ITU Regional Economic and Financial Forum of Telecomunications/ICTS for Arab Region

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Session 1: Regulatory challenges of the New Eco-System

Agenda

- Key trends in the new Digital Eco-System
- The value chain implications
- The Content Application Providers business models
- Regulatory issues regarding Content Application Provider’s services and discussion questions

Key trends have significant impact on price setting and regulation

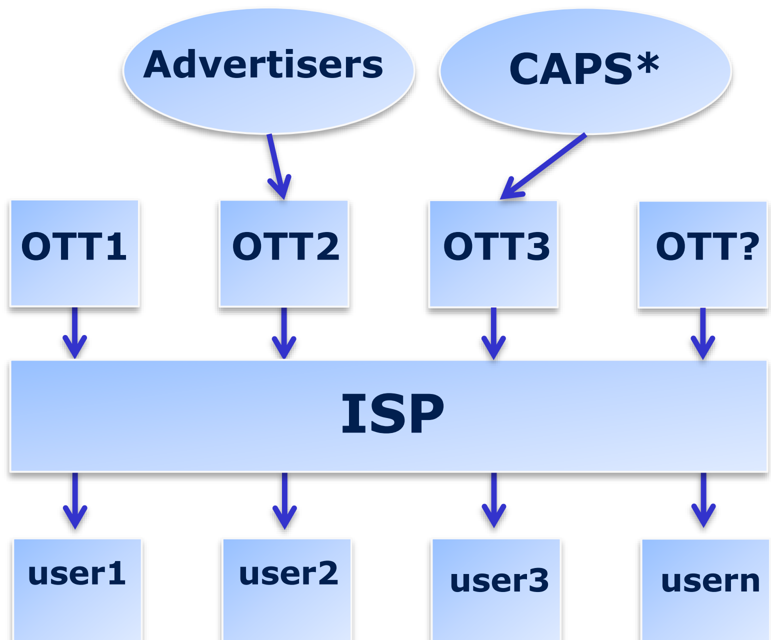
- The gradual move to all IP networks
- The increasing role of Content Application Providers (or OTTs) in offering services over these networks
- IP traffic increased demand will require additional investment in bandwidth
- Sector consolidation (within mobile; mobile and cable; fixed and mobile)
- Bundled offers
- Government investment in backbone networks

The role of regulation is being challenged by markets dynamics

Main features of today's markets

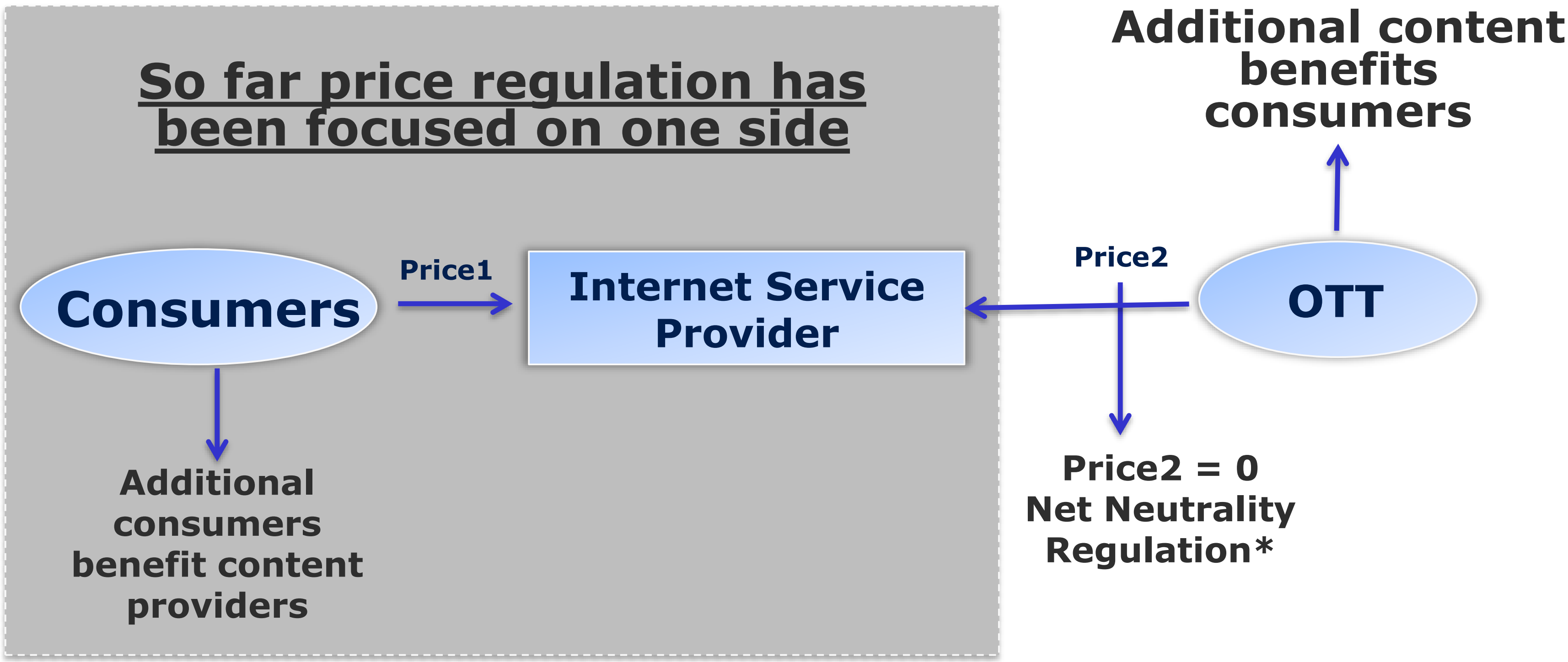
- Internet content delivery as a two sided market ; different business models that partly involve indirect revenue generation
- Complementary products/services
- Network effects in the provision of content and services (direct and indirect); switching costs
- Regulated and unregulated players in the market (today)

