



OECD STUDY ON THE EFFECTS OF ZERO RATING

Verena Weber*

OECD

* The views are my own and may or may not be those of the OECD
and its Member countries



Agenda

Zero rating and the economics of zero rating

Considerations applying to zero-rated offers

Competition

Zero rating and sponsored data

Partner choice and innovation

Traffic management and consumer choice

Zero rating and MVNOs

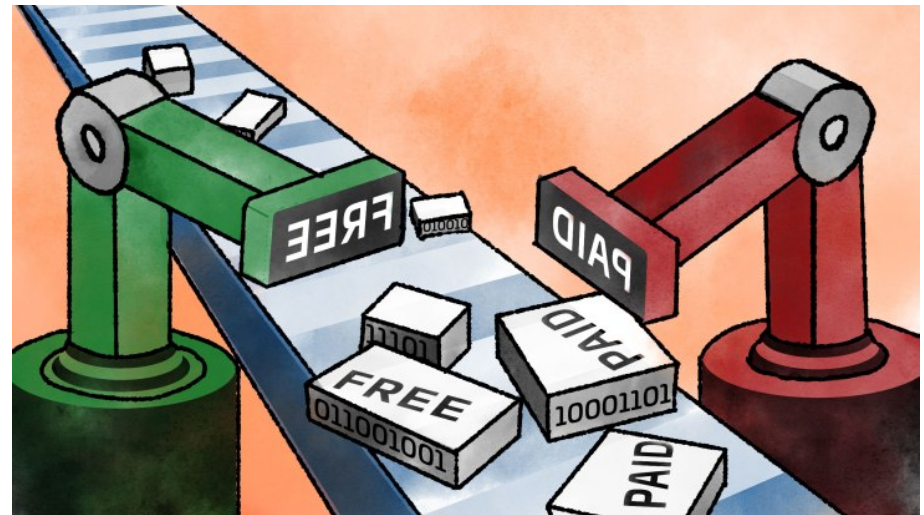
Zero rating and roaming

Regulatory and policy approaches towards zero rating



What is zero rating?

- Defining “zero rating”:
When a predetermined type of traffic (...) is not counted against a customer’s download allowance, while other traffic is so counted.
- It first emerged on fixed broadband access after the turn of the century. Today mainly used in mobile markets.



