

Issues statement

16. Using Michael Porter's 5-forces model to analyse the market, I wish to make the following input:

i. There are Barriers to Entry for this market and industry. The Home Office holds the UK licence for the TETRA Encryption Algorithm 2 (TEA2) that is licenced only for Public Safety Agencies in Europe, see https://www.etsi.org/deliver/etsi_ts/101000_101099/10105302/02.04.01_60/ts_10105302v020401p.pdf section 5.1.

ii) Customers wishing to operate on the Airwave must get a TEA2 sub-licence from the Home Office and be on the Sharers list held by OFCOM, see <https://www.gov.uk/guidance/resilient-communications#airwave>

17a) The addressable market for Airwave Service has not increased over time due to Barriers to Entry outlined against 16 above.

19. Market is constrained due to constraints and barriers to entry outlined under 16 above.

20. ESN could be a substitute product to the Airwave Service subject to what the Government's policy decisions are and the availability of ESN service.

21. Airwave Solutions Limited cannot secure new customers for the Airwave Service due to the constraints stated under 16 above.

26. The UK Government has significant power to restrict new market entrants, through control of the TEA2 sub-licences. It also controls who the addressable market is through control of the Sharers List.

28. The Government and Customers have derived benefit from being on one network, the Airwave Service, through the ability to communicate securely with each other.

30a. The Home Office had a change of control veto over whether MSI could acquire ASL in 2015.

48 The innovation that ASL has active in has been outside the Airwave Service, e.g. development of Pronto electronic notebook developed by Kelvin Connect acquired in 2011, see <https://www.insider.co.uk/news/kelvin-connect-taken-over-airwave-9882352>

61a. Airwave Solutions Limited has been through a number of changes of ownerships over time. Telefonica sold it to Macquarie MEIF II and Canadian Pension Plan Investment Board (CPPIB) in 2007. MEIF II sold ASL to MSI in 2015. Neither of these transactions changed the shape of the market.

62a. Due to the barriers to entry and constrained customer basis outlined under 16 above, it is unlikely that new entrants will enter the market for the Airwave Service. There is already a competitive market for radio terminals and control room solutions, see section 3c in the NAO report PFI Airwave, see <https://webarchive.nationalarchives.gov.uk/ukgwa/20170207052351/https://www.nao.org.uk/wp-content/uploads/2002/04/0102730.pdf>

67a. Bottom-up price control might produce price increases as well as price decreases if input costs of ASL increase, such as electricity costs, see <https://www.bbc.co.uk/news/business-59892533>

67b. Rate of Return regulation. If the rate of return is capped at the WACC for MSI, then it could reduce incentives for MSI to own ASL.

71. Information Transparency. This could be feasible. However, like Bottom-Up Price Control, it might produce price rises, or show when network services were being provided below cost when input prices change, e.g. electricity prices.

72 and 73. Structural separation might affect ASL as a going concern. ASL has already been sold twice, in 2007 and 2015.