



Consultation by Department for Digital, Culture, Media & Sport on Statement of Strategic Priorities for telecommunications, the management of radio spectrum and postal services.

Response from Mobile UK

March 2019

Introduction

Mobile UK welcomes the opportunity to respond to the Government's consultation on its Statement of Strategic Priorities (SSP) for telecommunications, the management of radio spectrum and postal services.

Mobile UK is the trade association for the UK's mobile network operators - EE, O2, Three and Vodafone. Our goal is to realise the power of mobile to improve the lives of our customers and the prosperity of the UK as a whole.

Our role is to identify the barriers to progress, seek solutions and work with all relevant parties to bring about change, be they Government, regulators, industry, consumers or citizens more generally.

Summary of response

Mobile UK:

- supports the use of the SSP. It should promote transparency, consistency and regulatory certainty, and thus has a role in maintaining/reducing operators' cost of capital
- with the Government's stated ambition to be a leader in 5G, the SSP presents an excellent opportunity to ensure that Government and regulator are aligned behind a pro-investment framework
- agrees with the view that promoting investment should be prioritised over price interventions. The mobile market is competitive and competition has been demonstrably effective in forcing down prices in the sector
- recognises that there is further work to be done in the rural areas and the sector is committed to finding a sensible solution to achieving further coverage
- welcomes the Government's openness to exploring new ideas for spectrum management such as leasing and sharing. It should not, though, be held out as a cure-all for improving rural coverage
- strongly disagrees with the view that the telecoms sector is lagging behind other essential services in terms of customer experience. Over 30 years the industry has taken customers through a revolutionary and continuous learning process, with new services always being designed and presented with an absolute focus on customer capabilities and needs
- supports Ofcom's price comparison accreditation scheme and has encouraged customers to make use of them
- recognises that there is a place for a standard summary data usage set for price comparison purposes
- agrees with the Government that the security and resilience of the UK's telecoms networks is of paramount importance and so strongly urges that the outcome of the supply review is strongly evidence based and that any steps taken to mitigate any risks are proportionate.

Role of the Statement

1. Mobile UK notes that this is the first SSP for the telecommunications sector, following the enactment of the Digital Economy Act 2017. All things being equal, the SSP will be in currency for five years. Its purpose is to give a policy steer to the independent regulator, without compromising its independence.
2. With the Government's stated ambition to be a leader in 5G, the SSP presents an excellent opportunity to ensure that Government and regulator are aligned behind a pro-investment framework.
3. Potentially, the SSP has a strong role in promoting transparency, consistency and regulatory certainty.
4. The mobile sector is a capital intensive business. In the last ten years or so, the UK mobile operators, in addition to periodic significant investment in spectrum licences, have together invested in excess of £2 billion per annum (about 13% of revenues and about 50% of annual cashflow/EBITDA)¹.
5. The level of capital investment is sensitive to the cost of capital. As such, if, through transparency etc., the SSP can help to lower market actors' cost of capital it will have, even of itself, fulfilled part this investment promoting role.

Background

6. The result of the industry's steady and high level of investment has delivered spectacular improvements for consumers over many years:
 - Increased network capacity, whereby average data consumption has risen from almost nothing to 2 Gigabytes per person per month. This is expected to grow to 90 Gigabytes by 2025.
 - Increased data download speeds, from virtually no data capability under 2G, to an average 384kbps with 3G to over 14Mbps with 4G. The soon to be introduced 5G will enable customers to download a movie in seconds, or to stream a 4K movie without any buffering.
 - Prices generally falling over the long term.²
 - The continuous development of new market segments and response to evolving customer needs. (For example the development of the pre-pay and SIM only tariffs has meant that mobile is affordable for all. 18% of, mostly lower income, households are identified as 'mobile only').

¹ Fig 5.1 https://www.ofcom.org.uk/data/assets/pdf_file/0020/130547/Statement-Annual-licence-fees-900-MHz-and-1800-MHz.pdf

² "Consumers are using their mobiles more, but paying less" Ofcom's 'Pricing trends for communications services in the UK', May 2018

- The maintenance of continuously high levels of customer satisfaction for the mobile sector (around 90%)
 - On the back of this extraordinary improvement in connectivity, a whole ecosystem of 'apps' and industries has evolved, making many markets work more efficiently and productively.
7. This has all been achieved not only through vigorous day to day competition between the operators, but also through long term co-operation between operators, manufacturers, regulators and others on standard setting, radio spectrum alignment and equipment design.
 8. It is only through this long term vision and response to customer needs, that the sector has been able to deliver such a high level of continuous improvement.
 9. As an indicator of the place that mobile now has in our lives, the annual value of advertising to mobile devices now exceeds the £5b value of TV advertising.

Mobile UK Comments on the SSP

Stable, long term investment

10. Mobile UK supports the view (stated in paragraph 20) that promoting investment should be prioritised over interventions to further reduce retail price. The mobile market is competitive and competition has been demonstrably effective at forcing down prices in the sector. Regulatory interventions generally have significant compliance costs, that are not always justified by any commensurate consumer benefit (for example the separation of call and access charge in the 0870 market and the introduction of voluntary bill caps).

Coverage in rural areas

11. Mobile UK notes that the Government is committed to extending mobile coverage to where people live, work and travel, which it perhaps equates with 95% geographic coverage. But they are not the same, and that the priority should be on where people live, work and travel rather than a relatively arbitrary geographic coverage target. Measuring large areas of the country (e.g. 19% of Scotland is designated as 'wild') where there is no potential traffic is misleading.
12. It should be noted that in Ofcom's Consumer Experience Report, urban customers with a 4G handset had an 'average data availability' of 98.7%. Rural customers had an average data availability of 98.6%³. In other words, there is very little actual difference between the average experience of the urban customer and the rural customer equipped with a 4G handset. Mobile operators are very good at targeting their network signal and capacity where it is most needed.
13. Customers with only 3G handsets had a relatively poorer experience (93.6% v 91.8%), but that is just an argument for making sure that customers have up to date handsets.

