Rewheel
PRO-COMPETITIVE TELECOM STRATEGY

DIGITAL FUEL MONITOR
MONITORING MOBILE CONNECTIVITY COMPETITIVENESS
By Rewheel

In the Netherlands, where zero-rating is banned, KPN just doubled (free of charge) the mobile internet volume caps to encourage a carefree usage of its online videos

This is the first empirical evidence of the pro-competitive benefits of real net neutrality rules that ban price discrimination (zero-rating) – it leads to lower internet usage prices and higher volume caps!

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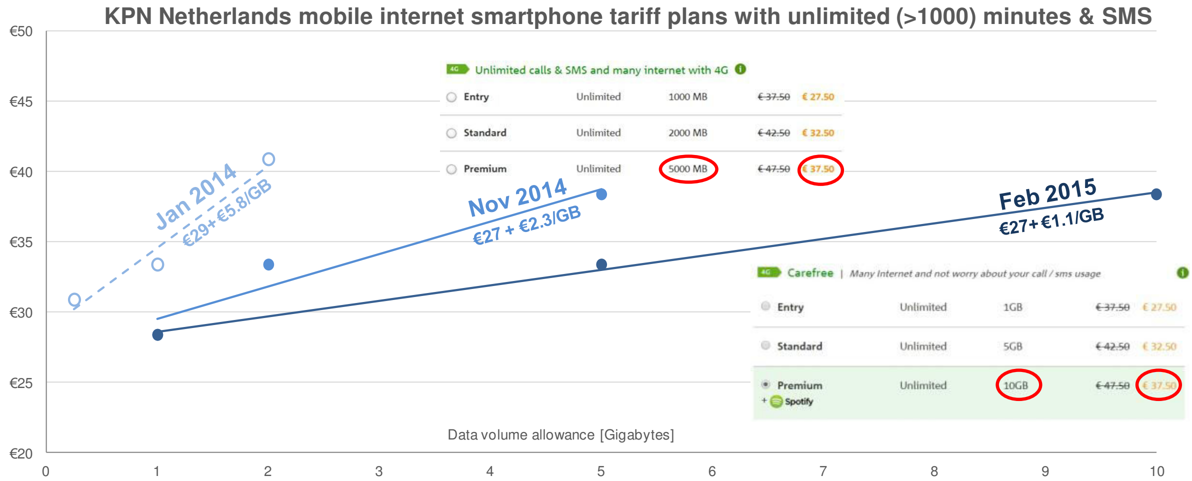
On the 27th January 2015, ACM, the Dutch Authority for Consumers and Markets fined[1] Vodafone Netherlands for violating the Dutch net neutrality law. Vodafone was caught zero-rating[2] HBO GO mobile video streaming. A week earlier KPN, the Dutch incumbent telco and no.1 mobile operator in the Netherlands, announced[3] the launch of an online TV and on-demand video service *iTV Online app* (practically extending its existing fixed-line IPTV offerings to mobile internet) that allows its customers to watch anytime, anywhere TV on their smartphones or tablets. In the absence of the Dutch net neutrality law that bans zero-rating KPN would have most likely followed suit with other European incumbent telcos[4] and zero-rated the Gigabyte usage of the *iTV Online app* over its 3G and 4G mobile networks. But after ACM's decision KPN's hands were tied. KPN's open mobile internet volume caps were quite restrictive (the largest allowance was only 5 Gigabytes) and would only allow its customers to watch just few hours of video per month. Moreover, if customers were to exceed their monthly caps they would have incurred excessive out-of-bundle charges. KPN faced a dilemma: launch a video service that customers cannot use or increase the volume caps of its open mobile internet plans. KPN opted for the latter.

On the 2nd of February **KPN doubled the mobile internet volume caps (data bundles)** on its SIM-only smartphone tariff plans, **free-of-charge**. On the 4th of February, KPN's CEO, Eelco Blok, explained[5] the rationale for the new tariffs during the analyst presentation[6] for the Q4 2014 financial results: "*KPN is committed to a multiplay strategy with the launch in January 2015 of TV Everywhere, which enables consumers to watch TV on all their devices, supported by the operator's cloud-based TV infrastructure.* ***KPN increased the size of its data bundles for users, to encourage 'carefree usage'***".

