



THE FREE STATE FOUNDATION

A Free Market Think Tank for Maryland.....Because Ideas Matter

Perspectives from FSF Scholars
August 25, 2016
Vol. 11, No. 31

The FCC's Internet Access Report Ignores Broadband Market Realities

by

Seth L. Cooper * and Michael J. Horney **

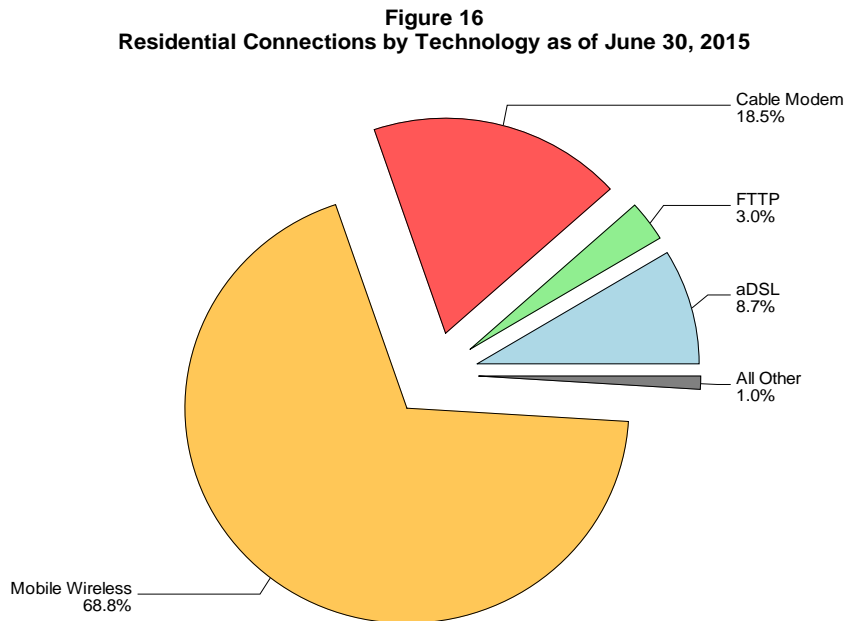
Earlier this month, the FCC released its [*Internet Access Services Report: Status as of June 30, 2015*](#). The *Report* summarizes Internet access statistics in the United States for fixed and – to a lesser extent – mobile technologies. The *Report* counts almost 242 million mobile connections and almost 100 million fixed connections. Yet much of the *Report* focuses on mobile connections in isolation. Without factoring in competition from multiple mobile providers, the *Report's* picture of the market completely fails to reflect the reality of consumer choices for broadband Internet access services. Indeed, data collected by the National Telecommunications & Information Administration (NTIA) indicates that 20% of online households were wireless-only in 2015.

In today's broadband marketplace, dynamic intermodal competition is driven by innovation and investment in various broadband technologies – such as mobile, fiber, cable, and DSL. Competition within the market often takes place between providers using the same technology and also between providers using different technological platforms.

The FCC ought to finally acknowledge the substitutability of mobile broadband for fixed broadband. In future rulemakings and reports the agency should incorporate intermodal competitive effects into its analyses. The FCC should no longer ignore the reality and potential of mobile broadband as a substitute for fixed broadband.

The Free State Foundation
P.O. Box 60680, Potomac, MD 20859
info@freestatefoundation.org
www.freestatefoundation.org

According to the *Internet Access Services Report*, from December 2014 to June 2015, mobile connections increased by over 8% and fixed connections increased by nearly 2%. And as indicated, mobile connections outnumber fixed by 242 million to 100 million. This means there are *nearly two and a half times* as many mobile connections as there are fixed connections, with mobile connections growing at a faster rate.



When considering the competitiveness of the broadband Internet services market, the amount of mobile connections relative to other broadband technologies is too voluminous to be ignored. Yet, the *Report* repeatedly lists broadband connections separately by technology, never even intimating that households have multiple choices from both fixed and mobile broadband service providers.

Oddly, the FCC recognizes intermodal competition from fixed technologies like cable, fiber, DSL – but not for mobile technologies. The *Report* also provides numbers for broadband access by census block – but only for fixed technologies.

With its *Report*, moreover, the FCC [still fails to acknowledge](#) the ongoing trend that consumers of all income levels are [substituting mobile broadband for fixed broadband](#). Indeed, this trend was recently acknowledged by Giulia McHenry, Chief Economist in the Office of Policy Analysis and Development at NTIA. Based on data collected by NTIA, Ms. McHenry observed: “Mobile Internet service appears to be competing more directly with wired Internet connections.” More specifically, the data “shows that the proportion of online households that relied exclusively on mobile service at home doubled between 2013 and 2015, from 10 percent to 20 percent.” The growth in wireless-only households for broadband access “appears to have come at the expense of wired broadband connections.”

