[GB] Regulator Proposes Charging Terrestrial Broadcasters for Use of Spectrum

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Ofcom, the UK communications regulator, has responsibility for spectrum management, and is subject to a statutory duty to secure optimal use of the spectrum (Communications Act 2003, s. 3(2)(a)). In 2002, an independent review of spectrum management recommended that spectrum pricing be introduced; this recommendation was accepted in general terms by the Government. Ofcom has now produced its proposals for such pricing.

Ofcom notes that the electro-magnetic spectrum is a valuable and scarce national resource, with most of the available spectrum now in use. It is thus increasingly important that all users of spectrum be encouraged to make the most efficient use possible of the spectrum they hold, especially as any use of spectrum imposes an opportunity cost on society (the value foregone of alternative use). This is the basis for the proposed introduction by broadcasters of Administered Incentive Pricing (AIP), the charging of annual fees for the holding of spectrum reflecting its opportunity cost. Such pricing is already used for almost all other users of the spectrum, including government and public agencies. Ofcom also supports the development of secondary markets in spectrum through spectrum trading, though in the short term at least these will be limited by high transaction costs and limits to the availability of information.

Currently terrestrial broadcasters only have to pay administrative cost-based fees for spectrum, though some commercial broadcasters have had to pay a licence fee including an implicit charge for the use of spectrum. Public service broadcasters have argued that they generate value for society and should therefore be given a discount on the normal value of AIP; moreover, they argue that a requirement to pay AIP would reduce their budget for programming. This would require additional financial support for these broadcasters, thus increasing administrative costs and carrying a greater risk of regulatory failure because of the need to calculate the level of additional funding needed.

Ofcom commissioned a report by consultants on the application of AIP to terrestrial broadcasting. This concluded that it is entirely appropriate from an economic perspective to apply AIP to broadcast use of spectrum and there is no economic merit in discounting the prices to be paid by public service broadcasters. Ofcom has accepted these conclusions and has proposed that AIP

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be applied to terrestrial broadcasting. The likely impact on the broadcasters is a matter which can be considered in other forthcoming reviews of public service broadcasting.

In view of Government commitments to broadcasters, implementation of AIP will not take place until 2014 for digital terrestrial television, after the completion of digital switchover, and 2012 for digital terrestrial radio, although for analogue radio charging will be extended to the BBC in 2008. The proposals are now the subject of further consultation.

Ofcom, 'Future Pricing of Spectrum Used for Terrestrial Broadcasting', July 2006

http://www.ofcom.org.uk/consult/condocs/futurepricing/futurepricing.pdf

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