

Robert Emson
Floor 3
Spectrum Group
Riverside House
2A Southwark Bridge Road
London
SE1 9HA

31 January 2017

Dear Mr Emson

Award of the 2.3 and 3.4 GHz spectrum bands

The Countryside Alliance works for everyone who loves the countryside and the rural way of life. Our aim is to protect and promote life in the countryside and to help it thrive. With over 100,000 members we are the only rural organisation working across such a broad range of issues.

Digital connectivity is a key concern of our membership and the auction of the radio spectrum provides a huge opportunity for all the mobile companies to provide better mobile and broadband coverage at competitive prices in rural areas. However, we are concerned if the auction is not structured to maintain competition, a duopoly may emerge and rural coverage will suffer whilst prices for 'non profitable' areas increase.

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.

Introduction

1. Mobile phone coverage is becoming a must have for rural communities, both for business needs and to access vital services. Also, like urban communities throughout the UK, these communities also want connectivity for personal and social reasons.
2. However, Government, Ofcom and industry are not delivering the coverage or quality of service that rural communities need. As a result these communities risk becoming isolated and stuck on the wrong side of the digital divide. Ofcom must use this auction to address some of these issues, and fix the provision of mobile coverage in rural areas. We see this auction as a crucial opportunity for Ofcom to influence the mobile market, to restore competition to the benefit of rural communities.
3. But policy in this area shouldn't just focus on delivering the bare minimum of mobile service to rural areas. Technological innovations – such as 5G - have the ability to transform rural lives and businesses. This auction is an opportunity to put rural communities – who have the most to gain from such innovations – at the heart of the policy for 5G.
4. However, Ofcom's preferred option does not go far enough. It will not significantly improve competition in rural area and it also risks rural communities being left behind

for 5G rollout. Instead, we support Option E, which as Ofcom notes would be effective in terms of promoting competition in the mobile market.

Competition and Rural Mobile Service

5. The mobile market is broken and is not delivering for rural communities. Ofcom has found that only 62% of the UK landmass has access to voice coverage from all operators – and only 40% access to 4G services¹. Rural consumers have fewer choices in terms of operator, tariff and handset plans – often paying the same amount as someone living in a city for a much poorer or even almost non-existent service.
6. The most recent intervention by Government and Ofcom to tackle this was the agreement that mobile networks would provide voice coverage to 90% of the UK's landmass by the end of 2017. However, Ofcom's 2016 Connected Nation report concluded that the thresholds for the 90% obligation are based on lower mobile signal levels than that necessary 'to deliver a good consumer experience'.² Once again, it will be rural communities who lose out – even for a service as basic as making a voice call.
7. Spectrum is a finite national resource, and therefore the crucial input in determining the level of mobile service and choice. When there is a single input like spectrum, it needs to be divided equitably between operators to ensure the market remains competitive. Otherwise there will be a situation where those with the biggest pockets can dominate the market, pushing out smaller players. This is why Ofcom is responsible for auctioning off spectrum, to ensure that spectrum is used efficiently and competition is delivered in a way that benefits everyone in the UK.
8. However, we are now in a situation where one operator has 42% of spectrum available for mobile, almost three times as much as the smaller operators in the market. This has created a situation where the larger operators have an 'excess' of spectrum which lies idle, while other competitors are at full spectrum capacity and so struggle to take on more customers without reducing speed and service to their existing customers. This 'land banking' of spectrum means that it is not being used to improve coverage or quality of service.
9. As a result, the UK's mobile networks fare poorly in comparison with networks in other European countries. The UK's National Infrastructure Commission (NIC) has recently reported that the UK is languishing in the digital slow lane and ranks 54th in the world for 4G coverage.³ Rural consumers could be receiving better high speed mobile data services if spectrum was more evenly distributed.
10. Ofcom have a duty to ensure the efficient use of spectrum, yet the 'use it or lose it' clauses in previous spectrum licences have never been used. Even if Ofcom did attempt to use them, it is likely to be a lengthy and complex process – with no guarantee of success if a legal challenge is brought. This is why a 30% cap on spectrum usable for mobile is attractive, as it is a simple way and effective way of tackling the hoarding of spectrum by ensuring that all operators use their spectrum to the benefit of consumers.

Affordability

¹ Ofcom, Connected Nations 2016

² Ibid.

