

Ofcom's massive price hike could cost us and the UK telecoms industry dearly

2 October 2015, by Nigel Linge



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If you thought your phone bill was expensive, UK telecoms regulator Ofcom just announced an inflation-busting price hike that will [triple the licence fees](#) paid by UK mobile network operating companies. The likes of EE, O2, Vodafone and Three must pay the government to use the 900MHz and 1800MHz radio frequency spectrum bands, which from October next year will cost the industry [£199.6m per year](#).

Of course Ofcom says that this is a fair price, and that the [industry](#) has been benefiting from fees below the [market](#) rate for years. The government instructed Ofcom to review its licence fees back in 2010 with a view to ensuring they reflect true market value – and this is the [result of that review](#). However, Ofcom's view on that market value has been influenced by the results of a recent spectrum licence auction in Germany, Europe's largest mobile market with 108.5m subscribers, compared to the UK's 75.1m. That auction [netted 3.7 billion euros](#)

Now, many people will think of the [telecoms industry](#) as being made up of fat-cat companies that are milking us poor customers for every penny we have. However as Ofcom's [own figures show](#), total UK telecoms revenues continued their

[downward trend](#) during the last five years, falling 2% in 2014. At the same time, the mobile industry has agreed to [invest £5 billion to improve infrastructure](#) and tackle areas with poor signal and coverage. So, with revenues falling and investment rising, a massive hike in the spectrum licence fees is the last thing that the industry, or the rest of us, needs.

The mobile phone industry is a global business, and the UK is one of the most regulated markets in the world. If the competitiveness of the UK market worsens then companies will simply move their business and investment elsewhere. It's perhaps not surprising to see that Deutsche Telecom (T-Mobile) and France Telecom (Orange) are already in effect withdrawing from the UK, via the planned sale of EE (which operates both brands in the UK) to BT. Spanish firm Telefonica may well soon follow by selling its O2 UK brand to Hutchison Telecom, otherwise known in the UK as mobile phone operator Three, meaning market consolidation in the UK will leave just Vodafone, Three and BT/EE. Less competition is bound to lead to a worse deal for customers.

Perhaps it's not on the same scale, but we have seen the effects of high spectrum [licence fees](#) on the mobile industry and the wider UK economy in the past. When the second generation (2G) GSM mobile services launched in 1992, the UK led the field with several world firsts including the launch of the world's first GSM 1800MHz network and GPRS data service. During the move to 3G networks, the now infamous spectrum auction in 2000 netted £24.5 billion for the Treasury but in the process all but crippled the industry with costs, putting the UK back by three to five years. We all – firms and consumers – suffered as a result.

The most recent 4G auction brought in £2.3 billion for the government, much lower than they had hoped for. However Britain is once again leading the way, with some of the fastest 4G data rates in the world and agenda-setting development of 5G

technology through the [5GIC at the University of Surrey](#). These Ofcom price hikes put all this at risk. What will operators do? Scale back infrastructure investment? Pass on the costs to customers? Or simply withdraw from the UK market? There's no upside to any of those choices.

In a society and economy that is increasingly reliant on digital connectivity and the smartphone, Ofcom's cash-grab is entirely counterproductive. The government should be creating incentives for the operators to invest and improve the service they offer, not increasing indirect taxes upon them, which is very likely to have precisely the opposite effect.

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