ITU AREGNET
Regulation of OTT

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Pedro Seixas

ITU Expert

Session 2:
Market players perspective

Agenda

- Telecom Operators potential responses:
  - Blocking
  - Fair usage policies
  - Pricing including zero rating
  - Own OTT services
  - Partnerships
  - Bundling
- Additional regulatory issues
- OTT as a saviour of mobile revenues?
- Discussion

Operators are responding by offering IP based services and are adopting multiple approaches

Blocking

Studies undertaken in the EU indicate that some network operators discriminate against traffic by competing OTT services: one in four internet users have experienced blocking or throttling of internet content.

Own OTT Apps

Other operators have developed their own services to compete with OTT services – eg Telefónica's 'TU go' or Orange's 'Libon' messaging apps

Fair usage

Some network operators have a 'fair use' policy that imposes data, voice and messaging usage limits.

Partnerships

By working with OTT providers – eg E-Plus's partnership with WhatsApp in Germany and Hutchison's partnership with Spotify in Austria.

Pricing

Some network operators have introduced new pricing models, either to limit customers from using OTT services - e.g. by relating prices to use of certain services

Bundling

By bundling their own services with other offers telecom operators may put OTT providers in a disadvantaged position

Potential response — Blocking

- Telecom operators can block or impose surcharge on certain OTT applications
  - Shortsighted, impracticable, potentially anti-competitive and risks a backlash from customers
- However blocking or throttling opposes the open internet ‘net neutrality’ principle, which asks operators to treat all data equally, and not intentionally slow down traffic that competes with their own services.

Potential response — Blocking

- Even if regulators do not yet recognise net neutrality as a regulatory concept, authorities have scrutinised network operator's attempts to restrict access to content
- Examples:
  - In 2013 the European Commission raided major network operators' offices over concerns these companies abused their dominant position to throttle data-heavy services such as YouTube and Skype.
  - AT&T blocked mobile VOIP following the release of the iPhone; lifted after pressure from FCC and consumers

Potential response — Fair usage policies

- Wind Mobile (Canada) Fair Usage Policy:
  - Data services (smartphone or mobile internet): "if you exceed the data usage levels in this policy for your type of plan or add-on, we may slow your speed.."
  - Voice services: may limit if used for example for "Voice services that are used for data transmissions, transmission of broadcasts, monitoring services, transmission of recorded material, or other connections which don't consist of uninterrupted live dialog between two individuals" or "Voice usage that grossly exceeds the average typical consumer usage"

Source: https://www.windmobile.ca/docs/default-source/default-document-library/click-here-for-data-fair-usage-policy.pdf

Potential response — Fair usage policies

- However in 2013 Deutsche Telekom attempts to cap data speeds on flat-rate packages over fixed broadband lines in Germany were outlawed by a German court:
  - The district court of Cologne said that restricting download speeds would place an "unreasonable disadvantage to the customers" as they count on Internet for a fixed price at stable connection speeds.
  - Deutsche Telekom planned, for customers who signed up for flat-rate Internet deals and who exceed their monthly data download limits would see their surfing speeds capped at 2 megabits per second (Mbit/s).
  - The case was brought to court by a consumer lobby group Verbraucherzentrale NRW

Source: http://www.reuters.com/article/2013/10/30/us-deutschetelekom-ruling-idUSBRE99T0NI20131030

Potential response — Pricing policies

- Mobile operators could adjust their pricing to make OTT less attractive
  - By reducing or restructuring their own prices
- Examples:
  - Yoigo (Spain) introduced tiered pricing of data services that charged more for subscriptions that enable mobile VOIP
  - Verizon (US) introduced a flat monthly fee for unlimited domestic voice and SMS
  - Bell Mobility (Canada) began charging for its mobile TV service based on the number of hours viewed (instead of MB downloaded)

Bell Mobility
clients

Over 40 TV channels on the mobile network.

Watch over 35 live and 13 on demand TV channels on your Bell smartphone over the mobile network or using a Wi-Fi connection.

