

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of)
)
Wireless Telecommunications Bureau Seeks)
)
Comment on the State of Mobile Wireless) WT Docket No. 13-135
)
Competition

COMMENTS OF THE TELECOMMUNICATIONS INDUSTRY ASSOCIATION

TELECOMMUNICATIONS INDUSTRY ASSOCIATION

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I. INTRODUCTION AND SUMMARY

The Telecommunications Industry Association (TIA)¹ hereby submits comments to the Federal Communications Commission (Commission) in the above-captioned proceeding.² TIA, on behalf of its member companies, applauds the Commission for continuing its efforts to assess and facilitate the competitive wireless service, device, and applications industry.

TIA encourages the Commission to ensure that a well-adjusted approach to broadband policy must combine appropriate government action with the power of the free market. Market participants are reluctant to invest in new or upgraded infrastructure when their return on their investment is uncertain. In the face of such uncertainty, investors are likely to take their capital to other sectors offering better opportunities for gain. For the reasons set forth below, TIA urges the Commission to regard mobile wireless competition as robust, and to consider and endorse the pro-competitive nature of wireless handset exclusivity agreements, its existing spectrum screen policies, and policies that promote adoption of wireless broadband.

II. TIA ESTIMATES THAT DATA SERVICES ARE DRIVING SIGNIFICANT GROWTH IN THE MOBILE WIRELESS MARKETPLACE

¹ The Telecommunications Industry Association (TIA) represents the global information and communications technology (ICT) industry through standards development, advocacy, tradeshow, business opportunities, market intelligence and world-wide environmental regulatory analysis. Telecommunications Industry Association (TIA), supported by approximately 500 participating members, is a trade association representing the ICT manufacturer, vendor, and supplier interest. With roots dating back to 1924, TIA enhances the business environment for broadband, mobile wireless, information technology, networks, cable, satellite and unified communications. Members' products and services empower communications in every industry and market, including healthcare, education, security, public safety, transportation, government, the military, the environment and entertainment.

² *Wireless Telecommunications Bureau Seeks Comment on the State of Mobile Wireless Competition*, WT Docket No. 13-135, *Notice of Inquiry*, (rel. May 17, 2013) ("Mobile Competition PN").

The Commission has requested information evaluating mobile data and mobile broadband services, especially including industry metrics.³ TIA estimates that wireless penetration passed the 100 percent mark in 2012, rising to 102.5 percent, so future gains will inevitably be more limited.⁴ Wireless penetration will increase by an estimated 8.8 percentage points during the next four years to 111.3 percent, well below the 16.2 percentage point increase during the past four years (see Figure 1). While slowing subscriber growth would normally be expected to lead to slower spending growth, we are actually projecting that overall spending will grow faster during the next four years (7.6 percent compounded annually) than during the past four years (6.9 percent compounded annually). In part, this reflects an expanding economy — the steep recession in 2009 contributed to the sluggish market; however, the dominant driver will be the transformation of the market from primarily a voice service to primarily a data service.



³ Mobile Competition PN at ¶ 9-13

⁴ This data, as well as all other projections and statistics provided in this document which are not cited to otherwise, are derived from the TIA 2013 *ICT Market Review & Forecast*, a proprietary annual publication from TIA containing distilled data and analysis on information and communications technology industry trends and market forecasts through the end of 2016. This document is available for purchase at <http://www.tiaonline.org/resources/market-forecast/>.

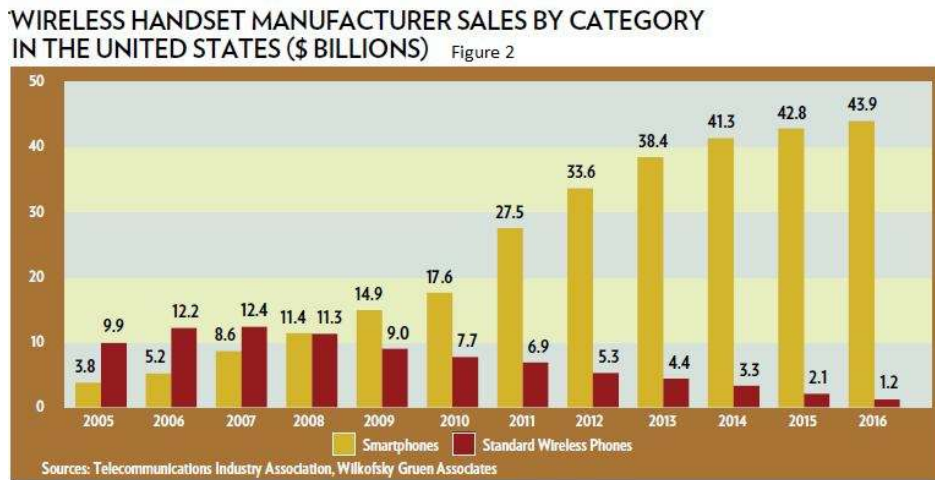
The traditional components of U.S. wireless transport spending — voice and text messaging — are declining, while spending on wireless data is surging. In 2012, wireless subscribers for the first time spent more on data than they did on voice.

