

## **'Building a truly sustainable internet'**

**M. Combes – speech to iDATE conference – 18 November 2009**

1. The internet was one of the transformational technologies of the twentieth century. Another was the mobile phone. These two platforms are coming together in the twenty first century, bringing more opportunities for transformation as they do.
2. The mobile internet will empower billions of new users who will not otherwise have the opportunity to use the internet. It will create new digital markets and wealth, enable new business models and innovation, and enable new forms of social activity and political organisation.
3. We will need to do all of these things if we are to solve the challenges of the physical world – energy management, climate change, aging and healthcare provision. They remain with us even as our society becomes ever more digital.
4. The fact that the internet and mobile phones have both been extremely successful and have delivered enormous benefits to our economies and our societies does not mean that future success is assured. Events over the past year should have reminded us that nothing is assured. We should worry when we see frothy valuations of assets, when we have poor transparency and complexity in markets, and where the consequences of a systemic failure – as we have seen in the banking system - are global and potentially catastrophic. And we should worry when the profits which the system generates seem to be concentrated in the hands of a very few.

5. Yet all of these are features are present, to a greater or lesser degree, in the internet today.
6. The internet is built upon a long and complex value chain - networks, search engines, hosts, publishers, developers and creators – all of whom enable a platform which facilitates instantaneous low cost distribution of digital content to a global audience of billions. This was simply inconceivable in the physical world.
7. Low cost global digital distribution has been fundamental to the extraordinary growth and diversity of the internet. But it is not sufficient to ensure its sustainability. This is because the richness and vigour of the internet still depends on many things in the physical world: the real people and talent that create the content and applications and the pipes and towers that carry and deliver the content to its destination. The internet has not digitised away the costs of doing these things. The internet can change the delivery chain and make it more efficient, but it cannot ignore basic economics.
8. Of course there are many who do create content or develop new ideas without seeking any commercial reward or getting paid. Creating content for free is and should remain an important part of the internet.
9. But most of the key activities which underpin today's internet – the infrastructure, search engines, portals and content creation – are commercial activities which must be funded if they, and the internet

itself, with all the benefits it brings, are to be sustainable. This will become ever more vital as the internet displaces the traditional business models which have often subsidised web activities in the past.

10. There have been too few winners and too many losers so far. Large search engines have been the winners, capturing most of the value created. Those with high physical costs of production – creators and publishers of music, news, video and books and investors in the underlying physical infrastructure of the internet - have too often been the losers. Too many media companies and creative industries – which remain so important to our culture and our society – face the risk of being marginalised or bankrupted by the current digital model.
11. The whole value chain will lose if this happens. Search does not work if there is no high quality content to search for. Digitisation of content does not work if there is no infrastructure over which it can be distributed. Infrastructure serves no purpose without the access technology of handsets, PCs and so on.
12. We need urgently to build a new sustainable model for the internet in which value flows all the way along the chain rather than being concentrated in the hands of a few. If we can do this, we can create a richer, fairer, more vibrant internet in which value (and reward) is created at every point in the process.
13. First and foremost this means finding a way of pricing all the services in the value chain, thereby creating new services in the process. And we can only do this by uncovering the vast variety in willingness to

pay which arises when you have an audience of billions of users on one side of the market and millions of advertisers and retailers on the other.

14. We already have an example of this: search providers have been brilliant at creating pricing models like sponsored links which do precisely this. This has allowed the search engines to capture what many regard as a disproportionate share of the value created by the internet to date. What we now need to do is to ensure others are equally free to innovate and to capture their fair share of the value they create.
15. The convergence of the internet and mobile provides us with an historic opportunity to set ourselves on this new, more sustainable course.
16. More than a quarter of the world's population are now using the internet and the number of mobile broadband subscribers overtook fixed last year. Most of the world's population who have never used the internet will do so for the first time through a mobile rather than a fixed device.
17. 30% of Vodafone's European customers now use their mobile devices regularly to use the internet. Our data traffic volumes have increased by 300% in the last 2 years and over 2/3rds of the traffic carried on our networks today is data traffic.
18. This sudden arrival of the mobile internet – really in the last 24 months – has come on the back of the massive investments in higher

speed mobile broadband networks made by telecoms operators. Vodafone alone has invested around €10bn in European mobile broadband infrastructure since 2005. Only last week we have reaffirmed our intention to sustain high levels of capital investment, despite the current challenging economic climate, to ensure that we continue to support the explosive growth in demand from our customers.

