

30 September 2014

**Digital Communications Infrastructure Strategy Team**

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Dear Sir

**Wireless Infrastructure Group (WIG) response to the Digital Communications Infrastructure Strategy Consultation (the consultation)**

Thank you for the opportunity to participate in the consultation. WIG is a UK head-quartered wholesale wireless infrastructure provider or 'tower company'. Tower companies invest in communication towers and small cell networks together with associated real estate and utility rights. These assets are made available to mobile and other wireless network operators on a wholesale basis.

WIG has a portfolio of 2,000 active and shared telecommunication sites in the UK. Our sector's business model is focussed on sharing and involves investment in higher quality infrastructure and business processes to ensure assets can be used on a wholesale basis by multiple operators. By focussing on the infrastructure layer, tower companies are able to attract significant pools of new, long term and low cost capital into the deployment of wireless networks.

Given our focus on infrastructure within the wireless sector we have not responded to all of the questions in the consultation and instead submit this letter as our response. The letter focussed on the areas where we believe we can contribute to the debate.

**1. The trend for disaggregation of networks is positive for investment and competition but policy makers have not kept pace with this development**

The tower sector is part of a growing trend for the disaggregation of communication networks and our co-location/ sharing business model sits alongside data centres, satellites and wholesale fibre providers. The traditional linear relationship between a consumer and their network provider is evolving and even today most networks comprise a mix of owned and leased infrastructure to deliver the network. In this environment many new business models have emerged focussed on providing high quality co-located infrastructure in one segment of the network. This focus has improved efficiency of infrastructure compared to its ownership as part of a network 'conglomerate' which has in turn brought significant new investment into networks. This has been the case with our own sector but data centres and independent fibre providers have also been growing rapidly. Further

information on the tower sector is contained in the attached presentation made to the former EU Digital Commissioner.

Wholesale companies operating across segments within the communications market can often be better placed to respond to change in the market through their ability to develop more flexible business models. They should be supported in policy frameworks however many of the companies operating in this wholesale space are typically a lot smaller than the traditional network operators (and are markedly different in structure and scale different from the legacy public utilities such as BT).

Our concern is that policy makers can often overlook the contribution of independent wholesale providers and that well-intended policy measures are focussed on the traditional network operators. One recent example was the initial proposals to reform the Electronic Communications Code (ECC) had potential implications for the wholesale providers which were not adequately considered despite their major role in providing a segment of the network chain across the UK. We would stress that we have found government and to a lesser extent Ofcom open and interested to discuss and understand our sector but we encourage policy makers to take steps to deepen its understand the dynamics of the independent wholesale providers.

One specific measure we would suggest is that Ofcom consults with the FCC in the US to understand the positive impact that tower companies and other wholesale providers have had on the US communications market.

## **2. The tax system could incentivise deployment through obvious and less obvious routes**

We believe the tax system could be used to incentivise more infrastructure deployment. This could include direct measures such as relief through the rates system which is ultimately a direct charge on network operators. Removing certain communications assets from the system or lower rates levies in rural areas would be welcomed by the industry. Faster resolution of unreasonable charges would also be helpful such as the current practice to charge rates on certain networks deployed inside a building.

The tax system could also include less direct measures such as a review of qualifying assets for Real Estate Investment Trusts (REITs). One of the most successful wireless markets in the world is in the US where 4G deployment and wireless investment per capita significantly exceeds the EU including the UK. A key feature of this market is that >75% of all communication sites are owned by wholesale providers who have either developed these sites (and therefore made the capex instead of the network operators) or acquired the sites from the network operators (and released large amounts of capital for upgrading networks). One of the many reasons behind the success of the US tower market is that any income from leasing space to mobile operators qualifies for REITs whereas in the UK it does not. By following the US lead on this, a broader pool of investors will be attracted into wireless sites which can reduce the cost of capital for funding that segment of the network. Furthermore, buildings which are included in REITs such as office blocks or hotels are more likely to want to accommodate wireless sites on their properties if the income can be classified with their other sources of income.

## **3. Market delivery of rural coverage is an optimal route and could be facilitated through the 700MHz licence auction**

We would urge policy makers to exercise caution in their approach to solving rural coverage. Many rural sites have already been deployed by MNOs and also by wholesale providers like WIG and Arqiva. Introducing some of the measures under consideration potentially damages the market in rural areas and this risks limiting future rural investment and undermining significant investments

already made in rural areas. We believe measures to enhance existing infrastructure (such as height extensions in rural areas) coupled with the existing license obligations on Telefonica and the MIP project will see enhanced service in rural areas. Thereafter we would suggest the cleanest approach to promote a market based solution to rural coverage would be to extend the license requirements in one of the packages in the 700MHz auction.

#### **4. Active network sharing by mobile operators should be considered hand in hand with corporate level consolidation**

We believe the primary driver for infrastructure deployment is network operators competing with each other to have the best network. This not only includes the reach or coverage of the network but more importantly the capacity and quality of the network service. Policy makers in the UK and elsewhere in Europe have been focussed on competition at spectrum (i.e. wholesale) level and have not in our view adequately considered the issues involved in maintaining competition at infrastructure level.

There are many forms of network sharing and some should be fully supported. Mobile operators sharing each other's towers for example does little if anything to limit their own capability and aids competition. Active network sharing is a different matter and is very complex to execute. Operating the same active network in a particular area can save cost but also has a negative impact on competition for network quality in that area. The technical issues in sharing active network can reduce site level performance compared to separate network equipment and the challenges in executing roll out can slow down network deployment and make investment decision making cumbersome.

There is a substantial amount of new mobile infrastructure needed for decades to come – both upgrading sites as well as new sites. 4G networks in the UK have been lightly deployed and will need major investment to support the increasing subscriber base. We would contend that there is now less competitive pressure in the UK given the network sharing arrangements than in other markets.

That is not to say the mobile operators in the UK do not compete at infrastructure level rather that they compete less given the sharing arrangements in place. For example, if we compare the race amongst US operators to have the best 4G network in as many places as possible with the announcement from Vodafone and Telefonica that 4G would be switched on in London on the same day. In announcing their sharing plans the operators often referred to any active shared components of sites and transmission as the non-intelligent or dumb parts of their network relative to the core network but we do not agree with this assessment. In our view the investment in reach and capacity at sites in an operator's network are as vital as a sprinter's arms and legs.

We would urge policy makers to obtain a deeper understanding of the different types of network sharing embarked upon by mobile operators and how this interacts with competition. In particular we find it difficult to see how any M&A between operators in the UK could occur without a detailed analysis of how this would impact any network sharing arrangements to ensure better competition at infrastructure level. It may be that three MNOs running three independent and competing networks provides a better market for consumers than four MNOs sharing two networks.

#### **5. Prices need to rise - Policy makers should embrace a shift in strategy to focus on investment**

We understand the need to stimulate investment in our mobile infrastructure as the EU falls behind other continents in creating new infrastructure. We agree with the mobile operators that they have been over regulated and the balance between protecting the consumer and creating the right

environment to make the large investments in mobile broadband needs to work better. We believe consumers will suffer in the longer term unless tariffs can rise to support the significant levels of new investment needed.

We would be delighted to participate in any follow up and to elaborate on any of the points made in our response.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Scott Coates', with a stylized flourish at the end.

Scott Coates  
**Chief Executive Officer**