Spending on data rose by a third in 2012, and during the next four years it will increase by an estimated 94 percent. Spending on voice services fell 6.4 percent in 2012, and we expect that component of the market will decline by 24 percent during the next four years. By 2016, data will comprise more than 72 percent of total wireless services spending.

Smartphone users download, upload and transmit many times the volume of data of feature phone users. Wireless carriers report that data volumes are doubling on an annual basis because of the growth in smartphone penetration. To accommodate growth in data traffic and to facilitate faster data transmission, wireless carriers are upgrading their networks. Long Term Evolution (LTE) has emerged as the technology of choice for 4G mobile wireless services. It is less expensive to transmit data over an LTE network than over a 3G network, and LTE can manage much larger data volumes than 3G. Virtually all carriers are acquiring spectrum through swaps, acquisitions, partnerships or other arrangements in order to launch LTE networks. Investment in LTE will be the principal trend during the next few years, and we expect wireless infrastructure to be the fastest-growing wireless spending category

III. THE WIRELESS DEVICE MARKET IS HIGHLY COMPETITIVE

The Commission has requested information on Handset/Devices.⁵ The growing demand to replace feature phones with smartphones is fueling wireless device sales and offsetting the adverse impact of slower growth in wireless subscribers. TIA projects a 9.8 percent increase in 2013 followed by a modest 4.1 percent increase in 2014. We then expect declining prices to nearly off-set growth in unit sales and project spending on handsets to edge up by less than 1 percent annually in 2015-16. For the forecast period as a whole, manufacturer handset sales will grow 3.7 percent on a compound basis to \$45.1 billion in 2016 from \$38.9 billion in 2012. (see Figure 2)



Smartphone unit sales surpassed unit sales of feature phones in 2011 and in 2012 accounted for 64.4 percent of total wireless handset unit sales. Smartphone unit sales doubled between 2010 and 2012. We expect that by 2016, nearly 94 percent of handset unit sales will be smartphones, rising to 183 million from 108.4 million in 2012, a 14.0 percent compound annual increase. Unit sales of standard wireless handsets (feature phones) fell 24.1 percent in 2012 to 60 million. We project that total to plunge to only 12 million units in 2016, a 33.1 percent compound annual decline from 2012. Overall sales of wireless handsets jumped 14.5 percent in

⁵ Mobile Competition PN at ¶ 15

2011 and grew an additional 1.2 percent in 2012. We look for sales to rise 5.7 percent in 2013 as LTE networks are rolled out and as new LTE phones are on sale for a full year. We then look for growth to moderate as the market matures. Total handset sales will average 3.7 percent growth compounded annually, increasing to 195 million units in 2016 from 168.4 million in 2012.

Smartphones cost more than three times as much as standard wireless handsets, reflecting their greater functionality. Economies of scale from an expanding smartphone market have led to steady declines in the average smartphone price. During the past two years, however, decreases have moderated, reflecting the influx of more expensive 4G phones in the overall sales mix. In 2012, the average cost of a smartphone fell only 1.6 percent. With LTE phones expected to become the norm in the next few years, we expect that component of the market to also benefit from economies of scale, leading to steeper declines in average prices. We expect the average dealer price of a smartphone to fall at a 6.2 percent compound annual rate to \$240 in 2016 from \$310 in 2012. Because of subsidies offered by carriers to subscribers who sign up for a two-year contract, consumers often pay less for smartphones, as well as for standard wireless handsets, which are often provided for free to subscribers.

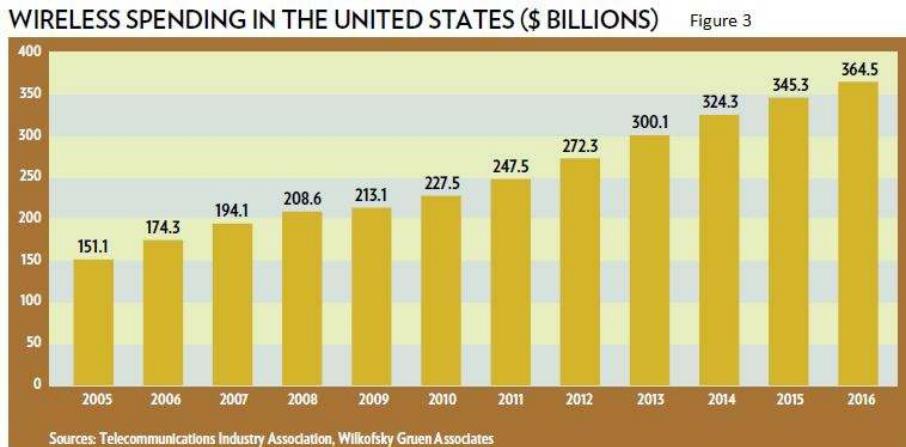
Dealer prices of standard wireless handsets fell 32 percent between 2006 and 2010. During the past two years, however, as the smartphone market took off and standard wireless handset unit sales plummeted, economies of scale evaporated, and the average price of a standard or feature phone began edging up, rising 3.6 percent in 2011 and 2.3 percent in 2012. With the market shifting toward smartphones, there is now little to be gained in terms of unit sales by lowering prices. Accordingly, we expect standard or feature phone prices to edge up at modest