³ Fig 7 https://www.ofcom.org.uk/data/assets/pdf_file/0028/113689/consumer-mobile-experience-2018.pdf

14. Additional coverage is needed to capture the approximately extra 1.4% of available traffic. Ofcom data reveals that 91% of the UK has coverage from at least one operator (and 84% from at least 2).⁴
15. Mobile UK recognises that there is further work to be done in the rural areas and the sector is committed to finding a sensible solution to achieving further coverage beyond commercially-viable footprints.
16. The Government will be aware that Ofcom, in its consultation on the 3.8GHz and 700MHz auction, has calculated that the cost of coverage beyond c90% will exceed their estimate of any public economic benefit. If the coverage is to be achieved, it must be done in a way that makes economic and technical sense and financing arrangements that include a significant contribution from the state.

Spectrum management

17. Mobile UK welcomes the Government's openness to exploring new ideas for spectrum management such as leasing and sharing. There may well be some new business models where some innovative approaches are helpful.
18. That said, there is a risk that it could make an already very complicated situation more complicated. Mobile operators, having acquired rights to use spectrum and been highly incentivised to use it efficiently, should not be put under undue pressure to release it to other parties, when the priority is to design a nationally contiguous network.
19. Spectrum sharing should not be held out as a panacea for improving mobile coverage in rural areas. If a mobile network, operating at scale finds it hard to justify marginal cost investment in remote areas, it seems highly improbable that a new operator can get a return on an 'island' of standalone mobile coverage, starting from scratch.

Furthering the interests of telecoms consumers

20. Mobile UK strongly disagrees with the view that the telecoms sector is lagging behind other essential services (para 45) in respect of the consumer experience.
21. On a technical level, this statement is only made correct at by aggregating the CSI scores of two distinct segment (fixed and mobile). Moreover, it is much more difficult to measure a so-called loyalty penalty when prices are continuously falling as opposed to [mostly] rising in the utility sector. You are very much more likely to be able to move to a better tariff in telecoms after the fixed period, in an environment where prices are generally falling⁵.
22. On a practical level, comparing electricity and water (where the consumer has to learn little more than to switch on a light or turn on a tap) with the telecoms sector, is very simplistic.

⁴ Ofcom Connected Nations Report - December 2018

⁵ "Consumers are using their mobiles more, but paying less" Ofcom's 'Pricing trends for communications services in the UK', May 2018

While mobile is an essential service, it is driven by innovation, risk and change. It is not a utility.

23. Over 30 years the industry (operators, device manufacturers and app designers) have taken customers through a revolutionary and continuous learning process. Complicated new services have always been designed and presented with an absolute focus on customer capabilities and needs.
24. The response is clear to see – over 90 million connections in the UK. From a simple telephone call in 1985 through voicemail, text messaging, internet browsing to integrated cameras, skype, Whatsapp, Uber, contactless payment, mobile banking, music and video streaming. 5G will open up yet further possibilities.
25. The mobile device has been almost universally adopted. Lower income households are much more likely to be ‘mobile only’ and customers with disabilities have found all manner of ways in which mobile telephony and accompanying Apps have made their life easier.

Data Portability

26. Mobile UK has always been a strong supporter of Ofcom’s price comparison accreditation scheme and has encouraged customers to make use of them.
27. However, past usage is only an approximate guide to future usage (and we have seen a huge rise in data consumption in recent years). We would be concerned if third party tools were not allowing their customers to factor in manually their expected usage growth. The industry recognises, though, that there is a place for a standard summary data usage set, and, subject to the comments above, this may aid the work of price comparison.

Supporting telecoms consumers, including the most vulnerable

28. Mobile UK broadly agrees that Ofcom can have a role in implementing some of the Government’s proposals for consumers. Ofcom is well placed to assess the effectiveness of different approaches in supporting vulnerable consumers and co-ordinating the sharing of best practice across sectors. As mentioned previously in this response, though, mobile is characterised by constant change. It is not a utility and consequently the regulatory environment must be markedly different to that of, say, power or water.
29. To achieve the best outcomes for vulnerable consumers, Government, Ofcom and industry must work towards evidence-based solutions, built around specific and agreed outcomes.
30. The SSP refers to non-financial data sharing on vulnerability between companies. Data sharing, especially relating to vulnerability, can be contentious and citizens will expect law-makers to create the necessary legal framework. It is therefore right that Government and Ofcom work together on this.
31. With respect to the reform of the consumer advocacy arrangements, Mobile UK supports the work of Ofcom’s Consumer Panel. We also note that there are several other consumer

and business interest groups active in our sector (e.g. Which?, Citizen's Advice, British Chambers of Commerce and the Federation of Small Business. Any additional arrangements would seem unnecessary.

Secure and Resilient telecoms infrastructure

32. Mobile UK completely agrees with the Government that the security and resilience of the UK's telecoms networks is of paramount importance and a strategic priority for Government.
33. It is also a priority of mobile operators. Through the standards setting process, the network architecture and design and through network rollout, the UK's operators have a strong track record in this regard over several decades. It is a record all operators will strive to maintain.
34. Their ability to maintain resilience depends on being able to source equipment from a diversity of world class vendors. Mobile UK therefore strongly urges that the outcome of the supply review is strongly evidence based and that any steps taken to mitigate any risks are proportionate.