

Martin Cave
Independent Review of Radio Spectrum Management
c/o Radiocommunications Agency
Wyndham House
189 Marsh Wall
London E14 9SX

30 January 2002

Dear Professor Cave

Independent review of radio spectrum management

Consumers' Association (CA), publisher of *Which?* and other consumer magazines and books, is an independent consumer organisation with over 700,000 members. Michelle Childs has asked me to thank you for your letter of 13th December inviting us to comment on the independent review of radio spectrum management.

Although we recognise the merits of relaxing the rules restricting spectrum to particular uses, CA has a number of concerns about the initial auction and subsequent trading of spectrum. Consumers participate in these markets indirectly through the purchase of equipment and services, and are therefore vulnerable to the impacts of spectrum trading on costs, longevity, quality and access to these products. A number of these concerns are noted below:

- The auctions for 3rd generation mobile phone licenses produced a clear indication of the high market valuation that mobile phone operators placed upon access to spectrum, as well as a large windfall for the Treasury. However, the successful bidders have arguably suffered the 'winners curse' in the auction and may have overestimated the value of the spectrum, at least in the short- to medium-term. This raises issues of how industry seeks to recover these costs from consumers.
- In the short term the cost of 3G licenses has arguably helped maintain the price of existing 2G services above levels which otherwise might be expected. In the longer term this may impact on the roll-out and eventual price of 3G services, and thereby restrict or delay their takeup by consumers. CA therefore welcomes the suggestion that the primary objective of future spectrum auctions should not be to generate revenue for the Treasury, although it is not clear that these

dangers can be entirely avoided in any initial release of spectrum.

- Spectrum trading may help to facilitate a highly competitive distribution and access sector industry, remove barriers to entry and provide consumers with a wide range of distribution systems. However, the spectrum allocations used by consumers – through broadcasting, mobile telephony and in domestic systems - are often embedded in particular technologies. If the value of spectrum exceeds the income derived from a particular use or service, this may lead to the withdrawal of a particular service and/or inefficiencies resulting from redundant equipment.
- Although trading relies on a relaxation of the rules restricting spectrum to particular uses, it is vital that consumers should be protected from the impact of secondary markets on existing equipment and services. This might be achieved through legislative or regulatory means, ensuring that equipment can be adapted to use new frequencies, and that adequate notice is given before frequency changes are enacted.
- CA remains adamant that no reallocation of broadcast spectrum can be considered until the switch-off of the analogue television signal has been successfully completed, ensuring universal access to free-to-air digital services. Spectrum reserved for public service broadcasting should include sufficient capacity for future enhancements to terrestrial broadcasting, such as local public service broadcasting, improved EPGs and interactivity. Any “re-farming” of existing broadcast spectrum should be done according to tried and tested spectrum management plans, rather than a desire to gain the maximum value possible from selling off this resource.
- CA does not support the proposed application of spectrum pricing to public service broadcasters, nor the sharing of their spectrum allocations with commercial users without further analysis of the effect on service. The value of broadcasters’ spectrum privileges is reflected in their public service obligations, and there may be little scope for broadcasters to economise on spectrum without affecting quality of service. The US experience suggests that dynamic multiplexing and trading of excess capacity can lead to a greater number of poor quality signals.

In the light of these issues, CA is concerned that the introduction of spectrum trading should not be considered an end in itself, but should only be introduced with adequate safeguards and where it is likely to deliver measurable benefits for consumers.

CA would welcome the opportunity to discuss these issues in more detail with you or your team. If you have any further queries, please contact me or my colleague Peter Jenkins.

Yours sincerely

Allan Williams
Senior Policy Advisor