$ 5/mo
for 10 hours of viewing, with no impact to your data plan

Potential response — Pricing policies

- Zero rating is a pricing mechanism that favors certain content or services delivered over broadband access networks in which the operators offer them as “free” i.e., their traffic does not count toward a customer’s monthly data allowance
- Examples:
  - As Digital Fuel Monitor shows, ISPs that zero-rated their own applications have either restricted the amount of bandwidth that users can pay to low bandwidth caps of 5-10GB, not allowing users to buy more, or increased the price of unrestricted Internet access
  - On the other hand, shortly after the Dutch regulator prohibited ISPs from zero-rating their own applications, KPN doubled its monthly bandwidth cap for mobile Internet access from 5 to 10 GB at no additional cost to allow usage of it’s own application

Source: http://www.dfmonitor.eu/

Potential response – Telco-OTT

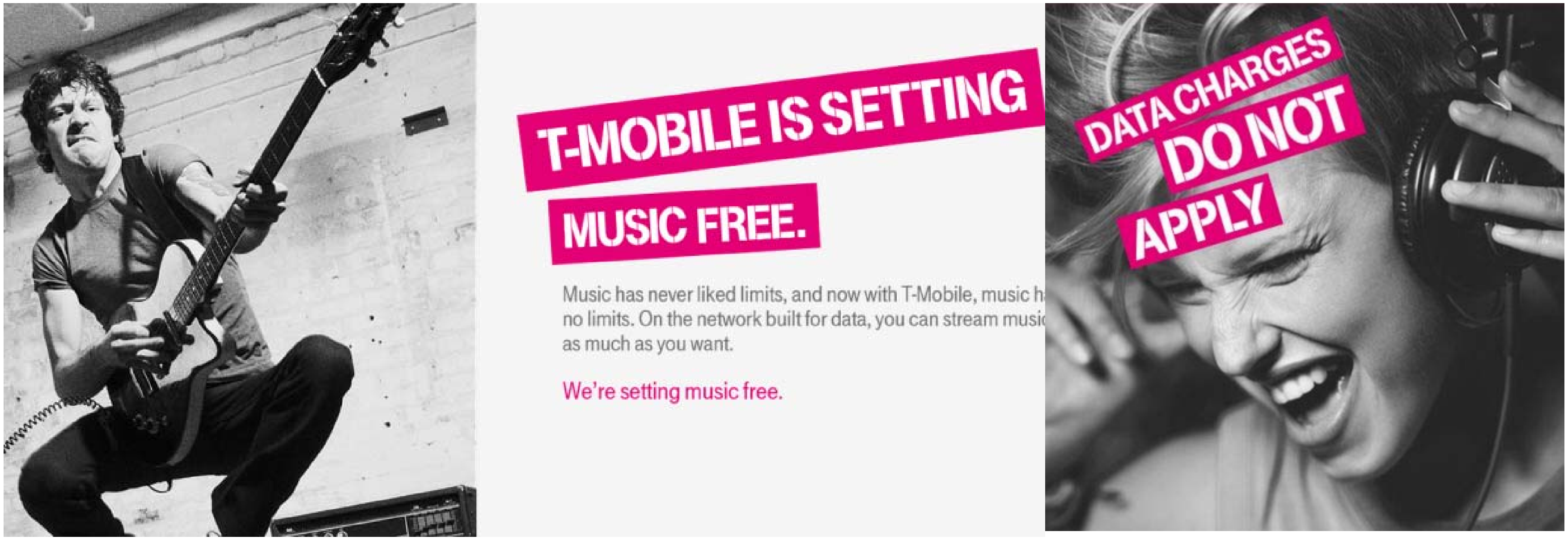
- Mobile operators can offer their own OTT service
  - Although technically it might not qualify as "over the top"
- Potentially both a defensive and offensive tactic
  - Can extend the mobile operator's brand/service into countries where it is not licensed and has not network…and thus help recoup some revenues
- Examples:
  - T-Mobile (US) introduced Bobsled in 2011, a free VOIP and messaging app
  - Telefonica introduced TU Go in 2013, enables a customer to receive calls to its mobile numbers, and to share its tariff plan, across multiple devices
    - Deployed by O2 in the UK and Movistar in Argentina

