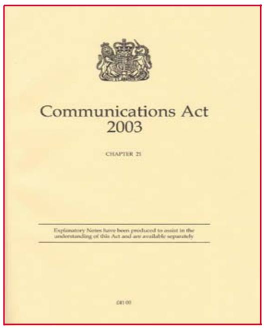
Ofcom: Challenges in creating a single regulator


Communications Act
2003
CHAPTER 21

Creating a horizontal policy and regulatory framework

Contents

Ofcom: Rationale, Genesis and early decisions

The Communications Market in the UK

Regulatory Challenges

Contents

Ofcom: Rationale, Genesis and early decisions

The Communications Market in the UK

Regulatory Challenges

The genesis of Ofcom

- July 1996 IPPR first proposes Ofcom
- May 1997 Labour Government
- December 2000 White paper – 'A new future for Communications
- June 2001Office of communications bill enters Parliament
- March 2002 Ofcom Act marks beginning of Ofcom startup phase
- Summer 2002 The 'Puttnam committee '
- November 2002 Communi cations Bill enters parliament
- July 2003 Communications Act receives Royal Ascent
- December 2003 Vesting of powers 'Ofcom Open for business'

...meanwhile in the Market

FTSE 250

4226	4508	6547	6298	6175	4738	5273	5775

Converged Regulation

- **Blurring of definitional boundaries between industries**
- **Political Independence**
- **Consequent need to have converged regulation of**

Wireless Spectrum | Radio Broadcasters | Commercial TV Broadcasters | Broadcast Content | Telecoms

- **New Public Policy Framework**

Bias against intervention **Ownership liberalisation in the media**

Need to produce a regulator able to champion the needs of the citizen consumer in the era of global players.

Mission

- Further interests of citizens and consumers, promoting competition where appropriate
- Balance promotion of choice and competition with plurality, informed citizenship and protect consumers from harm
- Support innovation, creativity and investment in the sector

Our Key Principles

- Operate with a bias against intervention
- Be research and evidence based
- Only intervene where there is specific statutory duty with public policy goal markets alone cannot achieve
- But then be ready to intervene firmly and promptly where required
- Effective stewardship of the transition to digital

Ofcom Structure

The Board

830 people, £145 million budget, **What we do**

Competition & Markets
- promote competition in broadcasting, telecoms, spectrum
- investigate competition complaints
- broadcast licensing
- frequency planning

Strategy & Market Development
- strategic planning
- market and audience research
- specialist technology and economic analysis

Content & Standards
- enforce Content Codes
- TV PSB and radio format obligations
- consumer protection

Operations
- license spectrum use
- protect against wireless interference
- contact centre

Contents

Current state of UK communications market

Mobile

- 5 MNOs
- 8 MVNOs
- Highly competitive (60m active mobile customers, 12% of which are customers of MVNOs)
- Launch of 3G c70% coverage

Digital TV

- launched 1998: 3 competing platforms
- 60%+ penetration (7.3m DSat, 5.1m Freeview (DTT), 2.5m+ D Cable)

Fixed

- Large / urban business supplied by <10 Altnets and 2 Cable Companies: Highly competitive
- Residential / small business voice: 4.5m CPS customers, 1m WLR customers, 4m cable voice customers, multiple international call re-sellers
- Residential data: c55% internet penetration:
- 10m dial-up & 6m broadband
- 60,000 broadband connections per week;
- blended ave speed now 1 Mbp/s; ave price £17.99)
- Many competing ISPs; mostly Bitstream
- LLU wholesale (shared line) prices cut by 70% in 2004; now beginning to take off – c55,000 lines; significant investment decisions pending. Telecoms Adjudicator

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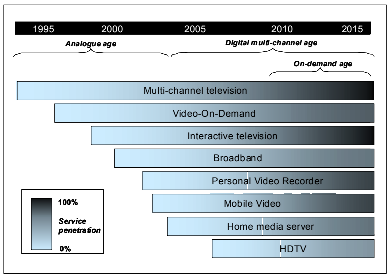
Potential penetration of different technologies



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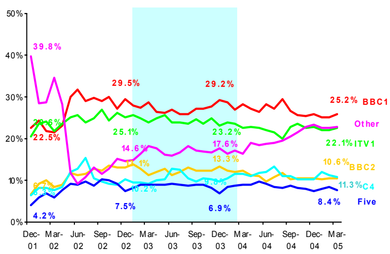
Digital television penetration now stands at over 60%, with Freeview accounting for 76% of ongoing net quarterly additions (Q1 05)

Audience share: digital terrestrial homes



Platform share of Q4 04

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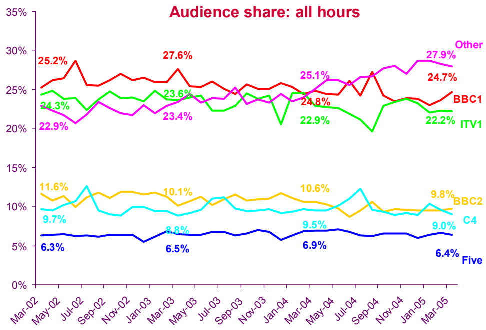
Digital multichannel growth impacts on the Public Service Broadcasting's (PSB) audience share

