

Countryside Alliance submission to the Second consultation on assessment of future mobile competition and proposals for the award of 800 MHz and 2.6 GHz spectrum and related issues.

Competition in the Mobile Market

- Competition is important in the mobile network market – it has been at the heart of the UK's mobile success over the past 12 years – which means Mobile Network Operators (MNOs) need access to low and high frequency.
- MNOs have been forced to compete on price, network quality and increasingly coverage.
- It was a desire to stimulate competition that underpinned the last spectrum auction in 2000, when the then Government determined that the market needed more not less competition and reserved a licence for a new operator.
- The UK's 3G spectrum auction in 2000 was not only a success in the amount of money it raised for the last Government, but a success in how it stimulated competition, drove down prices, pushed 3G rollout and prompted innovation.
- This can be compared to France, where there was not a successful new entrant during the 3G auction; French consumers pay a lot more and have poorer 3G coverage. For example Berg Insight has shown that French consumers pay on average 50 euros per month on data, while UK consumers pay just over 10 euros. The UK is a good example of the benefits of a competitive market.
- Competition was also made possible by a decision back in 2000 to force all the operators to compete on the same 3G playing field. All the operators won similar amount of 3G spectrum, meaning they all started from the same spectrum.
- In the consultation launched last year Ofcom said that operators with high amount of low frequency would have an “unmatchable competitive advantage”. But in the latest consultation released in January, Ofcom have done a complete volt-face and now says that low frequency spectrum is not a necessity for all operators.

Importance of Spectrum to rural areas

- Lower frequency spectrum (800MHz) is better for coverage – approximately three times better – which is important for coverage in rural areas.
- US regulator says “A service provider's particular mix of spectrum holdings affects how lower frequency spectrum may allow for wider coverage with fewer cell sites, which is key in rural areas, and better in- building coverage, which is especially important in urban areas. [...] Given these different spectrum characteristics, a licensee's particular mix of spectrum holdings may affect its ability to provide efficient mobile wireless services.”

- Every other country in Europe has recognised the advantages and disadvantages associated with different frequencies and acted to equalise the different frequencies of spectrum held by each of the MNOs so as to ensure operators can compete equally.
- The regulators in Germany, Ireland, Switzerland, Spain and Sweden have all highlighted the importance of low frequency in their auction proposals.

Mobile Infrastructure Project (MIP)

- The aim of the MIP is to improve the coverage and quality of mobile network services for the five to ten per cent of people that live and work in areas of the UK where existing mobile network coverage is poor or non-existent.
- The Government has specifically stated that the MIP must be open to all operators and “enable the removal of ‘complete’ voice not-spots without converting them to ‘partial’ not spots”, where there is coverage but only with a limited choice of operators.
- However, there is a possibility that the aims of the MIP are at risk of being undermined by Ofcom’s auction proposals.
- BDUK expect all operators to deploy their equipment on the MIP funded masts – however if an operator does not hold any low frequency spectrum they will be at a disadvantage – as they will only be able to cover 1/3 if the area that operators with low frequency spectrum could cover using the same mast. It does not make economic sense to deploy equipment on a mast that they will not be able to provide a service from due to the lack of low frequency.
- This creates a real risk that some areas will only have two providers. That’s not choice, that’s not competition and that’s not good for consumers. Rural communities are the very communities that need choice and competition.
- In many cases, households in rural communities are turning to mobile broadband because they cannot access fixed broadband. These consumers need access to the best deals and the lowest prices. But currently the only all-you-can-eat data plans are offered by the two mobile operators with no low frequency spectrum (Three and T Mobile).
- It would be a terrible outcome for the Government if the MIP were a failure because of a curious conclusion by Ofcom on the importance of low frequency spectrum.
- The MIP offers a real lifeline to rural communities but its success is very dependent on the 4G auction creating four national operators who can extract the same benefit from the MIP and at present it seems Ofcom’s proposals won’t deliver that.

Ofcom’s Views

- **“we do not have specific evidence on the prevalence of locations that are particularly ‘deep’ indoors or difficult to serve”** If the Alliance interpretation is correct – Ofcom do not have evidence on ‘not-spots’ – then we believe this evidence should be obtained before the auction is finalised to ensure the auction structure is correct and that no one MNO has a competitive advantage from holding low frequency spectrum.