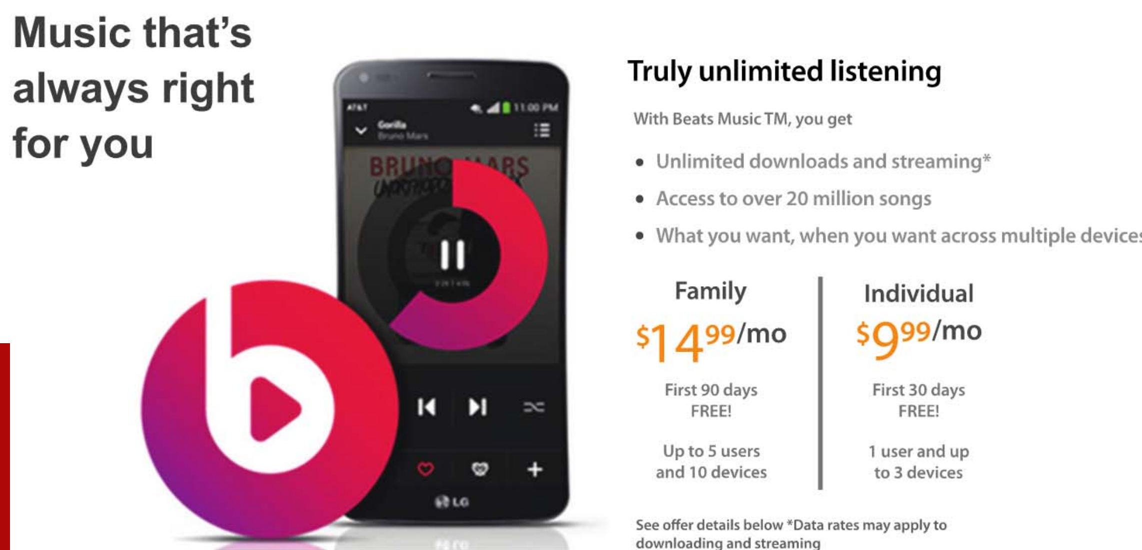
Potential response – Partner to enhance (1)

- Mobile operators could partner with OTT service providers to retain traffic on-net, enhance service offerings and/or generate new revenues
  - The two most popular content partnerships today are those involving streaming music and video.
- Examples:
  - 3 (UK) and Verizon (US) partnered with Skype (circa 2009/10)
  - Ooredoo (Kuwait) partnered with WhatsApp
  - Vodafone (UK) 4G price plans include a free subscription to either Spotify or Sky Sports Mobile TV

Potential response - Partner to enhance (2)

- Negotiating a revenue share arrangement with OTT streaming music service provider creates a potential new revenue stream
  - Helps with differentiation and maybe churn reduction
  - Enables quicker penetration for the OTT service provider
- Still a risk that customers may be deterred by the higher data usage and charges that these services involve
  - Some mobile operators are not metering streaming music from partnering OTTs
- Examples:
  - T-Mobile (US) and iHeart Radio, iTunes Radio, Milk Music, Rhapsody, Slacker, and Spotify (all unmetered)
  - Telefonica (South America) and Rhapsody/Napster (equity stake)
  - AT&T (US) and Beats Music


T-MOBILE IS SETTING
MUSIC FREE.
Music has never liked limits, and now with T-Mobile, music h
no limits. On the network built for data, you can stream musi
as much as you want.
We're setting music free.
DATA CHARGES
DO NOT
APPLY