In the exhibit below we illustrate the profound impact that ACM's decision had on KPN's open mobile internet usage prices[7]. Suddenly, streaming video (from any internet video service) over the mobile network became massively cheaper. In January 2014 KPN used to sell a Gigabyte of mobile internet access for €5.8. By November 2014 the price had dropped to €2.3 and days after ACM announced its zero-rating decision KPN lowered the price to €1.1. Having no more room to manoeuvre, not being able to favour its own video services or gate keep the internet in the Netherlands KPN decided to encourage carefree usage of online video by massively (80%) discounting the price of mobile internet usage (€ per Gigabyte).



[1] http://www.dfmonitor.eu/insights/2015_jan_netherlands/
[2] Vodafone exempted the data traffic consumption of the HBO GO video streaming service from the monthly mobile internet volume caps
[3] http://corporate.kpn.com/kpn-actueel/nieuwsberichten-1/nu-altijd-en-overal-tvkijken-bij-kpn.htm
[4] http://dfmonitor.eu/insights/2014_oct_zerorate/
[5] http://www.mobileworldlive.com/kpn-banks-4g-multiplay-way-ahead?utm_campaign=MWL_20150204&utm_medium=email&utm_source=Eloqua
[6] http://corporate.kpn.com/investor-relations/full-year-results-2013.htm
[7] Note that the imminent entry of new (4th) cellular operator into the Dutch market, Tele2, might have as played a role in increasing the volume caps. However in his speech the CEO has specifically connected the move with the introduction of their mobile video service.

KPN doubled the mobile internet volume cap from 5 to 10 Gigabytes between November 2014 and February 2015 while keeping the price the same at €37.50 a month! Compared with January 2014, KPN offers now 5 times higher volume (10 Gigabytes versus 2) for a lower price.

In OECD countries where zero-rating is not yet banned telcos have every incentive to favour[8] their own video/TV services by zero-rating or massively discounting the Gigabyte usage price as recently shown in a Digital Fuel Monitor premium research note[9] titled "*Telenor launched a vertically price discriminated internet video service in a European market*".

As we have argued in many Digital Fuel Monitor insights telcos/ISPs have a conflict of interest in selling both open internet access and as well their own or their selected partner's online video and cloud services. If price discrimination is not banned, telcos have an incentive to favour their own services by zero-rating the usage (selling Gigabytes at zero cost) while keeping open internet usage relatively expensive (e.g. KPN €5.8 per Gigabyte). **However, if price discrimination such as zero-rating is banned telcos/ISPs are commercially incentivized in pushing down the price of open internet (or conversely push the monthly volume caps as high as possible) in order to encourage the carefree usage of, first and foremost, their own video and cloud services.**

This point was recently reiterated by 36 leading US scholars. In their letter[10], addressed to FCC, the scholars called for a ban on all forms of paid prioritization (including zero-rating) and highlighted the inadequacy of competition law in addressing all net neutrality violations. The scholars wrote "*Antitrust cannot practically prevent the other two competition problems associated with paid prioritization: **excessive access charges imposed by terminating monopolists and their incentive to degrade non-priority traffic or set low monthly bandwidth caps***".

Bloomberg, reported[11] on the 5th of February in a story titled "*The Biggest Hole in the FCC's New Internet Rules*[12]" that "*Senior officials at the FCC said in a call with reporters on Wednesday that they aren't convinced zero-rating is a bad thing and see less urgency to act on an issue that largely happens overseas*."

Not banning price discrimination e.g. zero-rating, if confirmed in the final order which FCC plans to adopt on the 26th of February 2015, **will be a calamity for consumers, internet access competition and for the future of the open internet.**

[8] http://www.dfmonitor.eu/insights/2014_nov_premium_google/
[9] http://www.dfmonitor.eu/insights/2015_feb_premium_telenor/
[10] https://cyberlaw.stanford.edu/blog/2015/01/36-leading-scholars-federal-officials-only-fcc-can-protect-open-internet
[11] http://www.bloomberg.com/news/articles/2015-02-04/the-biggest-hole-in-the-fcc-s-new-internet-rules
[12] http://transition.fcc.gov/Daily_Releases/Daily_Business/2015/db0204/DOC-331869A1.pdf?utm_source=dlvr.it&utm_medium=tumblr

