

## Cover sheet for response to an Ofcom consultation

### BASIC DETAILS

Consultation title: Applying spectrum pricing to the Aeronautical sector

To (Ofcom contact): Michael Richardson

Name of respondent: James Cemmell

Representing (self or organisation/s): Inmarsat

Address (if not received by email):

### CONFIDENTIALITY

Please tick below what part of your response you consider is confidential, giving your reasons why

Nothing	<input checked="" type="checkbox"/>	Name/contact details/job title	<input type="checkbox"/>
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Name James Cemmell

Signed (if hard copy)



7<sup>th</sup> April 2010

**Michael Richardson**

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### **Consultation Response: Applying spectrum pricing to the Aeronautical sector**

Sir,

Inmarsat wishes to provide input to Ofcom's consultation on the application of Administered Incentive Pricing (AIP) to the aeronautical sector. We have serious concerns regarding the opportunity cost methodology (including the use of AIP) and we urge Ofcom to reject this approach to spectrum pricing. A full strategic review of this methodology is already underway and we encourage Ofcom to take full account of the responses to this consultation during that process.

We note that other respondents to this consultation have already expressed reasoned fears that the proposal will cause a worsening of aero safety in UK skies and will place an undue financial burden on providers of key radio services. This response will focus on the generic application of Ofcom's opportunity cost pricing methodology.

#### **Applicability of the Proposed Opportunity Costing Method**

The opportunity cost pricing methodology, as described in the consultation document, represents a theoretical model with limited real world applicability. However, it is increasingly being used by Ofcom as the sole determinant of spectrum pricing - to the exclusion of approaches that account, up front, for the provision of public good 'externalities' and the public value afforded by spectrum use.

Placing an additional financial burden on providers of aeronautical safety (and indeed any safety, disaster relief and other specialist services) cannot be adequately compensated by the ex-post, 'fudge factor' approaches suggested in the consultation document (e.g. targeted aid, tax advantage, regulations). This is in particular the case for private companies which do not currently rely on government funding.

In the current economic climate, where governments are seeking to minimise operational expenses, it is uncertain whether and to what level new public resources will be made available to compensate for increased spectrum fees. It is conceivable that the increase in cost will be borne by the operator or ultimately the users.

Moreover, the relevant organisations have independent and diverse financial, commercial and budgetary structures that make it impossible to set up a unified or co-ordinated mechanism for re-funding or compensation for spectrum costs.

### **Suitability of AIP**

The administrative and political difficulties faced in managing international compensatory arrangements means that technologies providing cross border coverage, such as satellite, cannot be treated by the AIP method. The use of AIP in such environments will cause harm to key service users – which include government, first responders and communities who rely on secure communications as a lifeline.

Recent experience with spectrum auctions has demonstrated that derived opportunity cost prices have not been delivered. Companies and organisations that provide crucial safety and disaster relief communications, including aeronautical communications, often do not have the financial, organisational and administrative capabilities to participate on equal terms to market based spectrum allocation procedures. This suggests that the cost of the opportunity is, at best, but one factor to be considered in a spectrum fee.

At worst, this approach promotes a reduction of the efficient use of spectrum, reduces the competitiveness of the UK radio sector and places unnecessary financial pressures on key communications providers. Inmarsat would be pleased to work closely with Ofcom to encourage a vibrant UK radio user community that is a responsible user of spectrum. However, such a community is not supported by the current pricing methodology.

Sincerely,



James Cemmell  
Policy Advisor