[GB] Ofcom’s strategic review of digital communications

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On 25 February 2016, Ofcom announced the conclusions of its Strategic Review of Digital Communications in the United Kingdom. The report focused particularly upon Openreach, which is a wholly owned subsidiary of telecommunications company BT Group. Ofcom raised concerns as to whether the particular structure of Overreach was favouring BT against its rivals, leading to a lack of transparency, competition and quality of service for customers, especially in the provision of universal broadband connectivity.

Openreach is responsible for the provision of the fibre optic cable system necessary for the delivery of broadband services. BT controls most of the network including over-ground and below-ground networks, primarily as a consequence of when the United Kingdom had a nationalised telephone system and before BT went into private ownership. Ofcom restructured BT in 2005, leading to the creation of the Openreach subsidiary. Although part of BT Openreach had to treat all customers equally, including broadband providers such as TalkTalk and Vodafone, who have to use the BT network.

Ofcom’s Review considered that Openreach was working more for the benefit of BT, rather than fulfilling an equal treatment of all wholesale customers. The Review has proposed various changes. A review of Openreach will follow including whether it should be a ring-fenced wholly-owned subsidiary of BT Group with its own purpose and board members. If necessary, Ofcom reserves the right to require BT to spin off Openreach as an entirely separate legal entity with its own shareholders. Ofcom will prepare detailed proposals later this year. The main concern is to have a structure that does not favour BT at the expense of competitors, nor detract from winning investment to improve the infrastructure. Moreover, the increased independence of Openreach will be reviewed later this year, including discussions with the European Commission on competition issues.

Ofcom recommended greater consultation and involvement with wholesale customers on strategic investment and technical decisions such as the location of new cables and masts, as well as the type of technology used so as to encourage efficiency, competition and innovation, especially given the global move towards 5G mobile networks which is predicted to be in the UK by 2025. The technological improvement is also to improve coverage problems in buildings, and transport.

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This consultation would extend to allowing other wholesale customers to lay their cables alongside BT's.

Minimum quality standards need to be imposed to ensure that all customers' expectations are fulfilled and to reflect changing demand and technology. A system of fines against Openreach has been recommended if it fails to meet or maintain required standards with the standard threshold to increase over time. Openreach needs to provide greater information on broadband speeds, quality standards, whilst working towards a standard cost comparison so it is easier to compare the costs provided for different products and by competitors. Ofcom regarded this as essential given the increase in switching from triple play services (i.e. phone line, TV and broadband) to quad play, which includes mobile phone services too.

Demand for broadband services is expected to soar; for instance, UK on-demand TV services were used by 74% of adults in 2015, whilst the increasing use of downloading content to mobile applications is predicted to increase. Ofcom preferred to encourage co-operation and competition, and to only intervene and regulate where absolutely necessary.

As a consequence of their Review, Ofcom will now consult with relevant parties including the wholesale providers and produce detailed implementation in due course. Ofcom will work with the government to implement the new universal right to broadband with a minimum standard of 10Mb for everyone. Both fixed superfast broadband and mobile coverage is lower in Scotland, Wales and Northern Ireland than in the UK as whole, as are average speeds; as such the service needs to improve.

Ofcom, Making communications work for everyone: Initial conclusions from the Strategic Review of Digital Communications, 25 February 2016

http://stakeholders.ofcom.org.uk/telecoms/policy/digital-comms-review/dcr-feb-16/

Ofcom, Strategic Review of Digital Communications: Discussion document, 16 July 2015

http://stakeholders.ofcom.org.uk/binaries/consultations/dcr_discussion/summary/digital-comms-review.pdf

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