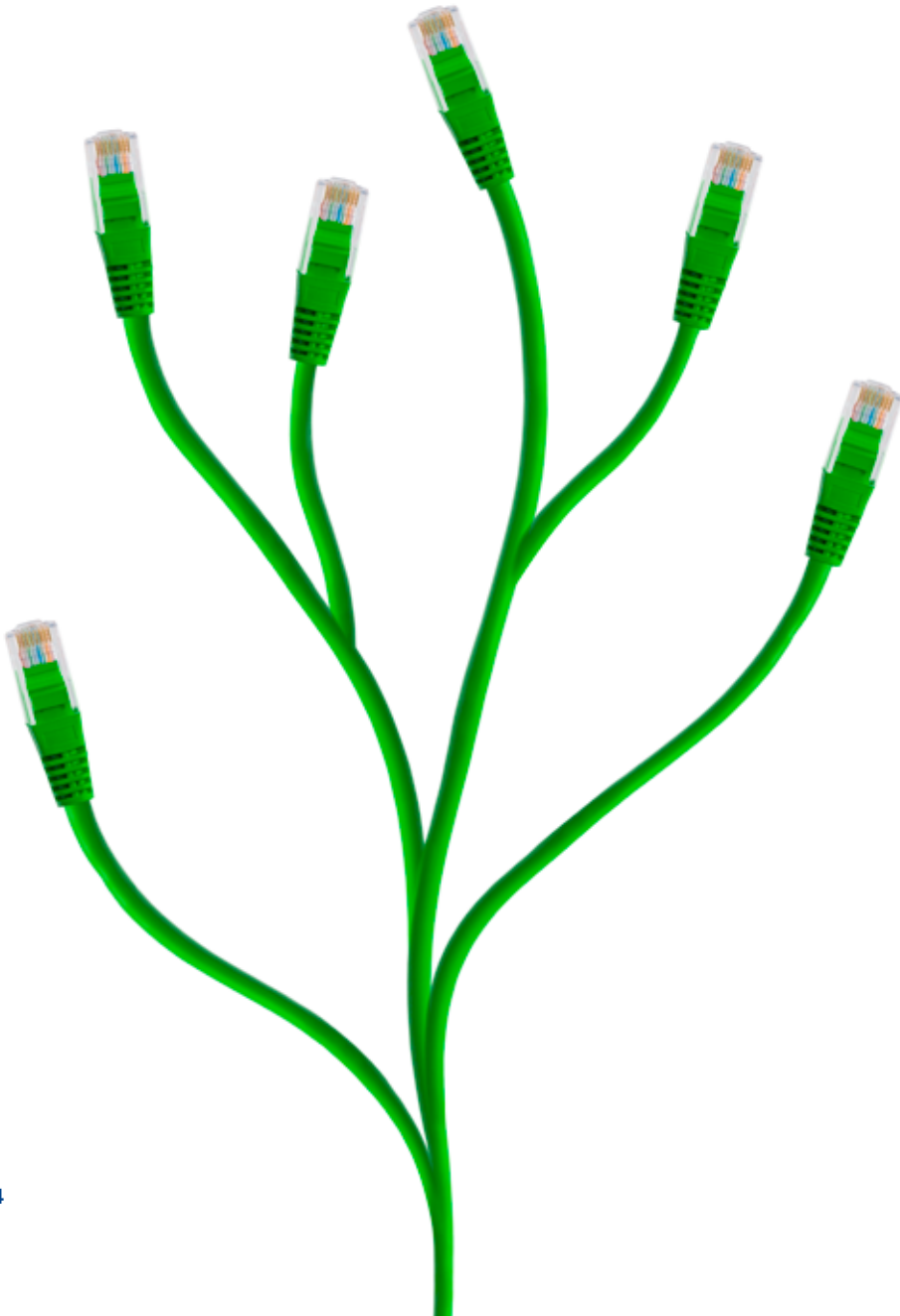


Deloitte Viewpoint on Net Neutrality.



Net neutrality is the principle that Internet Service Providers (ISPs) and governments should treat all data on the Internet equally, not discriminating or charging differentially by user, content, site, platform, application, type of attached equipment, and modes of communication.

While the issue of net neutrality has been a topic of heated debate among policy-makers, industry stakeholders and advocacy groups for some time already, it recently gained traction among the general public following the deal between Netflix (an American provider of on-demand Internet streaming media¹) and Comcast (America's largest broadband provider) to ensure that Netflix movies and television shows stream smoothly to Comcast customers.

“Net neutrality goes beyond business interests, touching upon wide reaching issues such as the European digital single market and the future of the Internet as a whole...”