Electronic Communications Market



* Content Application Providers

Economic theory may try to support a deviation from net neutrality but other aspects also need consideration



Economic theory tries to determine which combination of prices maximises welfare and drives investment to the ideal level

*** Zero rating corresponds to another form of Net Neutrality Regulation**

There are different business models and regulatory authorities should take this into account: one size doesn't fit all

Communications	■ Voice services ■ Messaging	Fixed and Mobile telephony substitute; SMS substitute
Applications	■ Social networks ■ E-commerce	Alternative way of communications
Video/audio	■ OTT-TV ■ OTT Video ■ Streaming and VoD	A TV substitute

Consolidation raises concerns of increased market power

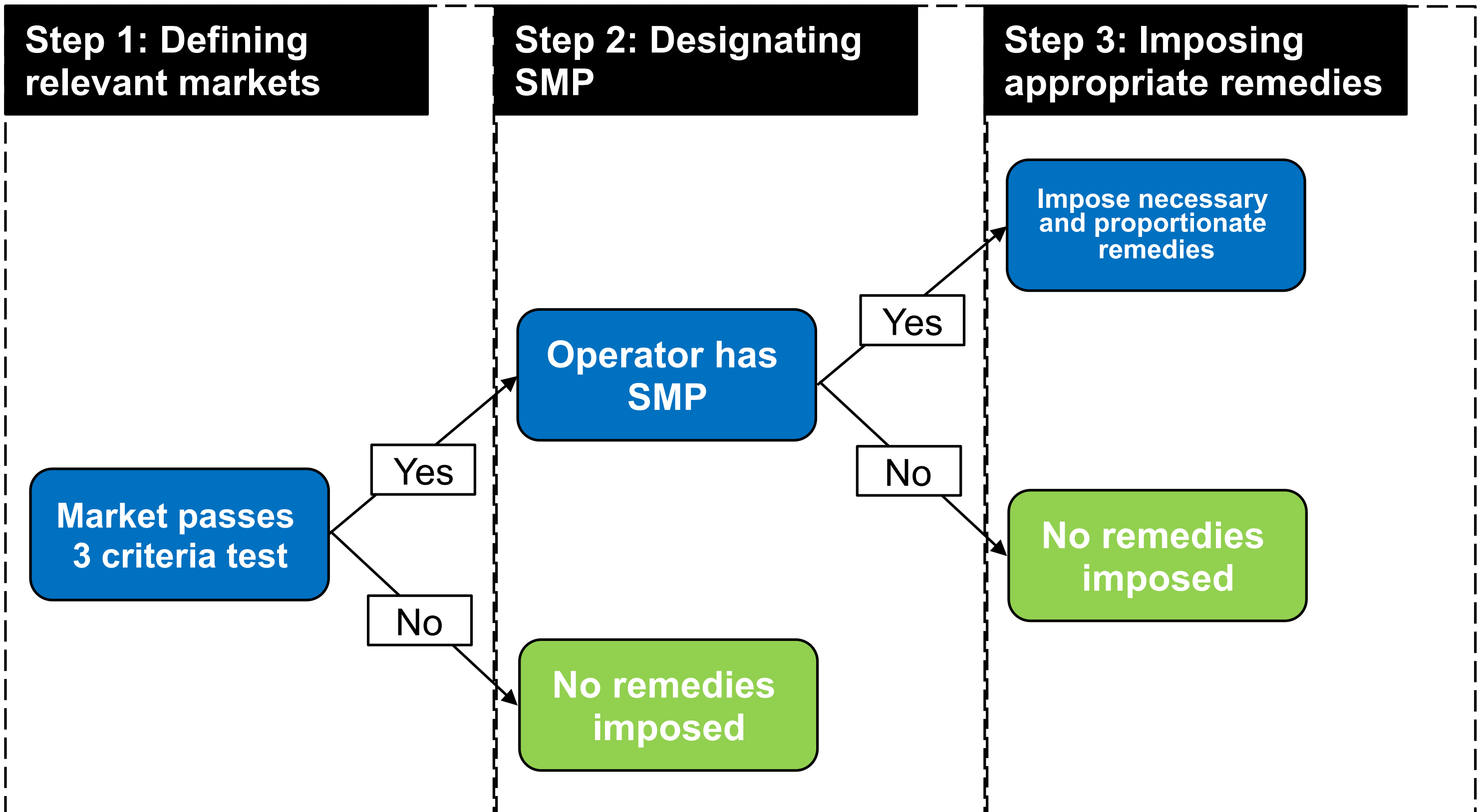
- Revenues continue to decline due to consumer welfare focused regulation and increasing competition from global players, such as Google, Skype and WhatsApp, offering alternative services in the edge of the networks
- How many competitors are necessary for satisfactory outcomes? Are 3 enough?

Recent M&A Activity in the EU

Mobile - Mobile	Comments
H3G At/Orange At (2012)	4 to 3 Mobile operators in Austria
H3G/Telefónica IE (2014)	4 to 3 Mobile operators in Ireland
Telefónica DE/E-Plus (2014)	4 to 3 Mobile operators in Germany
Cable - Mobile	
Zon/Optimus (2013)	Merger, Portugal
