



The False Premise of Wireless/Wireline Intermodal Competition

By

Martyn Roetter and Alan Pearce

The Free State Foundation has submitted Reply Comments¹ with the FCC urging the agency, based on the available evidence, to make a determination in its upcoming *Seventeenth Wireless Competition Report* that the wireless marketplace is effectively competitive because there is effective intermodal competition between wireless and wireline services. This premise is the core of the filing’s Appendix, “Convergent Market Calls For Serious Intermodal Competition Assessments.”²

This premise is fatally flawed because:

- The inherent capacity limits of wireless (so little spectrum, so many users, so much bandwidth-intensive traffic) mean that wireless access networks cannot match the capacities of fixed network connections – it is no surprise that mobile operators are trying to offload as much broadband traffic as possible onto fixed networks without having to use the RAN (radio access network);
- Major broadband operators are increasingly seeking to “bundle” wireless and wireline services together not simply in a single invoice, but also operationally, in their drive toward being able to offer customers “anywhere, anytime, any network” access to their services and applications – the strategies of major operators are moving, or have already moved, in this direction, e.g., the formation of the Verizon/Cable TV MSOs cartel in 2012 and the acquisitions of significant wireline operations in the U.K. and Germany by Vodafone;
- Wireless networks are critically dependent on wireline infrastructure to carry the broadband traffic that wireless subscribers generate.

It is true that wireless services can effectively substitute for wireline services in the narrowband context, e.g., voice, which explains why there are significant and growing numbers of wireless-only households in the U.S. – but for voice not for broadband services. In the broadband arena wireless can also compete effectively with wireline access (and for some locations is the only feasible or economically reasonable medium for connection) in areas with low population densities where the number of simultaneous users that have to share the capacity of a RAN is inherently limited.

However, in the places where most Americans live and work and increasingly demand video services, wireless networks cannot by themselves handle (in terms of capacity expressed as Mbps/unit area) the

¹ <http://apps.fcc.gov/ecfs/document/view?id=7520927018>

² Perspectives from FSF Scholars, May 2, 2013, Vol, 8, No12



huge and rapidly rising traffic volumes generated by the numbers of simultaneous users packed into small areas.

In the real world of customer choices and behavior, and supply-side market structure, wireless and wireline are essential complements to each other-- for both customers and operators – rather than rivals. The proper arena in which to determine whether there is effective competition in the U.S. market for network services is Broadband, not Wireless or Wireline independently. In this respect IAE agrees with the Free State Foundation, although its proposal that the roles of wireline and wireless should be assessed as a basis for serious intermodal competition is far too narrow for developing an accurate and comprehensive understanding of the state of competition and its direction in the U.S. broadband market. IAE has analyzed the state of competition in the U.S. broadband market and its evolution in recent years in a number of publications, one of which is included with this filing.³

On the basis of available evidence, IAE concludes that for a growing number of Americans the broadband market is increasingly non-competitive.

³ Alan Pearce, Martyn Roetter, & Barry Goodstadt, “Telecom Act Rewrite Is Needed to Return Real Competition to Broadband Sector,” November 7, 2012, Bloomberg BNA Daily Report for Executives