

Comments on the DCMS Consultation on its Digital Communications Infrastructure Strategy

by VON Europe, October 2014

The Voice on the Net Coalition ('VON') Europe welcomes the opportunity to comment on the Digital Communications Infrastructure Strategy (DCIS) Team's, part of the UK Department for Culture, Media & Sport (DCMS), consultation on its digital communications infrastructure strategy (hereafter 'the Consultation').

Q1 b) What other high level principles might the Government adopt?

VON Europe would like to encourage the Government to support Ofcom in allocating more spectrum for WiFi (see the Consultation point 1.28, p. 21). Today the majority of Internet data traffic is already delivered to consumers via WiFi.¹ WiFi carries 69% of the total traffic generated by smartphones and tablets, and 57% of the total traffic from PCs and laptops. The overall data volume delivered by licence-exempt WiFi exceeds that of cabled connections and licensed mobile networks combined. A recent Report from the European Broadcasting Union (EBU) estimates that "71% of all wireless data to mobile devices in the [EU] was delivered using Wi-Fi".²

Therefore, **VON Europe believes that a balance of licensed and unlicensed wireless access (WiFi) helps promote innovation, competition and supports ubiquitous, high-speed affordable Internet access.**

¹ See, Thanki, R. (2013, August). The Case for Permissive Rule-Based Dynamic Spectrum Access. Retrieved at, http://research.microsoft.com/en-us/projects/spectrum/case-for-permissive-rule-based-dynamic-spectrum-access_thanki.pdf

² See, EBU. (2014, July). Spectrum Factsheet. Retrieved here, <http://www3.ebu.ch/files/live/sites/ebu/files/Knowledge/Publication%20Library/Fact%20sheets/Fact%20sheet%20-%202014-07%20Spectrum.pdf>

Scenario 2 – Q13 Do you agree with this scenario or elements within it? Where do you agree/disagree? If you disagree what alternative scenario do you envisage?

Scenario 5 – Q42 What more might government and industry do to exploit future technologies, associated new applications and emerging business models?

VON Europe would like to highlight the fact that the Consultation refers in Scenario 2 to the ‘challenges from OTT players and applications’ (see point 2.26, p. 31), and more specifically suggests that (see point 2.28, p. 31):

“(...) mobile operators are facing direct challenges to their business models from apps operated by OTT players e.g. WhatsApp, which is already challenging the revenues for mobile operators from SMS messages, and has now announced the introduction of voice services”

Next to this, the Consultation claims in Scenario 5 that revenues for broadband services are affected by, amongst others, the *“structure of the value chain for services, e.g. revenues for mobile network operators for voice and SMS messages particularly are declining as the use of OTT applications increases”* (see point 5.11, p. 57).

VON Europe considers these statements as extremely one-sided and projecting a biased perspective on the role and benefits of content, application and service providers. Indeed, the DCMS completely disregards the fact that these so-called ‘challenges’ brought about by these players are:

- 1) positive signs of competition taking place; and,
- 2) the indication of a more general phenomenon whereby users switch to an all IP environment characterised by increased data consumption.

Content, application and service providers are innovators that bring benefits to users. These innovations motivate continued and renewed consumer demand for (better, faster) broadband and mobile Internet access.

The DCMS’s digital communications infrastructure strategy needs to recognize that access to content, application and services are key elements for infrastructure demand, as that’s what the Internet is about for most if not all citizens and businesses. Broadband, fibre to the cabinet, fibre to the premises, fibre to the curb, that’s what most of the policy discussions seem to be about. **The**

DCMS should keep in mind that the end goal should be user benefit, not preservation of established players or their business models at all cost.

It is crucial that Governments **safeguard and enhance competition at the service level on telecommunications networks**. Not being able to use a particular Internet service or application in a country because it is arbitrarily restricted (including through price surcharges) in that country whereas it is not restricted in another presents a major trade barrier and business limitation, affecting economic sectors well beyond the ICT one.

As highlighted in joint investigation on traffic management by the Body of European Regulators for Electronic Communications (BEREC) and the European Commission,³ collaboration and productivity tools are already affected for example – where businesses are routinely hindered in using tools (such as VoIP / video-conferencing or software updates, which are often transported using peer-to-peer protocols) in one country, but not in another, thus severely limiting their ability to conduct business across borders.

