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Alan McNaboe
Spectrum Policy Group
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RE: Ofcom public consultation on annual licence fees for 900MHz and 1800MHz spectrum

Mr McNaboe,

The GSM Association (GSMA), representing the interests of its member operators in the UK, hereby submits its response to the Ofcom's public consultation on the revised spectrum annual fees for the 900MHz and 1800MHz frequency bands.

We are concerned that the approach proposed by Ofcom leading to substantial increase of the annual fees from £24.8 million to £138.5million for the 900MHz band and from £39.7million to 170.4million for the 1800MHz band -more than quadrupling the current fees-, will put at serious risk the investment capacity of mobile operators at a time when UK consumers are expected to enjoy the benefits of widely available, high speed 4G services.

Spectrum is the lifeblood of the mobile industry and its greatest societal and long-term economic value comes from its use rather than from the short term revenues generated by its initial sale or annual fees. To ensure consumers can fully benefit from innovative, high quality mobile services, substantial infrastructure investment are required from operators. It is therefore highly important that spectrum valuations do not alter the industry's competitiveness and ability to invest. However, the current valuation proposed by Ofcom threatens the significant capital investment required to upgrade network infrastructures to deploy 4G services to consumers across the UK.

Europe already lagging behind the US in terms of LTE investment and connections

Mobile is one of the most capital intensive industries. The global Mobile Economy report published by the GSMA in 2013 shows¹ that capital expenditures represented 15% of mobile operators revenues in 2012, just slightly behind the electricity and marine industries despite decreasing EBIDTA margins. In Europe, in particular, operator revenues have been declining over the 2008-2012 period from US\$248 billion to US\$216 billion and are expected to decrease further by 2% p.a. to 2017. As a result, while the level of capital expenditures in the U.S. on wireless infrastructure has grown by over 70% since 2007, it has been declining in the European Union (EU) leaving the overall investment levels of European operators below those of U.S. carriers².

However, long term investment is core to improve LTE deployment. When compared with the U.S., Europe is lagging well behind in terms of deployment of next generation wireless infrastructures with LTE representing 19% of U.S. connections compared to less than 2% in the EU at the end of 2013. On

¹ GSMA Mobile Economy Report, AT Kearney <http://www.gsmamobileeconomy.com/>

² 2013 Navigant report <http://www.gsmamobilewirelessperformance.com/>



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this aspect, the CTIA recently noted³ that the U.S. invests more in its networks than any other nation: *“U.S. wireless carriers invested more than \$30 billion in their networks in 2012, accounting for a quarter of the world’s wireless capital investment. As a result, the U.S. is the world leader in LTE deployment and subscribership. While U.S. consumers represent only 5% of the world’s wireless connections, they comprise 50% of the world’s LTE connections”*.

With this in mind, the imposition of excessive annual licence fees on operators in the UK market will only reduce further operators’ ability to plan the much needed investment in LTE roll-out.

Missing out on the UK policy goals and transformative impact of mobile

A key policy objective of the UK government’s Department of Communications, Media and Sport is to *“make it easier for the communications and telecoms industry to grow”* and *“to stimulate private sector investment to achieve a transformation in broadband in the UK by 2015”*. Digital transformation in the UK can only be fully achieved with the availability of fast mobile broadband infrastructure that will in turn lead to socio-economic growth from the industry’s contributions in productivity gains, job creation and public funding.

We appreciate that licences fee for the use of spectrum in the 900 MHz and 1800 MHz bands should be payable, however the proposed valuation from Ofcom will result in increasing additional short term revenues to the Government rather than providing a sustainable framework for the industry to grow.

Licence fees can significantly impact market outcomes and particularly when annual charges are levied, they tend to be factored into prices for mobile services ultimately impacting the consumers. There is a strong economic case to avoid excessive licence fees being determined on the basis of apparent revenue maximising objectives. Rather, licence fees can be used to help recover the administrative costs of the licensing process and of managing spectrum and in some circumstances, to encourage efficient use of the spectrum. However, the proposed substantial increase of the fees appears to over-value the 900 and 1800MHz spectrum, creating an additional financial burden on the industry when European investment levels are already lagging behind those of other regions. High annual fees can result in a hold-off on network investment, delaying deployment of new services. This leads to a poor utilisation of the spectrum and is contrary to the goal of incentivising the optimal use of this resource.

In view of the above, the GSMA calls on Ofcom to review the proposed annual licence fees for a more realistic valuation of the spectrum that will not inhibit the growth and competitiveness of the sector.

Sincerely,

A handwritten signature in black ink, appearing to read "John Giusti", written over a horizontal line.

John Giusti
Head of Spectrum
GSMA

³ CTIA Investment and Innovation Letter, 13 November 2013