- “It is likely to be challenging to deploy small cell solutions in all locations where coverage is poor. **To the extent that consumers value good quality coverage in harder to serve locations** and to the extent that there are challenges to using small cell solutions to serve consumers in those locations, there might be a significant competitive advantage to holding lower frequency spectrum”. Are Ofcom saying that operators don’t need low frequency to be able to compete because there are some consumers who are happy to buy a phone that won’t work in the countryside? The Alliance and its members would disagree with that – many of our members who live and work in the countryside would value coverage in ‘hard to serve locations’. If there are networks post auction, that do not have low frequency spectrum and cannot serve ‘hard to serve areas’ then surely they will be at a competitive disadvantage?
- If the Alliance has understood the auction proposals correctly Ofcom envisage that at least one of the national operators may be left without low frequency spectrum, and this is despite Ofcom stating in the consultation that **“There is also some risk that coverage at 2100 MHz or 1800 MHz is insufficient to provide a credible national wholesale service”** If this the case, surely this will result in less competition, particularly in rural areas
- **“With regard to holdings of sub-1GHz spectrum, we now believe that the technical advantages of sub-1GHz spectrum are less clear.”** Ofcom don’t go on to really explain why, or indeed why they disagree with every other regulator and government who have concluded that low frequency spectrum does has advantages. However, Ofcom also say **“there might be a significant competitive advantage to holding lower frequency spectrum.”** The Alliance also believes there is a competitive advantage from holding low frequency, but has been left confused by the contradictory statements.
- **“We consider that use of such small cell solutions may help to address some of the gap in coverage faced by operators with higher frequency spectrum”.** We are slightly concerned with Ofcom advocating small cell solutions to boost coverage in rural areas – small cell solutions require fixed line broadband to work - which is a service that many rural and isolated households do not have and why many people in these areas are turning to mobile for their broadband connectivity. It is nonsensical to suggest a mobile solution that requires fixed broadband.

Countryside Alliance Position

- It is over a year since Ofcom began to proceed with the auction and the Alliance believes there should not be any further delays. However these proposals must be right and we are concerned that Ofcom’s technical conclusion on low frequency is not supported anywhere else in the world. The regulators in Germany, Ireland, Switzerland, Spain and Sweden have all highlighted the importance of low frequency in their auction proposals.
- This auction faces two challenges, when it should only be facing one. It has to cope with trying to rebalance spectrum holdings as well as ensure the auction delivers the UK’s 4G future.
- The Alliance would like to see the spectrum auction designed to maintain as much competition as possible in the marketplace, allowing operators to compete

on a level playing field to ensure market growth, which benefits consumers and ensures greater choice for those living in rural areas.

Structure of Auction

- Low frequency spectrum should be available to all MNOs to ensure a competitive market in rural areas and the hard to reach places.
- The auction should create a competitive market to support universal coverage at 2Mbps in all parts of the UK.
- We believe the structure of the auction should ensure a four-player mobile market.
- We welcomed Ofcom's increase in the coverage obligation to 98%, but believe that it should go further and will be only achievable with the low frequency spectrum available to all MNOs to ensure competition.
- If Ofcom get the auction wrong then we will see further consolidation in the mobile market – which could lead to eroding competition and the only losers will be consumers.
- The Alliance is concerned that this auction will result in a less competitive mobile market.
- We believe there must be four credible national wholesale MNOs post auction – which will benefit consumers and the economy.
- New auction proposals do not guarantee low frequency spectrum to a fourth operator – which means rural areas will still remain disadvantaged with a lack of competition.
- As the MIP is based on the current combined 2G footprint, it will target all of the not-spots of the other three operators but not all not-spots of the fourth operator – so disproportionately benefitting operators with sub 1-GHz spectrum.
- In the consultation launched last year Ofcom said that operators with high amount of low frequency would have an “unmatchable competitive advantage”. But in the latest consultation released in January, Ofcom have done a complete volte-face and now says that low frequency spectrum is not a necessity for all operators. The Alliance does not agree with this.