Music that's always right for you
Truly unlimited listening
With Beats Music TM, you get
• Unlimited downloads and streaming*
• Access to over 20 million songs
• What you want, when you want across multiple devices
Family
$14.99/mo
First 90 days FREE!
Up to 5 users and 10 devices
Individual
$9.99/mo
First 30 days FREE!
1 user and up to 3 devices
See offer details below *Data rates may apply to downloading and streaming

Potential response - Bundling

Erosion of margins

- Voice is almost dead
- Broadband access is a commodity

Competitive pressures

- Other company triple- and quad-play offers
- Customers increasingly demand bundled offers
- Response to OTT applications

Network amortization

- Need to recover investment in fibre access and IP core networks

Future OTT regulatory issues

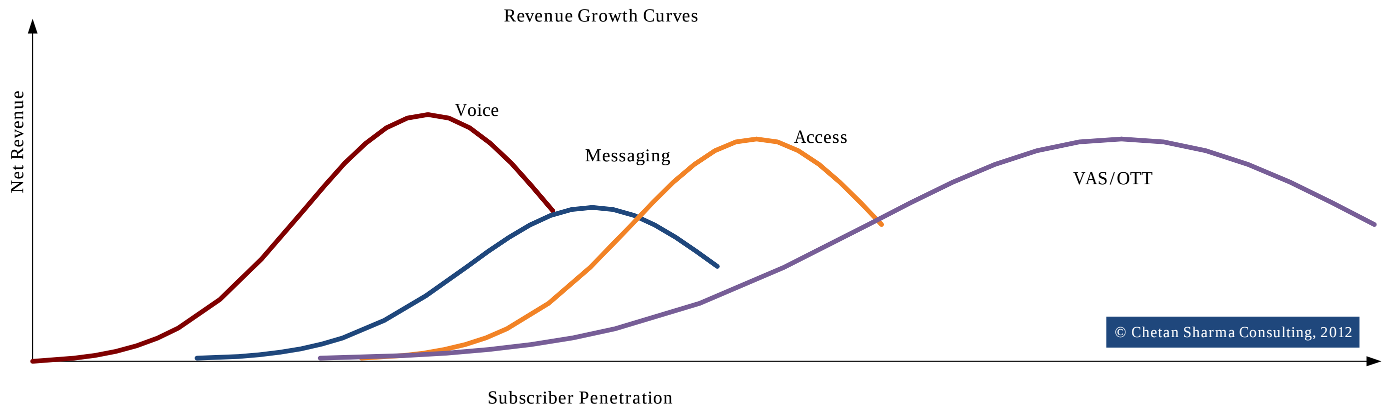
- Partnerships with OTTs
  - If zero rating is allowed there is a risk of Telcoms control of what you can access in mobile devices: the telecom and his (big) partners services
  - Small innovative start-ups cannot access the market: either lose or are bought by larger players
- Licensing of OTT players
- Definition of services: for example Voip
- Consolidation
  - Current wave of consolidation: battle for scale and multiplay offers
  - There is empirical evidence that, for example, big European telcoms, if not challenged by smaller independent players, heavily overprice non capped mobile internet access

