Is it Worth Picking Sides in a Spectrum Auction?

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Provided the federal government starts back up again at some point, the FCC will hold its first major spectrum auctions in more than half a decade. And it's shaping up to be a battle royale.

After AT&T and Verizon cleaned up in the FCC's 700 MHz auction back in 2008 and subsequently became the two biggest wireless providers in the U.S., it could be tempting to root against them. As it stands, the U.S. wireless market is essentially a duopoly, with both carriers basically sinking the dream of unlimited data. But the pair's nationwide buildouts have offered U.S. wireless customers at least two options for legitimately robust countrywide coverage.

Sprint and T-Mobile did not factor into the 2008 auctions and the resulting lack of low-band spectrum for both carriers has disadvantaged them for years. So, it could be tempting to cheer both underdogs in the upcoming auctions, particularly since an improved lower-spectrum position for either carrier could eventually lead to a more competitive wireless market.

U.S. Cellular, a perennial underdog, was able to buy a sizable amount of licenses in both the A and B Blocks. But its limited regional focus has hampered its ambitions of catching up with the larger incumbent carriers and led to speculation that it could eventually become an acquisition target for a Tier 1 like Verizon, effectively putting the spectrum under their control and nullifying the underdog strategy.

And of course, an underdog winning in the lottery doesn't necessarily mean public interest will be served to the fullest. Dish Network (EchoStar) snatched up the lion's share of the E Block licenses available in 2008. Dish has tested mobile TV services in the spectrum and hinted at putting an LTE network there recently, but has yet to deploy any commercial offering in that spectrum. As the lower 700 MHz spectrum interoperability debate looks to be nearing a settlement, Dish has turned its compliance with those interoperability standards as a bargaining chip to earn it more time to designate its AWS-4 spectrum for uplink or downlink. Basically, it's gone unused save for pushing the FCC to give Dish more time to deploy in a separate license.

So, is it worth picking sides in a fight like this? Dr. Leslie Marx, a former FCC chief economist writing on behalf of Verizon, sees bidding restrictions that could possibly exclude Verizon and AT&T as drastically reducing auction revenue [1]. Marx

suggests that revenue would have dropped 45 percent in the 2008 auction if AT&T and Verizon had not participated.

The Justice Department, on the other hand, urged the FCC to ensure that Sprint and T-Mobile receive fair opportunities to walk away with lower-band spectrum [2], for the good of a competitive market. The proposal would put a cap on the amount of below-1 GHz spectrum licenses any one carrier could hold.

Arguments about possible revenue loss and potential competitiveness join thoughts about who could put the 600 MHz spectrum to commercial use the fastest in painting a picture with pros and cons regarding an upper hand for either the favorites or the underdogs.

Taking all of this into account, the picture gets murky and it’s difficult to choose any potential auction participant worth rooting for. If AT&T and Verizon can help maximize revenue, good for them. If Sprint and T-Mobile can increase competitiveness, good for them. If someone else can snap up some spectrum and put it to good (potentially disruptive) use, good for them. Whoever comes out ahead, it should be a good show.

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