³ <https://www.gov.uk/government/news/government-must-take-action-now-to-secure-our-connected-future-so-we-are-ready-for-5g-and-essential-services-are-genuinely-available-where-they-are-n>

11. While the competitive availability of mobile services is crucial, it is also important that these services are affordable. This is particularly true of those rural communities that do not have access to suitable fixed broadband. If mobile internet is the only option for these households, they will need to rely on large data bundles at an affordable price.
12. Historically, the competitive nature of the UK mobile market has meant that prices have been low compared to other markets in Europe. Yet Ofcom has recently found that mobile prices have significantly increased in 2015 and again in 2016 after a decade of price decreases. The EC's Mobile Broadband Prices in Europe 2016 Report says that UK handset plans have increased by an average of 4% between 2015 and 2016, compared to a 7% decrease on average across EU Member States.⁴
13. This is a worrying trend and can be seen as systematic of a broken market. This spectrum auction is an opportunity for Ofcom to address the underlying causes of this trend.

5G and rural rollout

14. We are concerned with Ofcom's approach to the auctioning of the 3.4GHz spectrum band, which will provide the earliest route to 5G. The auction needs to put the needs of rural communities at the centre of 5G policy. While this higher frequency spectrum will not have the same impact on coverage as the subsequent 700Mhz auction, Ofcom must use this auction to put in place a framework for rolling out 5G, to ensure that all operators are able to roll out a credible service. This is the only way to ensure that competition drives coverages and affordable prices.
15. However, the likely result of Ofcom's preferred option is that only one – or at most two – operators will launch 5G. We know from previous experience that a monopoly or duopoly is not good for rural consumers. During the consultation on the 4G spectrum auction, we raised concerns that the concentrations of low frequency spectrum in the hands of only two operators had led to the proliferation of 'partial not spots'. Ofcom partially addressed this through competition measures in that auction, although there is still a significant imbalance which contributes to the today's coverage issues.
16. Without sufficient competitive pressure there is a clear risk that the dominant operators could decide to slow down their 5G rollouts, or to roll out less extensively than might otherwise be the case to the detriment of rural areas. They are also more likely to charge a premium for these services.
17. Again, this has been the outcome of previous Ofcom decisions. Ofcom allowed one operator to launch 4G services many months before the rest of the market. This was a departure from the approach of the 3G auction, where all operators had access to comparable amounts of 3G spectrum and were all able to launch the service at roughly the same time. As a result, the UK lagged behind the rest of Europe on 4G rollout and also paid initially higher prices, as the sole operator was able to charge a hefty premium for services unopposed.
18. Rural communities are still bearing the brunt of this policy failure, experiencing poor or non-existent 4G coverage but still having to pay higher prices. As already mentioned, Government and Ofcom's most recent policy intervention to make operators provide a voice service to 90% of the UK's landmass is unlikely to be

⁴ Paragraph A7.55

effective. But even if it was, it still falls far short of the 4G data services that rural communities need.

19. Our concern is that Ofcom's approach to this auction risks making the same mistake for high frequency spectrum, needed for high speed and high capacity data services. This is worrying as the future of mobile technology – specifically 5G – will form the spine of the UK's future services whether through e-health, internet of things or driverless cars. Instead, this auction must be seen as a great opportunity to learn the lessons from 4G rollout to ensure that rural communities are not left behind with 5G.
20. The optimal approach for competition is for Ofcom to intervene in order to ensure that each MNO gains a minimum portion of 3.4GHz, which can then be combined as more spectrum becomes available. For instance, under the proposal for 30% cap, this would allow BTEE to buy 3.4GHz provide it would divest some of its unused 2.6GHz in the process.

Conclusion

21. Ofcom's preferred proposal does not go far enough to protect competition in the mobile market or to ensure that this spectrum will be used to improve quality of services in rural communities. If Ofcom proceed with the auction as proposed, there is a real risk they will exacerbate the impact of already worsening competition in the mobile market.
22. We are also concerned that the proposals for 5G rollout are again focusing on delivering new technology quickly to urban centres, without considering how to ensure rural communities are included.
23. We instead support Option E, which would introduce a 30% cap on spectrum usable for mobile. We believe this will be the best option to promote competition and to deliver high quality mobile services to rural areas.

The Countryside Alliance has only responded in a general capacity to this consultation as we are not technical experts, so we feel it would be inappropriate for us to comment on those other aspects in detail. However we cannot stress enough the importance of rural connectivity and the role it can play in supporting the countryside. If the Countryside Alliance can be of further assistance, or you require any clarification of the points raised, please do not hesitate in contacting me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'T.P.C. 12' followed by a stylized flourish.

Tim Bonner
Chief Executive