Vodafone/Kabel Deutschland (2013)	Vodafone acquisition of Kabel, Germany
SFR - Numericable (2014)	Merger, France (owner Altice)
Fixed - Mobile	
Vodafone/Ono (2014)	Vodafone acquisition of Ono, Spain

Source: Incyte Consulting analysis and "Mobile Licenses How Many to Grant", Incyte Consulting, available at: http://www.incyteconsulting.com/

How should relevant markets and SMP operators be identified?



Step 1	Step 2	Step 3
❑ Definition of relevant markets ❑ Demonstrate susceptibility to ex ante regulation	❑ Analysis of effectiveness of competition & designation of operators with SMP	❑ Identification of potential competition problems ❑ Selection of remedies

Source: Incyte Consulting work on market analysis

Regulatory issues regarding services offered over-the-top: discussion questions

- Who should be regulated? More regulation or less, to level Telcos vs OTTs/CAPs? Is there a level playing field?
- What should be regulated? Content?
- What about the open internet 'net neutrality' principle: pricing allowed? Traffic management policies?
- Consumer rights protection: transparency, non-blocking, throttling, reasonable speed, traffic management for congestion. In what instances might regulators interventions be justifiable?
- Does zero rating enhance consumers welfare? Or not? Why? In what circumstances?
- Market reviews: to what extent OTT/CAP's services need to be considered in demand side substitution analysis?

Merci
Thank you