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AT&T buyout of T-Mobile dims hopes for iPhone for AWS

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By Danielle Kubes

AT&T's deal to acquire T-Mobile USA in the U.S. could mean that Apple Inc. may never develop 3G wireless products for the AWS band, the frequency range on which Canada's new wireless entrants operate.

Apple does not make its products compatible with the AWS band, and now that T-Mobile's 34 million subscribers on the AWS band will be migrated to AT&T's network, some pressure has been taken off Apple to develop an AWS-compatible device.

Right now, T-Mobile's 3G and 4G phones use AWS spectrum to support its HSPA+ network, but AT&T intends to use T-Mobile's AWS spectrum in its roll out of fourth-generation LTE services.

New Canadian wireless entrants Wind Mobile, Mobilicity, Videotron Ltée., and Shaw Communications Inc. (which plans to launch next year), also operate on the AWS spectrum band (1700/2100 MHz), which they purchased in the 2008 auction.

Bruce Kirby, vice-president of strategy and business development for new entrant Public Mobile, which operates on G-block spectrum, said in an interview that T-Mobile's operations in the U.S. have been the main driver of demand for AWS-compatible devices in Canada, and that the company's acquisition by AT&T could take pressure off manufacturers to create compatible AWS handsets.

"The Canadian market's heavily dependent on what goes in the U.S for wireless, for handsets. If you're trying to operate a 3G network in Canada using AWS spectrum on the UMTS/HSPA side, basically, your handset is based on what T-Mobile has purchased," Kirby said.

"They're the real driver in terms of having the scale to drive the development that takes place with the manufacturers."

AT&T will be required to jump through regulatory hoops to complete the \$39 billion US buyout of T-Mobile USA from parent company Deutsche Telekom, but if the purchase is approved, the company could knock Verizon Communications Inc. out of the top position in the American wireless sector and leave Sprint in a far-off third.

Kirby added: "If they [T-Mobile] actually merge with AT&T, and their handset strategy going forward follows what AT&T has, that will have a big impact on Canadian operators ... The options you have if you're a carrier trying to sell handsets to consumers—the technology on that spectrum—there will be fewer options in the future than they have right now."

AT&T currently uses 1900 MHz spectrum to run its UMTS/HSPA network. But, following its acquisition of T-Mobile, AT&T plans to combine its spectrum resources with those of T-Mobile. AT&T said on a conference call with investors Monday that, if regulators approve the purchase, it intends to migrate T-Mobile's subscribers off the AWS band, which will be paired with AT&T's 700 MHz spectrum to deploy LTE nationally.

The iPhone 4 is now compatible with the 800, 850, 900, 1800, 1900, and 2100 MHz frequency bands.

Previous Apple devices have not been designed to operate on the AWS band, and Apple is not expected to develop an LTE-compatible phone before 2012.

Anthony Lacavera, chairman of Wind Mobile, said in an interview that he believes Apple may still make an AWS-compatible 3G handset because using AWS for LTE may be three years away.

Although it would help to have T-Mobile asking for AWS-compatible iPhones, Canadian providers can go at it alone, he said.

“Obviously it would be beneficial for us to have other carriers ordering as well, but really, if we're prepared to make volume commitments, there's really nothing stopping us from dealing with Apple directly on it,” Lacavera said.

If Apple does not develop an AWS-compatible iPhone for third-generation wireless networks (as opposed to fourth-generation LTE), new entrants like Wind and Videotron would have to wait until they acquire more spectrum before they can carry the popular smartphone.

In an op-ed published in La Presse Thursday, Serge Sasseville, vice-president of corporate and institutional affairs at Quebecor Media Inc., the parent company of Videotron, said Quebecor did not choose to operate in the AWS band.

The company bought the frequency available to it during Industry Canada's 2008 spectrum auction, he wrote, when spectrum was set aside for new entrants.

“Apple for now decided not to develop the iPhone for this frequency band. I assure you, however, that Videotron and other service providers using the AWS band wish a change in this situation,” Sasseville said.

Canadian carriers have set their sights on portions of the 700 MHz spectrum band, which they will have an opportunity to buy during an upcoming auction administered by Industry Canada.

The department has said it intends to hold the auction in 2012.

“Depending on how it goes with the 700 MHz auction in Canada, we may or may not reserve our AWS for LTE,” Lacavera said.

“But I do think that all major handset manufactures, including Apple, will continue down the road of procuring for AWS and then also obviously for LTE.”

The T-Mobile acquisition in the U.S. also prompts the question of whether small players can survive in Canada's telecom market.

The most significant challenge for Wind and Public Mobile is access to capital, Roberta Fox, a senior partner with the Fox Group consultancy, said in an interview.

The providers are probably going to need to merge with larger companies if they intend to build a national base of customers, she said.

But if they continue to target a niche customer, the market will have room for them, she added. “For the price sensitive ones—for the pay-as-you-go, for the Toronto, Montreal, or local subscribers that want the cheapest [service], for those who don’t travel a lot—for some of those niche offers I think there will always be opportunities. They haven’t been necessarily served by the traditional wireless providers, which is why these guys have been able to grab market share,” Fox said.

Canada’s Telecom Act restricts foreign investment in the sector to 20 per cent direct investment and 33 per cent indirect.

The federal government has talked about allowing foreign ownership in the sector but has not made any specific proposals to change the rules.

“I always said that smaller, new players have to get together,” Anthony Lacavera, chairman of Wind, said in an interview.

“Because, obviously on our own, there’s a lot of challenges getting to the critical mass you need to be a real viable competitor.”

Kirby agreed.

“There’s bound to be some consolidation that takes place among smaller companies,” he said.

Fox said consolidation could be positive for telecom companies.

“The challenge continues to be that it [the telecom sector] needs massive access to capital. By becoming larger and having more coverage and potential customer base, in this particular case, it’s not necessarily a bad thing, as long as they continue to offer new and innovative services and products.”