Airwaves, Web Power at Auction

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WASHINGTON — The auction for rights to a highly valuable swath of the nation’s airwaves will begin Thursday and is expected to include multibillion-dollar bids from the nation’s two biggest wireless phone companies, Verizon and AT&T, as well as Google.

Although industry executives and analysts agree that Google is unlikely to win any licenses, the company already has an invaluable victory: in setting the auction rules, the Federal Communications Commission has forced the major telephone companies to open their wireless networks to a broader array of telephone equipment and Internet

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Kevin J. Martin, the chairman of the Federal Communications Commission. The agency set rules for the airwaves

http://www.nytimes.com/2008/01/22/business/22spectrum.html?_r=1&th=emc=th&oref=slogin
applications.

The radio spectrum licenses, which are to be returned from television broadcasters as they complete their conversion from analog to digital signals in February 2009, are as coveted as oil reserves are to energy companies. They will provide the winners with access to some of the best remaining spectrum — enabling them to send signals farther from a cell tower with far less power, through dense walls in cities, and over wider territories in rural areas that are now underserved.

And the licenses are on the auction block just as it is becoming obvious to industry players and investors that wireless broadband is rapidly becoming the next big thing, the mobile Internet.

The latest government report indicates that in 2006, mobile wireless high-speed subscribers grew nationwide by more than 600 percent, and that during the last half of the year, those subscribers made up nearly two-thirds of the total growth in all high-speed lines.

Equipment makers and content providers are rushing to bring out new products as consumers increasingly use mobile phones and laptop computers to wirelessly connect to the Internet.

“The spectrum that we are auctioning off is going to be the building blocks for the next generation of broadband services,” said Kevin J. Martin, the chairman of the Federal
Communications Commission, in an interview last Friday. “It can carry lots of data, penetrates walls easily, travels far and allows for very good broadband wireless service. It will allow a wireless platform to be another competitor in the broadband space.”

The F.C.C. has set a minimum price of $10 billion for five blocks of licenses — 1,099 in all. The largest amount received by the commission in a previous license spectrum auction was $13.7 billion in 2006. Some analysts believe that record could be exceeded when this so-called 700 megahertz auction is completed in the next few months.

Each day, the commission will post the leading bids, but only the amount bid, not the names of the leading bidders.

The auction’s daily bids can be watched on the Web site, auctions.fcc.gov.

Because the commission’s anticollusion rules preclude the bidders from discussing their strategies or possible bids, none of the major companies involved in the auction would comment for publication.

In setting the rules for the auction to some of the most valuable radio spectrum licenses ever issued, the F.C.C. decided last year to endorse one of Google’s proposals by requiring that the winning bidders open their networks to a wider array of applications and phones. (Verizon and AT&T objected to the
decision.)

The new rules have already begun to reshape the rapidly emerging wireless broadband industry. It prompted Verizon and AT&T to change their policies and open their networks to new applications and devices, just as Google and its allies had hoped.

“The issue has melted away,” Mr. Martin said. “It is no longer as controversial, as the major providers have moved to open up their networks.”

While Google has promised in return to bid at least the minimum reserve amount of $4.6 billion for one block of licenses, most analysts expect the company will be outbid because it is not expected to go higher.

“Google’s intent was to win the open access rule, and that’s what its bidding is about,” said Blair Levin, a former senior F.C.C. official who is now an analyst at Stifel Nicolaus.

Despite losing the battle in the fight over whether to open their networks to rival software and equipment makers, Verizon and AT&T are likely to be winners in the auction. Since the licenses and build-out requirements for the networks are so expensive, experts say, it is unlikely that a new entrant will prevail, although some niche players in a handful of regional markets could take home some licenses.

“Most are of the view that we are unlikely to see a major new
entrant coming in and establishing a new presence,” said Carol Mattey, the national leader of the telecom regulatory consulting services at Deloitte & Touche. “Given the amount of money that would have to be spent not only on the auction but also on building a new network, it is pretty unlikely that anyone new will come out.”

Verizon and AT&T as winners could be a mixed blessing for consumers. While the two companies would be able to offer more and faster services over greater areas, it also could mean that prices, which have already stabilized as a result of the widespread industry consolidation, will not fall.

One of the most closely watched licenses will be the so-called D-block, which is heavily discounted because the winning company must share the spectrum with public safety officials. But this month, a company interested in the license, Frontline Wireless, announced that it had closed, apparently because it was unable to obtain financing for the license, which has a reserve price of $1.3 billion.

The company was founded by Reed E. Hundt, a former chairman of the commission, along with veteran wireless executives and a group of Silicon Valley venture capitalists.

The commission has not said what rules it would rewrite for a second auction if no bidder meets the minimum price of $1.3 billion for the D-block.
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