rates averaging 1.9 percent compounded annually to \$96 in 2016 from \$89 in 2012. The average dealer price for all wireless handsets rose a cumulative 32.8 percent during the past two years, reflecting the jump in the share of higher-priced smartphones. With smartphones now comprising the majority of unit sales, share gains will necessarily slow, and ongoing price declines of smartphones will have a greater impact on overall sales. We project the overall average price to grow at modest rates during the next two years and then to decline during the subsequent two years to \$231 in 2016, equaling the average price in 2012.

Total handset sales will average 3.7 percent growth compounded annually, increasing to 195 million units in 2016 from 168.4 million in 2012. We expect that by 2016, nearly 94 percent of handset unit sales will be smartphones, rising to 183 million from 108.4 million in 2012. Manufacturer revenue for standard wireless handsets is expected to decrease 31.8 percent compounded annually through 2016, falling to \$1.2 billion from \$5.3 billion in 2012. Manufacturer revenue for smartphones will increase from \$33.6 billion in 2012 to \$43.9 billion in 2016, a 6.9 percent compound annual gain. Gains in smartphones will offset declines in standard wireless handsets and overall manufacturer revenue from wireless handsets will increase at a 3.7 percent compound annual rate from \$38.9 billion in 2012 to \$45.1 billion in 2016.

IV. EQUIPMENT AND INFRASTRUCTURE SPENDING

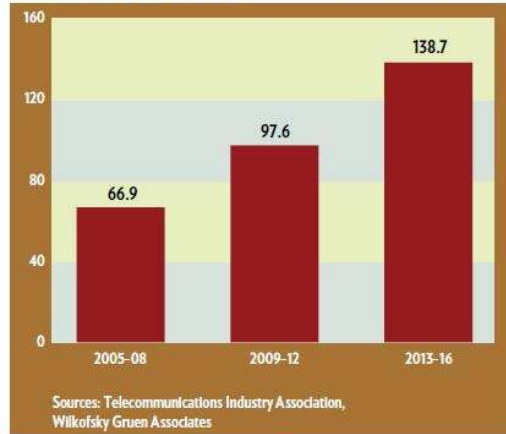
The Commission has also requested detail about industry investment in the mobile wireless industry, including infrastructure.⁶ TIA estimates 2012 wireless spending to have been \$272.3 billion in 2012. (see Figure 3)



Investment in LTE is driving the equipment market. Overall wireless equipment and infrastructure spending by carriers rose 6.6 percent in 2012. We project double-digit increases during the next two years as LTE networks are rolled out or extended, followed by mid-to-high single-digit gains in 2015–16. Cumulative spending during the next four years will total an estimated \$138.7 billion, 42 percent more than the \$97.6 billion in cumulative spending during the previous four years (see Figure 4). We project the overall wireless market, including voice and data services, wireless handsets, wireless infrastructure equipment, and services in support of the wireless infrastructure, to expand at a 7.6 percent compound annual rate, reaching an estimated \$364.5 billion in 2016 from \$272.3 billion in 2012..

⁶ Mobile Competition PN at ¶¶ 12, 14-16

CUMULATIVE SPENDING ON WIRELESS EQUIPMENT IN THE UNITED STATES (\$ BILLIONS) Figure 4



Spending on services in support of the wireless infrastructure (including LTE, Global System for Mobile Communications [GSM], Code Division Multiple Access [CDMA], High-Speed Packet Access+ [HSPA+] Wi-Fi and WiMAX infrastructures), rose 6.7 percent in 2012. TIA expects double-digit increases during the next two years, reflecting the pickup in spending on wireless equipment, followed by more moderate gains in subsequent years as growth in the overall equipment market moderates. Spending will increase to a projected \$26.9 billion in 2016, up 8.8 percent on a compound annual basis from the \$19.2 billion total in 2012.

V. CONCLUSION

As noted above, the mobile wireless marketplace is both highly competitive and a center of significant technological innovation. The Commission should continue to foster competition and technological advancement by adopting policies that encourage investment in intelligent network infrastructure, make spectrum available for 4G wireless broadband services, promote consumer access to information and connectivity of devices, and allow the market, instead of government, to choose winners and losers. As a general matter, TIA encourages the Commission to ensure that a balanced and thoughtful approach to broadband policy must combine appropriate government action with the power of the free market.

Respectfully submitted,

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