19. The shift to mobile has also been driven by extraordinary innovation in mobile devices and in user interfaces, most recently seen in the launch of our own 360 services. These have made the internet come alive on the mobile. Innovation in mobile devices and in smartphones in particular, far outstrips anything that is happening on the PC today.

20. These developments have coincided with the explosion in social networking and other rich communications services on the web. These started on the PC but are finding that their natural home is on the more personalised 'always available, always connected' platform of the mobile.

21. We must take advantage of the opportunity presented by the mobilisation of the internet - to build a more sustainable platform for the future.

22. This does not mean protecting an old model. It means creating new ones.

23. To do this we need first to build upon the unique strengths of the mobile platform to enable innovation in the monetisation and billing

of digital services. This will allow content creators, apps developers, publishers and others to introduce prices which capture willingness to pay. For this to happen, mobile platforms will need to make the tools they have at their disposal – authentication, micro-billing, digital wallets and so on – widely available to other players in the value chain.

24. We also need to make it much easier for content developers and publishers to get their services onto the mobile platform and distributed to billions of users with ease. To do this we need to overcome some of the platform fragmentation that has hindered mobile in the past.

25. This vision of the internet is not an aspiration for the future. It is what Vodafone is working to make happen today.

26. With Verizon, China Mobile and Softbank, we have already created the Joint Innovation Laboratory, the JIL, to give developers a single set of tools, including access to billing services and other enablers, so that a global community of developers can create content and distribute it to a global audience.

27. JIL is already enabling new charging models which allow others in the value chain to monetise services for the first time, or to do so more efficiently and easily by using the mobile platform. Customers can purchase everything from pizzas to stamps and games to pay-per-view content with Vodafone 360 and be simply and seamlessly billed via their mobile phone bill.

28. Innovation in monetising other parts of the value chain has only just begun. Nobody can know which models will work and which will not. The history of the internet tells us that much of this innovation is likely to be disruptive for existing players. But it is customers who must determine who wins and who loses.
29. The initial evidence from new models is encouraging. Customers are willing to pay for high quality mobile internet applications in preference to the many free alternatives which are hosted in the same app store. Micro-payments are an attractive way to pay for content. Mobile customers buy premium content – TV sports and news – despite the availability of ‘free’ content throughout the internet. Many other models such as ‘freemium’ content and ‘in-app billing’ are now emerging and, with billions of users, many more will follow. The internet needs to be able to accommodate them all.
30. We are convinced that this is the way to build a sustainable internet which best serves our customers. Creating choices and offering different prices is a way of ensuring that value creation is rewarded and resources are allocated along the value chain in a way which truly reflects the needs of customers and of society as a whole. This will allow us to build a richer, more resilient platform which will be less vulnerable to a systemic failure which would harm all users. Sharing value more evenly across the platform, and allowing new value to be created, will guard against any particular corporate interest gaining disproportionate influence over the internet. It will safeguard our culture and journalism and protect the values of diversity and pluralism which we all share.

31. Some 'net neutrality' advocates have suggested that pricing models which attempt to match prices to willingness to pay should be reserved exclusively only for certain parts of the internet value chain. They accept, for example, that we should allow different prices to be charged for different sponsored search results or for caching services that deliver some content faster to users. But they go on to argue we should not allow different prices to be charged for different service quality over the network component of the internet.
32. Some advocates go even further and argue that any attempt to match prices to willingness to pay – or even to charge prices of any kind for network quality that is not simply 'best efforts' – is a breach of the internet's neutrality.
33. This is an old trick. It involves using regulation to preserve a static model of the industry and erect barriers to further disruptive innovation which might unseat today's leading Internet players. In this case, the push for 'neutrality' is effectively an attempt to prevent pricing innovation elsewhere in the value chain.
34. But the internet has been using prices to discriminate between the needs of different users and to match supply to demand for many years. The past success of areas like search should encourage us to expand innovation further along the value chain, not limit it to only one activity. In doing so, we will increase the value created by the internet as well as distributing it more widely across other parts of the ecosystem.

35. We must acknowledge that in the long run the only organisations that really ignore willingness to pay are public organisations involved in the provision of public services – the provision of public television services or public health services are examples. Non-profit organisations engaged in debates about net neutrality might also fall into this category.

