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This article originally appeared in the January 20, 2006 issue of *Satellite Finance*.

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While 2005 can be characterized in many ways, it will ultimately be most remembered within the satellite industry as the year of consolidation. For a while, the prospect of major consolidation had assumed an illusory pallor, leaving some to posit that maybe, just maybe, it was neither necessary nor inevitable. But as the events of the past six months clearly demonstrate, consolidation has now come to the satellite industry big time.

What does this portend for 2006 and beyond?

In our view 2006 will be most remembered as the year of industry transformation. This will be manifested in various ways.

First there will be the influence of a number of transforming technologies. Two in particular that stand out are HDTV and broadband internet delivery. Market demand for HDTV is cascading, now not only in the US but around the world. With it comes a service offering potentially requiring significant amounts of spectrum, an appealing offset to the effects of digital compression on bandwidth demand. In the case of satellite broadband, it appears to be targeted to niche markets, where success will be dependent upon the ability to transform the conventional VSAT product line into an off-the-shelf, mass-market consumer electronic commodity, with price points, availability and ease of installation comparable to today's DBS dishes and receivers.

Other transformational technologies that will impact the industry include the continuing emergence of specialised, smaller satellite payloads and lower cost launch vehicles.

Beyond technology

There is an even greater transformational influence that will emerge in 2006. This concerns the future direction and shape of the telecommunications industry as a whole – which is on the verge of an unprecedented market realignment. While likely to span many years, we see this transformation firmly taking shape in 2006.

Key players, large and small alike, are scrambling with considerable alacrity to redefine their business role and market position. Traditional telephone companies are becoming video content delivery providers while cable system operators are harking their wares as providers of a broad array of telephony services. Automobiles are morphing into mobile entertainment centers. The personal digital assistant (PDA) is about to give way to the personal entertainment assistant (PEA), replete with substantial communications, storage and reception/playback capabilities. Triple play bundling of voice, internet and video will become passé, giving way to quadruple play bundling (voice, internet, video and wireless). The platform upon which most of this will unfold is the internet, with internet telephony or VoIP overwhelming and ultimately overtaking the PSTN, which in fairly short order will be absorbed into and indistinguishable from the internet.

Where this is ultimately headed is still anybody's guess, although one possible outcome will be the gradual (or not so gradual) disappearance of a number of currently differentiated lines of business. They will be replaced by companies that are essentially spectrum conglomerates, with spectrum as their defining product, and with multiple modes of distribution at their disposal.

Fitting transformation

How the satellite industry fits into this trend remains to be seen. This broader transformation is occurring at just the time that the satellite industry would otherwise appear to be experiencing a true renaissance. Satellite's position in content delivery is remarkably solid, and the success of satellite radio (DARS) in the US is kindling expectations that this will become another global market for satellites to serve. The flexibility and reliability afforded by satellites has stimulated demand for satellite services in both the national security and public safety arenas, further driving this resurgence. Indeed, as the lessons of Hurricanes Katrina, Rita and Wilma demonstrate, the evolution and expansion of the cellular industry need not after all have augured the demise of satellite telephony, the initial business failures of Iridium, Globalstar and ICO notwithstanding. The emergency communications capabilities inherent in satellite-based telephony (augmented perhaps by a viable ATC product) make it an indispensable adjunct of any future commercially viable wireless communication network.

The satellite industry's biggest challenge throughout this transformation will be whether, and to what extent, it can preserve its identity as a discrete market player. Certain sub-sectors (*i.e.*, satellite telephony) may experience greater pressure in this regard than others. Different business models, *i.e.* contrasting approaches to the provision of DBS services in North America and Europe, could also affect the outcome. Nonetheless, the most lasting impact of the transformation of 2006 could well be the disappearance as distinct commercial entities of at least some elements of the current satellite industry, being subsumed instead as mere components, albeit important ones, of a radically re-defined telecommunications industry market structure.

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