Future OTT regulatory issues

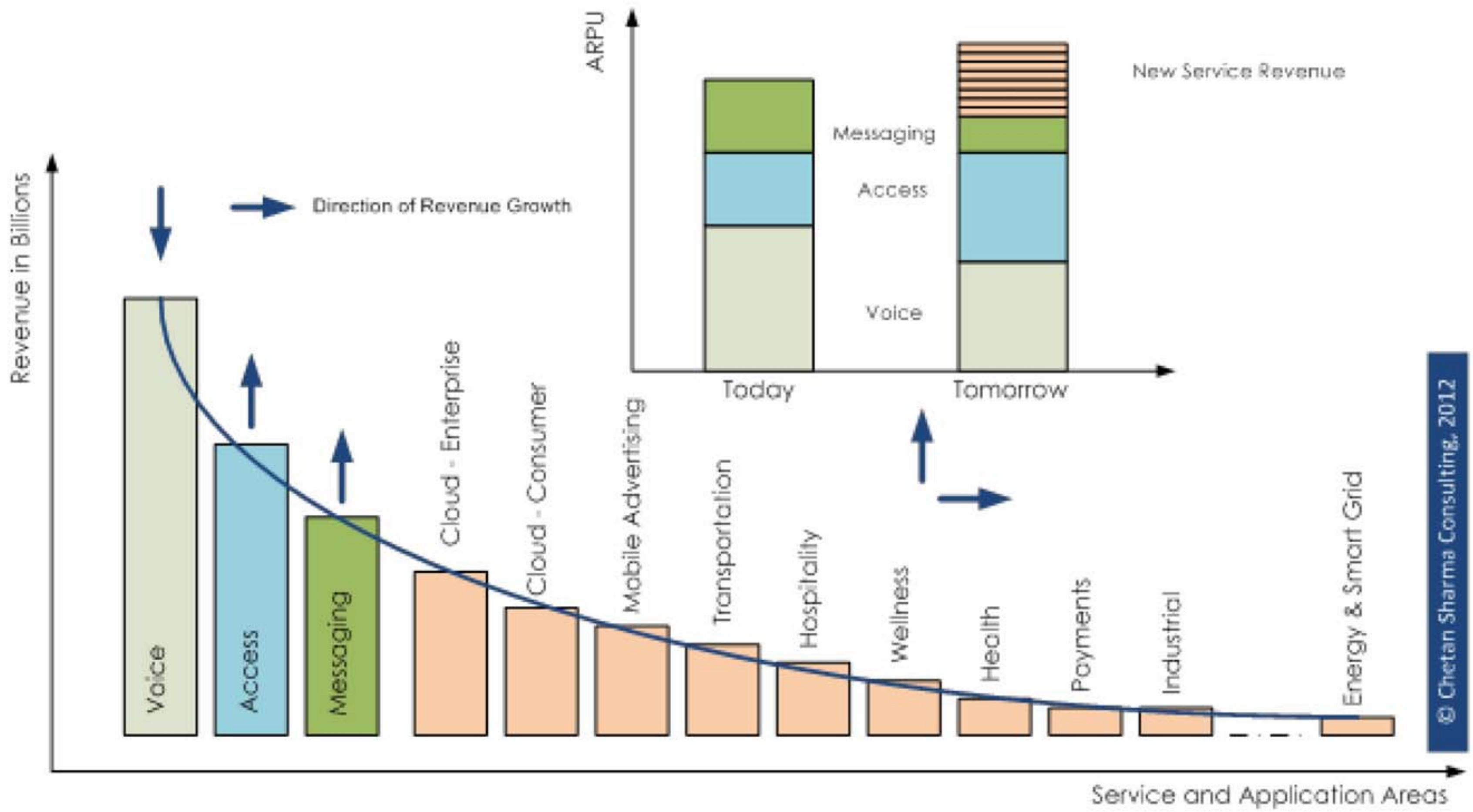
- Vertical discrimination
  - Mobile operators have an incentive to discriminate against OTT competitors
  - e.g. by blocking access, imposing data caps, throttling demand, selectively degrading service quality
- One-way interconnection
  - Pricing should not enable monopoly rents from control of bottleneck facilities
  - Charges should be competitively neutral between competing OTT services (i.e. non-discrimination)
  - Pricing should not be a barrier to entry for OTT services
  - Charges should not enable double dipping, i.e. charging OTTs for the same traffic that customers are already paying for in their subscriptions/data plans

OTT as the saviour for mobile operators?

- Could OTT be the next major source of revenue for mobile operators and replace the traditional cash cows of voice and messaging?
- OTT as a portfolio of services
  - Not a single functional block like voice or messaging
  - Made up of dozens of new applications
- Mobile operator as an enabler or an OTT service provider?
  - OTT service provision would require a different skill-set in the mobile operator



The make-up of future mobile revenues?



Thank you