U.S. mobile industry faces spectrum, deal paralysis

Sinead Carew, Reuters

(Reuters) - Complaints about the shortage of wireless frequencies and a need for U.S. mobile carriers to consolidate will dominate the industry's largest annual gathering next week, but regulatory uncertainty may leave the sector powerless to deal with its most pressing issues anytime soon.

U.S. wireless operators argue that too many competitors are fighting over a mature market and that they urgently need more spectrum to cope with increasing demand for bandwidth-hungry services such as video and social networking.

But experts say regulators' clear reluctance to approve big acquisitions has paralyzed any operators that could otherwise have been keen on combining forces this year.

Similarly, as operators gather at the CTIA wireless trade show in New Orleans starting Tuesday, any spectrum deals will also be delayed until after U.S. regulators announce the outcome of their review of a Verizon Wireless spectrum deal, analysts say.

AT&T Inc has not been shy in its complaints about a spectrum shortage since regulators torpedoed a $39 billion plan to buy No. 4 rival T-Mobile USA last year. Because the deal didn't go through, AT&T had to give T-Mobile USA a massive break-up package that helped to push the No. 2 U.S. mobile provider into a $6.7 billion quarterly loss.

"The No. 1 thing to be discussed at this show is going to be spectrum," Glenn Lurie, AT&T's president of emerging enterprise and partnerships, told Reuters.

"Everybody is going to be talking about the fact that in the U.S. we have a spectrum crisis. That crisis is everywhere and it's a crisis that is hitting everybody."

Because of the collapse of the AT&T deal, which the company argued was necessary because of a spectrum shortage, all U.S. service providers will tread very carefully before considering any big acquisitions, experts say.

This caution will likely last at least until after the November U.S. presidential election, according to several bankers and analysts who expect to see "a cooling period" after the collapse of the deal.

"I don't think anything big can happen without more clarity on the regulatory landscape, which hopefully will be clarified with the election," said a telecom deal expert who asked not to be named because of a lack of authorization to speak to

the media.

Of particular concern is an assertion by U.S. regulators, in their review of the AT&T/T-Mobile USA deal, that the market needs at least four national U.S. wireless providers to maintain healthy competition.

This would be problematic for at least one deal some investors would like to see: a merger between No. 3 player Sprint Nextel and No. 4 ranked rival T-Mobile USA. Both lag far behind Verizon Wireless and AT&T.

Other deals could involve smaller rivals Leap Wireless and MetroPCS Communications, which analysts eventually expect to come together or be bought by a bigger company. MetroPCS tried but failed to buy Leap in 2007.

Some analysts hope the regulatory tone on M&A changes next year, as they believe Federal Communications Commission Chairman Julius Genachowski will step down after one term even if President Barack Obama, who had nominated him, gets re-elected.

Genachowski has been outspoken on his concerns about the level of competition in the market but has not commented on his plans in 2013. So until next year, devising major deals among the top four mobile providers could be unwise, analysts say.

"Any significant consolidation would stand a better chance under a Republican administration versus a Democratic administration," said Bernstein analyst Craig Moffett.

Even if the next president is a Republican, "any consolidation in wireless is going to attract an unusual amount of scrutiny," he said.

UNCERTAIN TIMING

While Sprint Nextel Chief Executive Dan Hesse fiercely opposed the proposed AT&T/T-Mobile USA merger last year on grounds that it would hurt competition, he is hopeful that smaller operators might be able to come together.

"My belief is that over the long term we'll see more consolidation in the industry. The timing is very difficult to predict," Hesse told Reuters in a recent interview.

A spectrum deal - in which carriers essentially buy up licenses to transmit and receive mobile data in specific swathes of wireless airwaves - should in theory be easier to accomplish as wireless customers would not be changing hands.

But the review of the Verizon Wireless deal to buy spectrum from cable companies for $3.9 billion, which operators including T-Mobile USA are contesting, makes it unclear how much spectrum might be available for purchase.

A decision by regulators on the deal is not expected until August this year.

For example, T-Mobile USA has made no secret of the fact it would also like the chance to buy the spectrum Verizon Wireless wants from cable providers, including Comcast Corp.

In waiting for a decision on that spectrum, it seems unlikely T-Mobile USA would consider buying airwaves from a spectrum-rich operator like Clearwire Corp, according to Roe Equity Research analyst Kevin Roe.

Another big unknown is the fate of spectrum owned by Dish Network, which is seeking FCC permission to use its spectrum for cellular-only services, as opposed to a more costly combination of satellite and cellular service.

"The key issue is that you need to know what's going to become available when, before you pull the trigger on anything," said Roe. Even if operators were willing to take a chance on spectrum they could use, valuation would be a sticking point.

"It's hard to imagine two players might be able to come to a meeting of the minds about what spectrum is worth until we have some clarity on what additional spectrum might be coming to market," Bernstein's Moffett said.

Moreover, Moffett expects the regulatory rules to change. He predicted that the FCC will impose clearer spectrum ownership limits in its review of the controversial Verizon Wireless purchase.

"Out of all of this it seems we're going to get a new set of rules that implicitly or explicitly puts a cap on how much spectrum AT&T and Verizon can own," Moffett said.

Because of the uncertainty around spectrum availability, analysts expect vendors to use this year's CTIA to aggressively promote technologies that promise to improve management of existing wireless network capacity.

One key topic will revolve around how operators manage the growth in demand for bandwidth-hungry services like video streaming, according to Mark Lowenstein, managing director at consulting firm Mobile Ecosystem.

"There's going to be a fair bit of discussion around managing the network for growth," Lowenstein said.

Mobile payments will also be a key theme at the conference where executives from Visa and Mastercard will make keynote speeches. Executives from the top four U.S. mobile operators - AT&T, Verizon Wireless, Sprint Nextel and T-Mobile USA - will also address the conference, along with Genachowski.

(Editing by Edwin Chan [1] and Richard Chang [2])

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