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Federal Communications Commission
445 12th Street, S.W.
Washington, D. C. 20554

News Media Information 202 / 418-0500
Internet: http://www.fcc.gov
TTY: 1-888-835-5322

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NEWS MEDIA CONTACT:
Chelsea Fallon: (202) 418-7991
Chelsea.Fallon@fcc.gov

FCC ADOPTS ANNUAL REPORT ON STATE OF COMPETITION IN THE WIRELESS INDUSTRY

Washington, D.C. – Today, the Federal Communications Commission (FCC) adopted its Tenth Annual Report to Congress on the state of competition in the mobile telephone – or Commercial Mobile Radio Services (CMRS) – industry. This report examines the conditions prevailing in the CMRS marketplace as of the end of 2004 and the first half of 2005.[1] The FCC concluded that there continues to be effective competition in the CMRS marketplace based on its analysis of several measures of competition, including: the number of competing carriers providing service in an area, the extent of service deployment, prices, technological and product innovations, subscriber growth, usage patterns, churn, and investment. Although consolidation during the period covered by the report has reduced the number of nationwide mobile telephone carriers, the FCC found that none of the remaining carriers has a dominant share of the market and that the market continues to behave and perform in a competitive manner.

Today's report reviews competitive market conditions by grouping indicators of the status of competition into four categories: (1) market structure, (2) carrier conduct, (3) consumer behavior, and (4) market performance. The report also examines a number of related topics, including urban-rural and international comparisons.

Regarding market structure, today's report presents several indicators to support its conclusion that there is effective competition in the CMRS marketplace. For instance, the report notes that 97 percent of the total U.S. population lives in counties with three or more different operators providing mobile telephone service, the same level as in the previous year, and up from 88 percent in 2000, the first year for which these statistics were kept. Furthermore, 93 percent of the U.S. population lives in counties with four or more different mobile telephone operators, and 87 percent lives in counties with five or more; both figures are roughly the same as in the previous year.

[1] Consequently, while the report acknowledges that the Sprint-Nextel and ALLTEL-Western Wireless mergers have occurred, these transactions closed too recently for their effects to be reflected in the indicators of market structure, carrier conduct, and market performance.

The report's analysis of carrier conduct shows that competitive pressures continue to incite carriers to introduce innovative pricing plans and service offerings, and to respond to the pricing and service innovations offered by rival carriers. Examples of price rivalry over the past year include the proliferation of "family plan" offerings, the introduction of a variety of new prepaid plans, and the launch of entirely new brands targeted at previously-untapped segments of the market. One result of these offerings has been a significant increase in the percentage of wireless users who subscribe to prepaid plans; this figure rose from 6 percent in 2003 to between 8 and 11 percent in 2004.

In addition, non-price rivalry among wireless carriers is illustrated by their continued deployment of next-generation networks and their pursuit of product differentiation based on attributes such as network coverage and service quality. Over the past year, several wireless carriers deployed CDMA 1xEV-DO networks, which allow typical download speeds of 400-700 kilobits per second, in markets across the country. Many have announced plans to launch or expand these networks, as well as UMTS (Universal Mobile Telecommunications System, or Wideband CDMA) with HSDPA (High Speed Data Packet Access) technology, in the future.

Consumer behavior metrics provide further evidence that mobile telephone carriers have an incentive to compete on price and quality of service. For example, churn rates, or the percentage of customers who switch providers each month, averaged 1.5 to 3.0 percent per month during 2004, a slight decline from the previous year. The implementation of local number portability (LNP) beginning in November 2003 has lowered consumer switching costs by enabling wireless subscribers to keep their phone numbers when changing wireless providers. While the advent of LNP has not resulted in an increase in churn, evidence continues to suggest that LNP has put added pressure on carriers to improve service quality in order to retain existing customers and to avoid increased churn.

Indicators of market performance show that competition continues to afford many significant benefits to consumers. During 2004, the number of mobile telephone subscribers in the United States rose from 160.6 million to 184.7 million, increasing the nationwide penetration rate to approximately 62 percent at the end of 2004. The amount of time mobile subscribers spend talking on their mobile phones has also increased, with the average minutes of use per subscriber per month rising to more than 580 in the second half of 2004, up from 507 in 2003 and 427 in 2002. Two indicators of mobile pricing – revenue per minute (RPM) and the cellular Consumer Price Index (Cellular CPI) – showed a continued decline in the price of mobile telephone service during 2004. The RPM, which can be used to measure the per-minute price of mobile telephone service, fell 12 percent during 2004, and the Cellular CPI declined 1.0 percent during 2004 while the overall CPI increased 2.7 percent. Finally, the volume of text messaging traffic grew to 4.7 billion messages per month in December 2004, more than double the 2 billion messages per month reported in December 2003.

Action by the Commission September 26, 2005 by Tenth Report (FCC 05-173). Chairman Martin, Commissioners Abernathy and Adelstein with Commissioner Copps concurring and issuing a separate statement.

For additional information, contact Heidi Kroll, Wireless Telecommunications Bureau, at (202) 418-2361 or Heidi.Kroll@fcc.gov; or Ben Freeman, Wireless Telecommunications Bureau, at (202) 418-0628 or Ben.Freeman@fcc.gov.

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