

Verizon's spectrum deal with cable is the end of broadband competition

The spectrum deal Verizon signed with Comcast, Time Warner Cable and Bright House Networks Friday, in which the nation's largest wireless operator would buy the unused airwaves from the nation's top cable providers, signals the moment that the consumer benefits of the convergence of voice, video and data hit the wall. It's a deal that's great for Verizon, an acknowledgment of reality for the cable folks and a bummer for AT&T and consumers.

Under the terms of the deal, Verizon will acquire AWS spectrum that Comcast, Time Warner Cable and Bright House Networks had purchased during the AWS auctions under the SpectrumCo name in 2006. Verizon is paying a \$1.2 billion premium for the airwaves and will get 20 MHz in cities across the continental U.S., giving it up to 60 MHz for its Long Term Evolution (LTE) network in certain markets. And for mobile players, having a lot of spectrum is essential to meeting demand.

But as part of the deal, Verizon and the cable companies have signed undisclosed "agreements" that indicate how the two companies will combine their products and create partnerships

around bundling wireless, voice, data and television. Verizon didn't explain much, but [Kevin Fitchard, my colleague writes](#):

The most obvious result of that deal would be to allow the cable operators to become MVNOs on Verizon's network, but it may also hold the possibility of Verizon becoming a kind of cable virtual operator or agent outside of its traditional wireline territory, selling home broadband, TV and phone services out of its stores.

In a blog post today Neil Smit, President of Comcast Cable [wrote](#) that Comcast will wait four years before it can provide a mobile offering with itself acting as mobile virtual network operator. He said Time Warner Cable and Bright House had similar agreements. However, the tenor of those agreements is essential in determining how this deal will affect the U.S.' broadband competition in both wireless and wireline.

The hope of a new wireless player shrinks

Verizon and the cable guys are hanging up their gloves.

Consumer groups are leery that this deal will benefit their constituents, with Mark Cooper — research director of the Consumer Federation of America — saying in an interview, “This is the end of the world!

“Verizon was supposed to be our competitor for Comcast in the

wireline space and SpectrumCo was supposed to be a competitor to Verizon and AT&T in the wireless, and now that's all gone," he said. Indeed, it's looking unlikely that the cable guys will continue to act as any sort of competition, especially given that [Cnet is reporting](#) they will halt their agreement to resell WiMax with Clearwire. This leaves the wireless world pretty much stuck with AT&T, Verizon, Sprint and T-Mobile, with smaller dollops of competition provided by Leap Wireless and MetroPCS. The two smaller carriers may even get a tiny boost if the [FCC requires Verizon to sell off any spectrum assets](#) as part of approving the deal.

Despite the potential of a small spectrum divestiture, Cooper notes that in the last 10 years, AT&T and Verizon have managed to buy 75 percent of the spectrum that was put on auction, and about 90 percent of the spectrum auctioned in the last decade is in the hands of the Big Four carriers. Given that spectrum is one of the barriers to entry for anyone planning a wireless network, and that getting the stuff approved for a mobile broadband network is daunting and expensive, it's pretty clear U.S. policy hasn't helped spread that wealth.

Where there's wireline there's hope. Or there was.

Yet aside from the wireless implications, the deal has a huge potential impact on wireless broadband competition. Verizon had hinted it might resell its FiOS TV service over-the-top to

folks outside the FiOS service area. Since TV can be a collection of bits delivered over the Internet, the traditional cable packages could become obsolete if the content companies and channels could figure out ways to license their content in new ways.



TV will be affected too.

Given that Verizon has both a broadband and a pay TV business, it had one of the best chances to push such a radical change in the pay TV business model. But now that it has some mysterious “agreements” with the cable guys, it’s unlikely that Verizon would try to infringe on their content businesses with its own over-the-top offering. That’s a bummer for consumers who might prefer a Verizon package over one from their local cable provider, but it’s also indicative of Verizon ceding the wireline market to cable companies.

As Verizon has rolled out its fiber-to-the-home (FTTH) offerings, it has sold off many elements of its older DSL businesses, and is now positioning its [LTE wireless service as a competitor to DSL](http://gigaom.com/2011/04/04/verizon-lte-worth-a-look-as-possible-dsl-replacement/). (<http://gigaom.com/2011/04/04/verizon-lte-worth-a-look-as-possible-dsl-replacement/>) This is bad news for Frontier, CenturyLink and AT&T's markets that don't have U-verse, but it won't bother cable providers, which have or are in the midst of upgrading their networks to [faster DOCSIS 3.0 systems](http://gigaom.com/2009/04/30/docsis-30-coming-soon-to-an-isp-near-you/) (<http://gigaom.com/2009/04/30/docsis-30-coming-soon-to-an-isp-near-you/>) that can deliver 100 Mbps service.

Cable companies are already [taking over at the nation's primary broadband providers](http://gigaom.com/broadband/thanks-to-cable-firms-the-u-s-adds-635000-new-broadband-subs/) (<http://gigaom.com/broadband/thanks-to-cable-firms-the-u-s-adds-635000-new-broadband-subs/>) as people dump DSL lines in droves. The problem is that for many consumers a choice between DSL, LTE or cable isn't really much of a choice at all. Cable networks upgraded to DOCSIS 3 can be much faster than DSL or LTE, and it's hard to imagine a consumer seeing the options as equal. The best hope for a better competitor to cable is FTTH (not even AT&T's fiber-to-the-node technology that U-verse offers), and it's possible that Verizon no longer has much reason to roll out fiber further so it doesn't upset its new partners. This is why both AT&T and consumers are on the losing end of this agreement.

Susan Crawford, an influential policy wonk and a professor at Cardozo Law School in New York City agrees. She emailed me

the following:

“This is the crystalline moment when the division of the marketplace becomes completely clear, even to people who haven’t been paying attention. VZ and ATT get wireless; cable gets wires; consumers are stuck. Wireless, like wired high-speed access already wholly dominated by the cable companies, is a natural monopoly service at this point, with incredibly high barriers to entry – so high that even current players, like T-Mo, are having trouble making it. Clearwire has nowhere to go at this point. So we have the worst of all worlds: no competition, and no regulatory oversight.”