However, net neutrality goes beyond business interests and touches on wide reaching issues such as the European (digital) single market and the future of the Internet as a whole. According to the European Commission, the absence of clear rules on net neutrality left some 96% of EU citizens without legal protection for their right to access the full open internet. In turn, this translates into lost opportunities for European businesses and innovators. Moreover, the adoption of local laws in individual EU Member States, for instance the Netherlands and Slovenia, is further complicating the situation.

Following the last couple of years of struggle to resuscitate the European economy, tapping into new sources of growth and innovation is crucial to the EU. Needless to say, the much needed economic injection depends greatly on good connectivity, which in turn relies on harnessing digital technology and ICT. As for the European single market, it remains largely fragmented by 28 national markets, which is stalling the possibilities of connectivity and scale to blossom into a fully digital economy.

Internet services for all

In response to this situation, European Commission Vice President Kroes issued in 2013 the proposal for the Connected Continent Regulation (MEMO/13/779), which aims at a single market for Internet and communications. By doing so, the European Commission took a clear stance for net neutrality by linking an open internet to the proposal. Since a great deal of the net neutrality debate centres on the management of Internet traffic by ISPs and what constitutes reasonable traffic management, the proposed regulation has been designed to deliver an open internet for all citizens in Europe and to enhance transparency by requiring operators to provide their customers with accurate information about the speed and quality of the internet service they provide.

In a nutshell, the proposed Connected Continent Regulation is intended to address the following challenges to net neutrality:

- End discriminatory blocking and throttling and deliver effective net neutrality. According to the EC, it goes wider than the measures in the US (which do not prevent blocking or throttling of services such as VOIP on mobile);
- Set out clear rules for traffic management that are non-discriminatory, proportionate and transparent.

Interestingly, the proposal also allows for companies to differentiate their offers, for example by speed, and to compete on enhanced quality of Internet service – similar to how, for instance, postal services (express mail) and airlines (economy/business class) have been operating for decades. However, the main pre-condition is that the quality of open Internet must not be impaired.

¹ Netflix is currently available to viewers in North and South America, the Caribbean, and parts of Europe (Denmark, Finland, Ireland, the Netherlands, Norway, Sweden, and the United Kingdom).

The good news for network operators include the possibility to partner with content and application providers to develop 'specialised services' in order to assure a certain quality of service. Such offers will enable them to generate additional revenue from so called "Over the Top" actors, content providers, as well as from consumers who are willing to pay for better or faster services. This revenue in turn, will enable operators to finance investments into network upgrades and expansion. Despite safeguards having been put in place to ensure that these specialised services do not lead to quality degradation of the "normal" Internet, this part of the proposal has received criticism from some net neutrality advocates for undermining the basic net neutrality principle.

At the time of writing this viewpoint, the Industry Committee of the European Parliament voted for the package of EU-wide net neutrality rules, preventing telecoms companies from degrading or blocking internet connections to their competitor's services and applications. Although this vote is a clear signal of the direction in which the EU is heading, the legislative process still has a long way to go as the proposal must be adopted by the European Parliament in April, followed by review and amendments by the EU Member States.

Coming back to the Netflix and Comcast deal, what are the ramifications of the deal struck in the US for the situation in Europe - if any? For the Netflix customers, it is probably a good thing, at least in the short term, as they will enjoy faster and smoother services. In the long run, this is likely to change the power relation between ISPs and content providers, giving the former more leverage. For the content providers, this could prove to be a barrier to accessing the virtual market place that the Internet represents with a guaranteed access to customers, should ISPs get into the habit of charging more for speedy direct connections (the option for those unable to pay being a restriction to slower interfaces). For a Europe in much need of innovation and economic boost, this would be dire for start-ups and small to medium size firms unable to pay.

“The European single market remains largely fragmented, which is stalling the possibilities of connectivity and scale to blossom into a fully digital economy”

While Deloitte believes that the Connected Continent proposal is likely to push the envelope in terms of safeguarding the openness and performance of the Internet, and ultimately ensure a better functioning single market in the EU, our view is that it will require input from several key stakeholders. For instance, market developments will need to be closely followed by telecoms regulators across the EU with a view to ensure that operators are not blurring the lines between specialised and Internet access services. Also, it will be important to monitor how traffic management measures are used in order to avoid that certain applications or content are not prioritised for commercial reasons. Deloitte professionals within the dedicated EU Account, as well as Technology, Media and Telecommunications specialists, are well placed to provide advice to concerned actors within the public and private sector on the Connected Continent proposal and the way forward.



Contacts

For more information, please contact:

Dan Cimpean

Partner

Tel: + 32 2 800 24 37

dcimpean@deloitte.com

Twitter @DanCimpean

Erik van Zuuren

Director

Tel: + 32 2 800 22 99

evanzuuren@deloitte.com

Twitter @evanzuuren

Anna Lauridsen

Manager

Tel +32 2 800 29 04

alauridsen@deloitte.com

Twitter @LauridsenAnna

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