The Netherlands

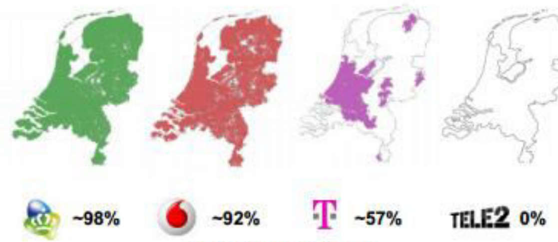
Competitiveness snapshot Q1’2015 from an EU market with **real net neutrality rules** since 2012

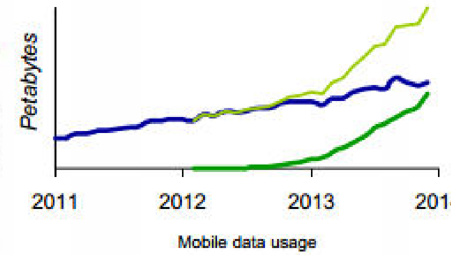
- **Zero-rating banned**
- All vertical price discrimination banned
- Carriers paid €3.8bn in 2012 competitive multiband spectrum auction (NN rules were already in place)
- Tele2 made entry decision & subtantial spectrum investments even though NN rules were already in place
- 4th entrant building nation-wide LTE network from scratch – nation-wide LTE coverage expected Q1 2016
- 4th entrant full commercial launch expected in 2015

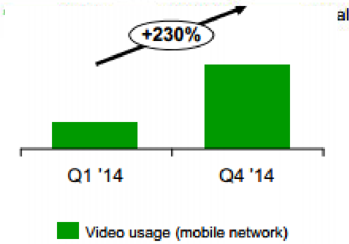
N°1 incumbent fixed-mobile telco (KPN) response to competitive pressures and real net neutrality:

✓ Nation-wide LTE coverage reached in Q1’2014
✓ LTE-Advanced introduced in 2014
✓100% YoY mobile data growth
✓ Innovative mobile video, cloud, m2m services
✓ Data bundles boosted to facilitate ‘carefree’ mobile video usage, 5x fall in price of incremental open internet gigabytes on smartphones between Q1’2014 -> Q1’2015
✓ 85% of households access to 100MBps fixed-broadband by end 2016

Leading 4G quality and coverage[1]







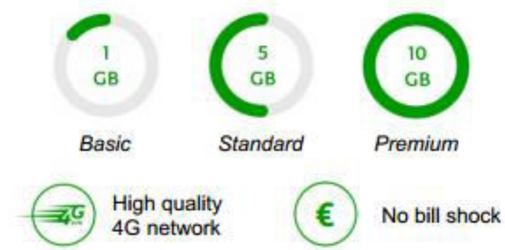
Unique services

TV Everywhere

Capacity - fixed network

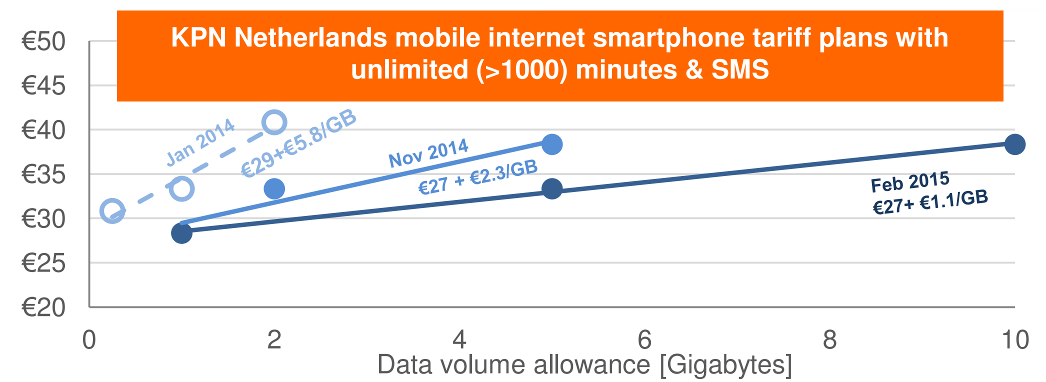
~85% households access to 100Mbps end-2016

New data bundles facilitate carefree usage



Download speed ahead of demand

Download speed[2]	2014	2015	2016
>40Mbps	~75%	~85%	~90%
100Mbps	~50%	~70%	~85%
200Mbps	~27%	~55%	~70%
500Mbps	~27%	~30%	~33%



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Source: KPN Q4 2014 results, Digital Fuel Monitor analysis