The presence of this ongoing trend involving consumer substitution of mobile broadband for fixed broadband is even more important than the market share or household numbers at any given point in time. And there is no reason to expect this trend to cease anytime soon. Yet absent such additional data about mobile broadband usage, the *Report* presents a misleading picture of how households and families make decisions regarding their broadband choices.

According to the FCC's [Eighteenth Wireless Competition Report](#), in July 2015, over 97% of Americans lived in census blocks with access to three or more mobile providers and almost 92% of Americans lived in census blocks with access to four or more mobile providers. Further, in July 2015, 97.8% of Americans lived in census blocks with LTE access by two or more providers, 91.5% of Americans lived in census blocks with LTE access by three or more providers, and 82.2% of Americans lived in census blocks with LTE access by four or more providers.

Further, the *Eighteenth Wireless Competition Report* indicated that the average LTE download speed based on a series of tests performed in the first half of 2015 was 11.2 Mbps, while the average upload speed was 3.25 Mbps. These are not overwhelmingly fast speeds, but the average download and upload speeds do not necessarily represent the speeds at which Americans have access. (For example, a consumer may have access to 25 Mbps down but may choose to purchase only 10 Mbps down.)

Mobile broadband speeds have also increased significantly since the first half of 2015. As CTIA pointed out in [May 2016 public comments](#) to the FCC, LTE speeds are increasing nationwide on account of mobile broadband providers leveraging multiple spectrum bands. Sprint has announced it is deploying tri-band "LTE Plus" mobile network in nearly 200 major markets, with speed capabilities exceeding 100 Mbps. Also, Verizon's "XLTE" – combining network capabilities in its 700 MHz and AWS bands – has begun deployments that will reach over 400 markets with double the bandwidth capabilities available to its LTE subscribers. Needless to say, high-speed mobile broadband is widely accessible to Americans. An accurate analysis of Americans' access to broadband choices must include fixed *and* mobile options.

The likely "best" explanation for the FCC's continuing refusal to take mobile broadband substitution seriously is that such refusal fits with the agency's *a priori* policy preferences. Downplaying the economic effects of intermodal competition in the broadband marketplace and clinging to older, narrower market definitions arguably provides the FCC with a better cover story for imposing new regulations and for keeping old ones on the books.

Certainly, the FCC's "gatekeeper" rationale for asserting Title II regulatory authority over broadband Internet access services in its *Open Internet Order* (2015) traded on the flawed notion that broadband market conditions are uncompetitive. Similarly, the FCC's current rulemaking proposal concerning special access or business data services depends on a claimed narrow market definition – possibly as narrow as one building location – that excludes mobile broadband altogether.

More should be expected from a supposedly expert regulatory agency than closed eyes in the face of unmistakable market evidence of mobile broadband substitution. It is crucial that the

FCC possess accurate data and up-to-date analysis for its regulatory undertakings. And it must reject a myopic outlook that ignores mobile broadband substitution. While the *Internet Access Services Report* includes much useful data, it ultimately fails in not providing a more accurate picture of the entire broadband market. Going forward, the FCC needs to incorporate intermodal competitive effects into its analyses and rulemaking activities and forthrightly acknowledge the impact of ongoing consumer trends concerning mobile broadband.

* Seth L. Cooper is a Senior Fellow of the Free State Foundation, an independent, free market-oriented think tank located in Rockville, Maryland.

** Michael J. Horney is a Research Associate of the Free State Foundation.

Further Readings

Michael J. Horney, "[The FCC Cannot Proceed in the BDS Proceeding with a Flawed Analysis](#)," *Perspectives from FSF Scholars*, Vol. 11, No. 17 (June 6, 2016).

Randolph J. May, "[The FCC's Flawed Understanding of Competition](#)," *Perspectives from FSF Scholars*, Vol. 11, No. 12 (March 11, 2016).

Seth L. Cooper, "[Wireless Report Data Undermine the FCC's Rationale for Regulation](#)," *Perspectives from FSF Scholars*, Vol. 11, No. 5 (January 22, 2016).

Randolph J. May and Michael J. Horney, "[Mobile Broadband Is a Substitute For Fixed Broadband](#)," *FSF Blog* (January 14, 2016).

Randolph J. May, *et al.*, "[Response to Questions in the Third White Paper: 'Competition Policy and the Role of the Federal Communications Commission'](#)," before the Committee on Energy and Commerce, U.S. House of Representatives (June 13, 2014).

Seth L. Cooper, "[Convergent Market Calls for Serious Intermodal Competition Assessments](#)," *Perspectives from FSF Scholars*, Vol. 8, No. 12 (May 2, 2013).