

Verizon's Cable Spectrum Mashup: Evil Genius?

Or old-fashioned business genius? Its deals to buy spectrum may hurt consumers, but they also put competitors at a big disadvantage

Congress is eyeing the [competitive implications](#) of Verizon's \$4 billion worth of deals to buy spectrum from the cable companies, hoping to understand how the deals could affect both wireless and wireline markets. Much like those of us at GigaOM, some in the Senate are wondering if this is a cease-fire in terms of broadband competition, both in the air and on the ground.

A pessimistic view is that the deals could lead to consumers' getting stuck five or 10 years out with slower broadband than the rest of the world and no competitive impetus to move the U.S. forward. On the wireless side, the purchases of spectrum potentially eliminate the threat or the existence of a new player that could lower prices and keep Verizon and AT&T "honest." That's why Congress, the FCC, and perhaps the Justice Dept. should ask a lot of questions about these deals and the attendant marketing agreements between the cable companies and Verizon.

While they're at it, regulators and legislators should ask a few other things, such as why the cable companies announced their deals with Verizon a mere three days after AT&T [withdrew its petition](#) to the FCC to approve its T-Mobile deal. Knowing the deal was unlikely to go through and that AT&T would soon be in the market to replace the spectrum it couldn't get from T-Mobile, why wouldn't the cable companies hold off, knowing they could then pit AT&T's and Verizon's bids against each other?

Was it likely that AT&T, which was willing to spend \$39 billion on T-Mobile, would walk away from SpectrumCo without even matching Verizon's \$3.6 billion bid for Comcast, Time Warner Cable, and Bright House Networks' airwaves, and its later \$315 million bid for Cox's licenses? Recall that around this time, analysts expected AT&T to pay a [77 percent premium](#) for Dish on speculation that AT&T was out for its spectrum. At that premium, Dish would be worth almost \$23 billion.

CONSPIRACY OR THE FUTURE?

The day Verizon's spectrum deals were announced, I laid out why Verizon may have done them and why [Congress and the FCC should pay attention](#). In selling off their airwaves in exchange for some secret marketing agreements, the cable guys may have gotten Verizon off their backs in terms of its

fiber-to-the-home deployments, leaving cable as the fastest broadband around in areas that don't have FiOS.

The pessimistic view is that the cable guys would no longer face competition nor have a reason to keep pushing their wireline infrastructure. Today that's not so bad, since most cable companies have deployed the faster DOCSIS 3.0 technology that can deliver up to 100 Mbps to homes, but it is depressing to consider that five years from now we may still have that same infrastructure and little opportunity to go forward, unless the cable companies want to invest in fiber to the home. And without Verizon or AT&T pushing them forward, why would they? It's worth noting that Verizon's FiOS plans helped jump-start the deployment of DOCSIS 3.0 services in areas where Verizon laid fiber.

WHAT ABOUT WIRELESS?

Comcast is already [bundling Verizon's wireless services](#) to its customers, as Kevin Fitchard pointed out on Wednesday, pushing ahead with the marketing deal even though the actual spectrum transfer and deal have yet to be approved. But in taking out the cable companies, Verizon may have killed the best chance of having a competitive wireless network. Comcast laid out [in gory detail](#) why it ultimately decided not to deploy a wireless network with its spectrum, but given the cable consortium's spectrum holdings, cable's burgeoning commitment to Wi-Fi, and the many cable set-top boxes in American homes, Comcast and the cable guys were the U.S.'s best chance of getting an alternative type of mobile network and creating some real competition in wireless.

This month, for example, Free, a French broadband provider, [announced a mobile service](#) that relies on its existing set-top boxes in the homes of broadband customers to provide a Wi-Fi network in urban areas. The phone service uses 3G and Wi-Fi and by doing so can offer mobile data for about \$25 a month. Providers in France are already [dropping their prices](#) in response to the new offering. But in the U.S. the cable guys decided to pass up their chance to play in wireless. Now all the focus will be on Republic Wireless, which is also using Wi-Fi (and Sprint's 3G network) to deliver calls, although without the benefit of having a Wi-Fi-enabled set-top box already in the home.

Cable's capitulation on wireless might be good news for Republic and even for AT&T and Verizon, although they are not likely to be as threatened by a cable-wireless offering as the smaller providers. But in selling its airwaves to Verizon in exchange for the chance to resell the carrier's wireless

service (and, heck, even FiOS in areas where Verizon has deployed fiber to the home), cable sold out its wireless ambitions and as a result sold out consumers.

And Verizon? Well, Verizon scored a lot of new spectrum at a fraction of the capital and political cost that AT&T expended trying to do the same thing. Verizon has hurt its direct competition in addition to possibly hurting wireline and wireless competition. Now that's genius.