In June it reportedly mulled a C$700m ($665m) bid for Wind, a small mobile firm. After that the share prices of Bell, Rogers and Telus tumbled. But on September 2nd, shortly after announcing a $130 billion divorce from Vodafone in the United States (see article), Verizon announced that it would not be entering Canada after all. The share prices of the big three shot up on the news.

Keeping foreign influence out of Canada's airwaves has long been official policy, as well as a hobby horse for columnists. (Two decades ago an American TV-satellite was dubbed the "Death Star", after Canadians near the border illegally installed dishes to take advantage of its cut-price packages.) But the locally run phone market does not seem to serve consumers well. The number of mobile phones per person is a quarter lower than in the United States and slightly lower even than in Mexico, which labours under the near-monopoly of Carlos Slim. The proportion of people with mobile broadband is less than half that in the United States.

Prices are higher than over the border, too. Serving the sparsely populated north may be expensive (ruthless foreigners would neglect it, the incumbents hint). But the big three seem to do rather nicely: profit margins in Canada's industry are among the highest in the rich world. The mere suggestion that Verizon was eyeing Canada was enough to make them cut some of their data tariffs over the summer.

With Verizon out of the bidding, the spectrum auction faces a shortage of new entrants. "The biggest and best guy has looked and passed," says Tim Casey of BMO Capital Markets, a bank. Small firms backed by private equity may bid, he suggests, but "none of these would be as scary [for the big three] as Verizon".

New rules due to come into force in December have made carriers switch from three- to two-year contracts. The government may resort to more regulation to lower roaming charges. But the possibility of a foreign invasion, and foreign-style prices, seems unlikely.

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