

700 MHz Auction Design: A Critical Juncture for U.S. Communications

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The adoption yesterday by the Federal Communications Commission (FCC) of a plan for the 700 MHz auction is a critical step in U.S. communications policy. Its importance goes way beyond the hype Google generated with its lobbying for an open wireless platform and its alleged intention to participate in the auction. It will likely affect the future of communications in three areas: (1) facilitating the roll-out of a third platform for broadband access; (2) providing a platform to accelerate innovation in wireless internet services; and (3) improving the U.S. position in advanced communications compared to peer nations.

Third broadband platform. The U.S. broadband access market is dominated by telephone and cable companies. U.S. policy was predicated on the assumption that unregulated competition would be sufficiently vigorous to support rapid diffusion of broadband platforms and services. Whereas broadband access is expanding steadily, the experience to date does not fully support these expectations. Quello Center research shows, for example, that prices for broadband access in many smaller markets have increased during the past year after early competitive entrants have left the market. Furthermore, the U.S. has lost ground compared to its peer nations in Europe and Asia who have adopted stronger regulatory obligations for the incumbents, for example, to unbundled access. If licensees other than the incumbents will place winning bids the 700 MHz Band can contribute to a reversal of this trend.

Wireless innovation. Wireless platforms are relatively closed, giving operators strong control of the features of handsets and services. This approach is in part the outcome of the decision in the 1990s to allow multiple mobile standards, subsequent decisions to forbear from enforcing common carriage rules in mobile voice, and the 2007 declaration of mobile broadband as an information service. Quello Center research shows that high-volume U.S. mobile voice subscribers have lower bills than consumers in peer nations. However, low-volume users face higher bills than their counterparts in most peer nations. U.S. consumers also have fewer choice options with regard to handheld devices and advanced mobile services. The proposed open platform model in the C-band will provide an alternative framework for innovation, possibly expanding customer choices not supported in the current environment.

Regaining global leadership in advanced communications. Throughout most of the twentieth century, the U.S. was the world leader in communications. During the past decade, the U.S. has pursued an aggressive deregulatory path predicated on the rapid emergence of robust competition. Nonetheless, the U.S. has lost ground in wireless and broadband communications. This might be a temporary phenomenon during the early

stages of service rollout. However, if this deficiency persists, it may eventually have a negative effect on overall U.S. economic performance. The 700 MHz band promises to stimulate competition and enable innovation that may eventually help reverse these trends of the past decade.

Last but not least, the Upper 700 MHz C Band will provide an opportunity to test the controversial and contested effects of openness on competition. It will reveal whether open platforms indeed attract sufficient investment capital and will boost innovation as alleged by proponents of open networks. This may turn out to be one of the most important policy experiments of the decade. There are few downsides to the policy: should the expected benefits not materialize, society will have at least gained important insights into the controversy on the relative efficiency of open versus closed platforms.

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