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Press Release

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NEW PHOENIX CENTER STUDY CALLS FOR FEDERAL COMMUNICATIONS COMMISSION TO GIVE PREFERENCE TO FIRMS WITH "SKIN IN THE GAME" WHEN RESOLVING INTERFERENCE DISPUTES

Optimal FCC Interference Policy Should Deal with Different License Holders Differently Depending on Network Investments

WASHINGTON, D.C. – Radio spectrum is a scarce and finite resource, essentially all of which has been allocated to particular uses and licensed to commercial, non-commercial, or government users. But as spectrum gets moved about to suit modern demands, interference problems within and across spectrum bands are certain to arise. As a result, the Federal Communications Commission's policies on spectrum interference could have significant effects on the wireless marketplace: poor interference management could sabotage existing services, affect the value of spectrum licenses and, most importantly, attenuate investment incentives for wireless networks.

In a new POLICY BULLETIN released today entitled *Skin in the Game: Interference, Sunk Investment, and the Repurposing of Radio Spectrum,* the Phoenix Center attempts to shed some light on the optimal design of Commission rules and practices for addressing interference disputes.

Since spectrum licenses produce no benefits without large and mostly sunk investments in communications networks, the Phoenix Center focuses on investment incentives and finds that the FCC's optimal interference policy should necessarily deal with different license holders differently when their sunk network investments vary. The Center's focus on sunk investments is important, because if the FCC permits interference-causing repurposings that give an existing network operator's significant sunk assets short shrift, then the rational response of private parties is to curb further investment. A reduction in investment will reduce the value of wireless services and, in turn, the value of the spectrum. Accordingly, the Center's model of interference dictates that license holders who have made little or no sunk investment in capital to generate benefits from their license would receive little relief under an optimal rule, but those licensees with substantial sunk network investments would receive expansive treatment by the regulator. To provide context, the Phoenix Center uses the continuing saga of LightSquared Networks—a spectrum speculator now branded as Ligado—as a case study, though the analysis is in no way limited to the specifics of this ongoing proceeding.

"Put bluntly, regulatory policy towards interference concerns should favor those licensees with more 'skin in the game,'" said study co-author and Phoenix Center Chief Economist Dr. George

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Ford. "While federal agencies must repurpose spectrum to create value, they also must avoid destroying value through the unartful management of interference."

A full copy of PHOENIX CENTER POLICY BULLETIN NO. 40, *Skin in the Game: Interference, Sunk Investment, and the Repurposing of Radio Spectrum*, may be downloaded free from the Phoenix Center's web page at: http://www.phoenix-center.org/PolicyBulletin/PCPB40Final.pdf.

The Phoenix Center is a non-profit 501(c)(3) organization that studies broad public-policy issues related to governance, social and economic conditions, with a particular emphasis on the law and economics of the digital age.