1) Stimulating Competition v. Preserving Established Business Models at All Cost

The UK Government's digital communication infrastructure strategy should **focus on**:

- 1) **safeguarding and enhancing competition at the service level** on telecommunications networks; and,
- 2) **enhancing user benefits**, instead of seemingly advocating for the preservation of established players or their business models at all cost

VON remarks that some of the proposed scenarios emphasize the decline of SMS revenues for operators – see above, and we would like to point out that the:⁴

- 1) *"GSM infrastructure was not built for SMS and so the revenue that can be achieved through **SMS is arguably pure profit** because you [actually only] need the GSM infrastructure for voice";*
and,
- 2) *"SMS business has been a very lucrative business for carriers for many years as they got between **70 to 90 percent margins on each SMS**"*

³ See BEREC. (2012). *A View of Traffic Management and Other Practices Resulting in Restrictions to the Open Internet in Europe. Findings from BEREC's and the European Commission's Joint Investigation* (BoR (12) 30). Retrieved at, http://berec.europa.eu/files/document_register/2012/7/BoR12_30_tm-snapshot.pdf.

⁴ See, Chimbela, C. (2012, 12 Oct). Carriers React as Social Messaging Kills SMS. *Deutsche Welle*. Retrieved at, <http://www.dw.de/carriers-react-as-social-messaging-kills-sms/a-16301411>.

Operators have to come to grips with reality: it's time to say goodbye to the golden age of the SMS cash cow. Operators need to rethink their business model instead of clinging to it to safeguard their golden goose. Consumer's mobile consumption patterns are shifting to data, so operators need to start embracing the opportunities flowing out of the data consumption triggered by the demand for online content applications and service.

Some operators have already embraced this shift. Swiss telecoms operator Swisscom introduced novel mobile tariffs positioning its offer based on the use of the infrastructure, instead of focussing on the mode of communication. Swisscom's offer is based on 5 download speeds (XS to XL), as it offers tariffs ranging from 200 kilobytes per second to high-speed Internet.⁵ Each tariff includes 'unlimited' national voice, SMS, and Internet usage.

VON Europe believes that **agreements that differentiate according to data volumes and speeds are the way forward, as long as no discrimination based on the content, application or service themselves, or specific classes thereof, is put in place.**

2) Consumer Demand Should Drive the Digital Strategy

Claims that the current market dynamics are 'unfair' to some actors (usually from the telecommunications operators) and to the benefit of others have been seriously debunked by various studies the BEREC conducted in the area of net neutrality. The BEREC notably pointed out that Internet content, service and application providers (CAPs):⁶

"make substantial payments for hosting and connectivity. (...) Therefore, unlike from what is some-times alleged by some telcos in the Net Neutrality debate there seems to be no free-riding problem. (...) There is no evidence that operators' network costs are not fully covered and paid for in the Internet value chain already (from CAPs at one end, to the end users, at the other)."

⁵ See, Swisscom. NATEL® Infinity. More information available here:
<http://www.swisscom.ch/en/residential/mobile/subscription-tariffs.html>.

⁶ See, BEREC (2012, 6 Dec). An Assessment of IP Interconnection in the Context of Net Neutrality [BoR (12) 130]. p. 59, point h). Retrieved at, http://berec.europa.eu/eng/document_register/subject_matter/berec/reports/1130-an-assessment-of-ip-interconnection-in-the-context-of-net-neutrality.

This lead the BEREC to conclude that *“users at the ‘edges’ of the internet [i.e. subscribers and over-the-top players] each pay for their own connections”*.⁷

It is the range and diversity of content, applications and services made accessible over the Internet, often at no or little cost, that is the main, if not the only, driver for consumers demanding higher bandwidths. Importantly, without this increase in consumer demand for (mobile) Internet access, Internet access providers would see their market and revenues shrink. **The statements made by the DCMS should hence be amended to recognize these facts.**

We thank you in advance for taking consideration of these views. Feel free to contact Herman Rucic, VON Europe, by phone (+32 (0)478 966701) or email (hrucic@voneurope.eu) should you need further information.

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About the VON Coalition Europe

The Voice on the Net (VON) Coalition Europe was launched in December 2007 by leading Internet communications and technology companies, on the cutting edge to create an authoritative voice for the Internet-enabled communications industry. Its current members are Google, Microsoft, Skype, Vonage and Voxbone, and its supporters are Viber.

The VON Coalition Europe notably focuses on educating and informing policymakers in the European Union and abroad in order to promote responsible government policies that enable innovation and the many benefits that Internet voice innovations can deliver.

⁷ See, BEREC. (2012, 26 Nov). Differentiation Practices and Related Competition Issues in the Scope of Net Neutrality – Final Report [BoR (12) 132]. p. 20 (Paragraph 69). Retrieved at, http://berec.europa.eu/eng/document_register/subject_matter/berec/reports/1094-berec-report-on-differentiation-practices-and-related-competition-issues-in-the-scope-of-net-neutrality.