Audience share: all hours



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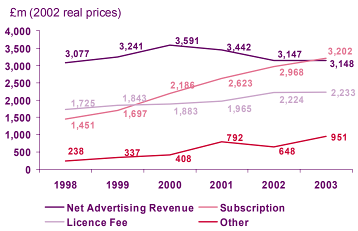
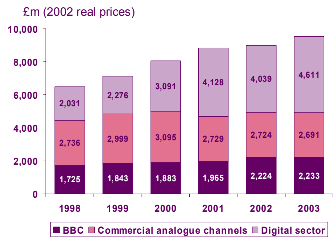
And thus on revenue.
Subscription revenue overtook advertising as the primary source of revenue in 2003. All putting pressure on the traditional commercial PSB compact

Total TV Industry Revenues, by Source



Total TV industry revenues, by sector



Source: Ofcom

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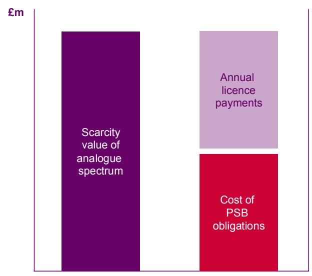
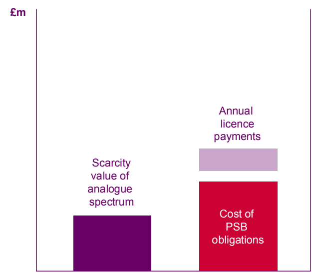
This could threaten PSB consensus – in delicate balance

Paying for commercial PSB - illustrative only (2003)



Paying for commercial PSB - illustrative only (2010?)



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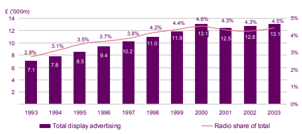
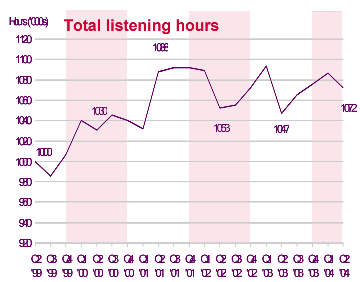
The Radio Market : Radio in good health

Radio share of display advertising



Total listening hours



(up by 60% since 1993)

(7% growth since 1999)

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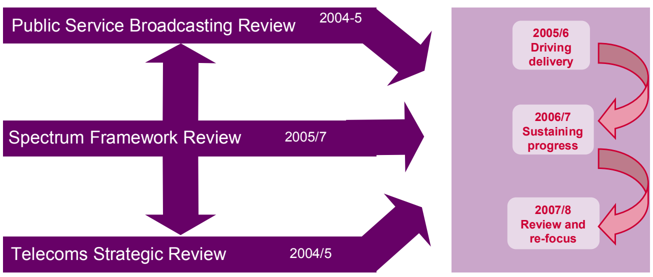
Ofcom's Annual Plan Workstream



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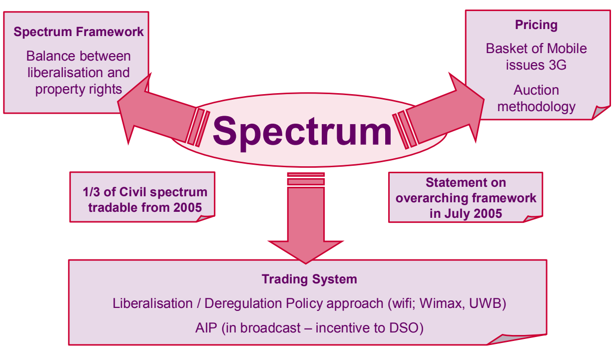
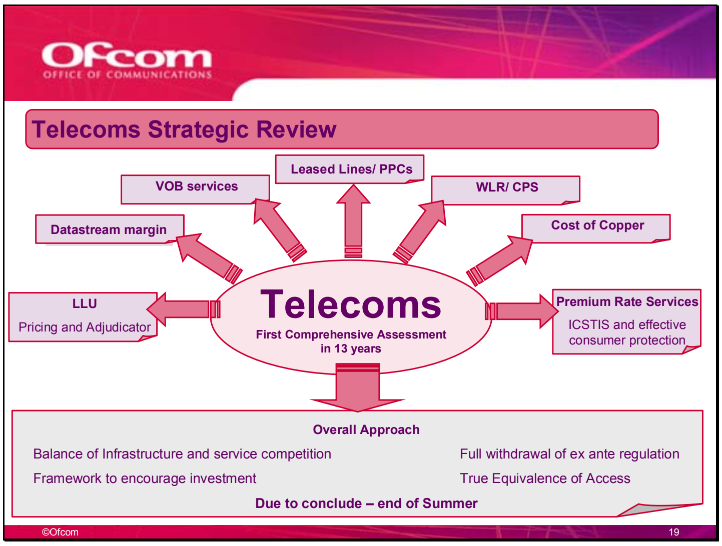
Spectrum Framework Review