36. But charging one price - particularly if it is zero – patently cannot be a sustainable basis for supporting the wide array of privately funded activities on which the internet depends today and on which it will depend tomorrow. Still less can it support the major investments the ICT industry needs to make to sustain levels of service against increased demand for quantity, speed and variety. Less price flexibility will limit rather than expand choices for consumers. It will inhibit innovation and impoverish economies and societies.

37. A truly 'neutral' approach to the internet should not, therefore, seek to prevent pricing innovation. It should do exactly the opposite. It should allow all players involved in the creation of value on the internet to have equal opportunities to monetise their contribution and to create more value. Any approach which seeks to apply one set of rules to one part of the value chain and a different set to everyone else should be clearly rejected.

38. Of course, regulators are quite right to want to ensure that customers are presented with as full a range of choices as possible – and in as transparent a way as possible. Regulators should act swiftly where choices are genuinely restricted and they should always be sceptical if they find hidden prices or rules or algorithms for allocating

resources or for making choices which are not transparent. Failures in transparency and abuse of market power can arise at any point in the value chain, not just in network access. Search engines and, increasingly, applications store providers are also in a position to restrict choices and determine which services are discoverable by customers and which are not.

39. Ensuring that choices are not restricted requires that regulators start taking a much more holistic view of the internet supply chain than they have done before. They need to monitor the conduct of network operators, but they need to understand the search engines, the applications stores and caching and backbone providers as well. The FCC has recently begun to do precisely this. European regulators should aim to take a similarly holistic approach. Competition law and the EU telecoms framework provide the tools to intervene if customer choice is being restricted or market power abused.

40. Provided customers are presented with a wide range of choices – something that normally arises if there is sufficient competition - then customers, not regulators, should decide which models prevail. Vodafone's customers are free to view any content and use any application over our networks. Vodafone will not discriminate between particular content providers or applications providers on behalf of our customers. They will always get the same access to, for example, YouTube as they get to the iPlayer. And they will be able to download any VOIP service they choose.

41. We will not presume that all their needs are the same. Customers will want and expect choices. Some customers may be prepared to pay

more for a higher grade of service over our network, or more for a particular type of application. We will not choose between providers. We will not discriminate in favour of YouTube or against the iPlayer. But we will make it easier for some customers to view video content in peak periods if they value this and are prepared to pay for it. We are launching exactly such an option for our Spanish customers this week, offering them priority access to our network resources at times of congestion.

42. We therefore do not believe that all customers will want the same 'best efforts' experience from the internet in future. They want choice. No doubt there will be many things, many models, which we have yet to even conceive of. This is the philosophy that underpins Vodafone's brand promise: 'power to you'.

43. So Vodafone supports a neutral net in which customers decide what they are prepared to pay for in terms of network services, just as businesses today decide how much they might be willing to pay for a better position on the search results. Some customers might be willing to let someone else- perhaps an advertiser- pay to let them have these benefits. The answers will differ between customers. The internet needs to create prices that meet billions, not hundreds, of different needs. And these prices and this innovation needs to be enabled at all points in the internet value chain, not just for a few players as we see today.

44. Let me end by summarising.

45. The convergence of the mobile and internet platforms which we are witnessing today presents us all with an historic opportunity to build an internet which is more sustainable, more varied and which creates more value for society than anything we have seen so far. To achieve this ambition we need to build upon the innovation in pricing models that has so far allowed the search providers to capture most of the value created by the internet for themselves. We now need to distribute profits more evenly along the chain of the internet if we are to safeguard the future of many of Europe's leading media companies and our most creative and talented people.
46. This may threaten some of today's leading internet players - just as they in turn threatened other businesses in the past. But innovation is the lifeblood of the internet and will be the key to its future sustainability.
47. This makes it vitally important that regulation is not used to protect the interests of a few companies or inhibit innovation. Some proposals would do this. They would kill innovation, depress choice and impoverish users. It has never been a part of the internet and must not become so now.
48. The internet must remain neutral, in the sense that all players in the value chain should have an equal opportunity to innovate and to underwrite the willingness to pay for the value they contribute. This opportunity must be available to all, not just a few, if the internet is to be sustainable.

49. It must also be neutral in allowing customers – not network operators or others in the value chain – to decide which models work and which don't. We need to expand choice, not restrict it.

50. If we can do this, and grasp the opportunity which the historic convergence between the mobile and internet presents, then I am convinced we can build a new internet, an internet which is truly sustainable for all.

51. Thank you.