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Comments Filed at the FCC on Auction Rules for the TV Spectrum

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The Department of Justice filing at the Federal Communications Commission on April 11, 2013 presented an analysis of the wireless market and made a simple, but very important point: As AT&T and Verizon already hold licenses for almost four-fifths of the high-quality, low frequency spectrum (below 1 GHz) and the auction of the vacated TV spectrum is likely to be the last such spectrum to be made available in the foreseeable future, unless the FCC sets reasonable limits on how much high-quality, low-frequency spectrum the two dominant firms can acquire in the auction and hold, competition will be stifled in the wireless market.

The response AT&T filed at the FCC and the analyses that have been offered to support it, are, at best irrelevant and, at worst, completely misleading because those analyses rest on assumptions that bear no relationship to the reality of the U.S., wireless market:

- They fail to recognize the fundamental difference between frequencies and the impact of their propagation characteristics on the economics of wireless service delivery. Therefore they incorrectly assume that the dominant wireless carriers are as efficient, or more efficient than the small carriers, when the opposite is the case.
- They refuse to recognize that the dominant firms wield market power in a highly concentrated market and use that power to increase prices and profits. Therefore they incorrectly assume that the dominant carriers are equally likely to pass through efficiency gains from capturing more high quality spectrum to consumers as the smaller carriers would be. That is not the case, since the dominant carriers are likely to pocket a large part of any efficiency gains.

When efficiency and market power are correctly analyzed, it is abundantly clear that the dominant wireless carriers have a powerful incentive and the ability to foreclose the small wireless carriers from obtaining high-quality spectrum at auction. Based upon detailed analyses of the wireless market structure in several recent merger reviews, the Department of Justice rightly concluded that these are central features of the wireless market structure.

Following the Department of Justice recommendation is one of the most important steps the FCC can take to lower prices and improve consumer choice in the wireless market.

Comments Available at: www.consumerfed.org/pdfs/CFA-Auction-rules-letter.pdf