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Telecoms Strategic Review
Leased Lines/ PPCs
VOB services
WLR/ CPS
Datastream margin
Cost of Copper
LLU
Pricing and Adjudicator
Telecoms
First Comprehensive Assessment in 13 years
Premium Rate Services
ICSTIS and effective consumer protection
Overall Approach
Balance of Infrastructure and service competition
Full withdrawal of ex ante regulation
Framework to encourage investment
True Equivalence of Access
Due to conclude – end of Summer
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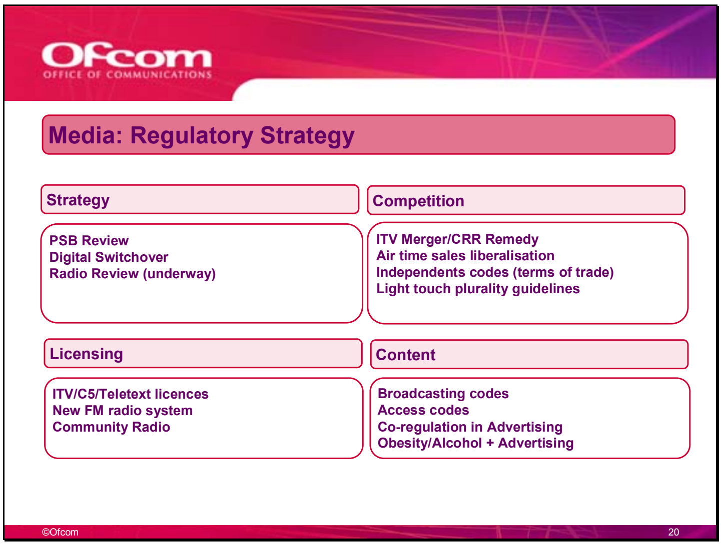
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Media: Regulatory Strategy
Strategy
PSB Review
Digital Switchover
Radio Review (underway)
Competition
ITV Merger/CRR Remedy
Air time sales liberalisation
Independents codes (terms of trade)
Light touch plurality guidelines
Licensing
ITV/C5/Teletext licences
New FM radio system
Community Radio
Content
Broadcasting codes
Access codes
Co-regulation in Advertising
Obesity/Alcohol + Advertising
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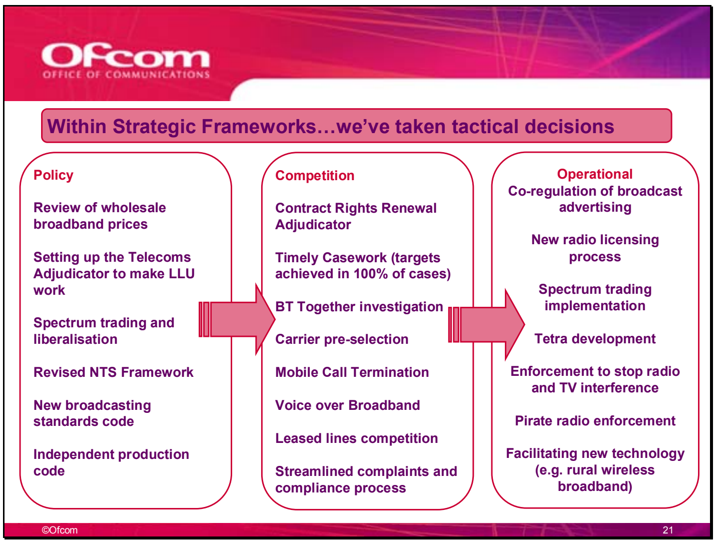
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Within Strategic Frameworks…we've taken tactical decisions
Policy
Review of wholesale broadband prices
Setting up the Telecoms Adjudicator to make LLU work
Spectrum trading and liberalisation
Revised NTS Framework
New broadcasting standards code
Independent production code
Competition
Contract Rights Renewal Adjudicator
Timely Casework (targets achieved in 100% of cases)
BT Together investigation
Carrier pre-selection
Mobile Call Termination
Voice over Broadband
Leased lines competition
Streamlined complaints and compliance process
Operational
Co-regulation of broadcast advertising
New radio licensing process
Spectrum trading implementation
Tetra development
Enforcement to stop radio and TV interference
Pirate radio enforcement
Facilitating new technology (e.g. rural wireless broadband)
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Some lessons

Creating a converged regulator involves the single-minded removal of pre-existing 'silos'

It takes time for stakeholders- industry, political, consumer, international - to come to terms with innovation in regulation

The evidential and research base is crucial in the contemporary context, backed up by high quality personnel at least as good as those employed by the industries being regulated

Once you've got it right you'll have to change it again – regulation needs to keep pace with the fast-changing communications sector

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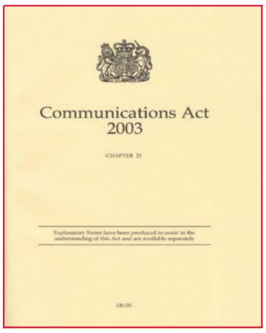
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Tony Stoller
External Relations Director
Ofcom
2 June 2005

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