Picture source: <https://techcrunch.com/2017/04/16/wtf-is-zero-rating/>



Examples of zero-rated services

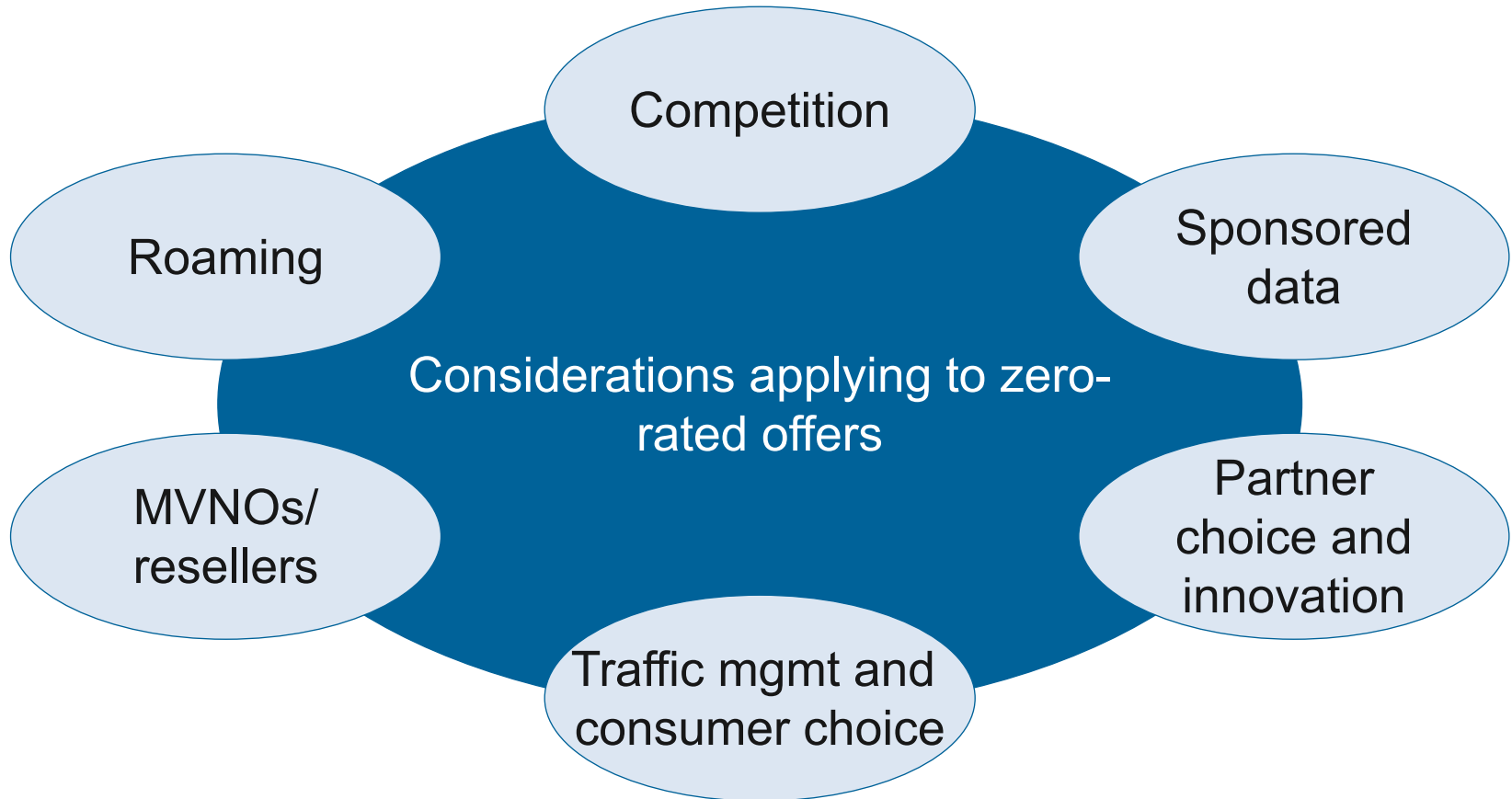


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Considerations applying to zero-rated offers





Zero rating and sponsored data

Sponsored data: One party assumes the cost of data being exchanged for another party

An operator zero rates an element of service for a third party

- **Examples:**
 - Vanuatu: Unmetered access to the Vanuatu Public Health Information System for the Ministry of Health staff and health workers
 - South Africa: Vodacom's 'Siyakha' platform

An entity reaches an agreement with an operator to zero rate access to their content

- **Examples:**
 - New Zealand: Zero-rated usage of the websites of the Ministry of Social Development
 - South Africa: Financial institutions such as Standard Bank and First National zero-rate interactions with their customers



Zero rating, partner choice and innovation

- What services get zero rated? According to a study for the EC, ‘there appears to be little pattern in which major applications are zero-rated across markets’
- Major content providers are usually chosen in preference to classes of applications
- This may create a **bias against entrants and innovators**, which some say has an adverse effect on the openness and plurality of the Internet



Zero rating, speed tiers and consumer quality choice

- ISPs regularly offer different speed tiers, which may interact with zero rating
- Thus zero rated content may only be transmitted in standard definition, and the consumers must deplete their allowance for better quality
- In a competitive ISP market these extra choices may benefit consumers, but an ISP with market power might be able to use such an arrangement to raise prices for some customers



Source: www.youtube.com/watch?v=5TzQBKohiYM



Zero rating and roaming

- In most circumstances, an ISP faces higher costs, and charges a higher price, for its customers' downloads abroad than at home
- The zero rating of content is usually restricted to domestic consumption
- In the EU this conflicts with the 'Roam like at home' Regulation. Several EU NRAs have taken enforcement action in this connection against certain operators



Zero rating and competition

Content layer

On the positive side

- Pro-competitive effect if users discover other apps and websites besides the zero-rated ones
- Zero rating allows low-income groups to access certain applications without additional charge, especially in developing countries

On the negative side

- Zero rating could create a walled garden if used by dominant providers, which might impede other players from entering or competing in a market
- Even if platforms open their platform for other services and competitors, they still control the platform

ISP layer

On the positive side

- Zero rating might introduce people to the value of services such that they then start buying data packages and grow the market

On the negative side

- Zero rating can be used by an incumbent offering free access to services which might not be replicable by other ISPs
- Zero rating can discourage the use of IPv6 if only IPv4 traffic is zero-rated



Regulatory and policy approaches: Europe

- In the EU, zero-rated offers are common and can be found in 27 countries
- NN rules were promulgated in 2015 and regulatory guidelines issued by BEREC in 2016
- These imply case-by-case analysis of zero-rated offers, based on a wide set of BEREC criteria (which are now under review)
- A number of cases have been resolved by European regulators or courts. One practice which has been widely banned is the continued supply of zero-rated services after the customer's allowance is exhausted





Regulatory and policy approaches: Europe (cont.)

BEREC's October '18 Report on the Implementation of the NN Regulation & Guidelines



'... quite a few NRAs have dealt with zero rating cases and a handful of formal decisions was reached.... The zero rating cases mentioned in this report illustrate that it is key to analyse the specifics detail of the practice concerned and its circumstances....'

More generally,

'Overall, BEREC concludes that the Regulation has been implemented by NRAs with adequate coherence.... BEREC concludes so far that the Net Neutrality Guidelines are well suited to assist NRAs in performing their tasks of supervision and enforcement as set out in Article 5 of the Regulation.'



Regulatory and policy approaches: The United States and Canada

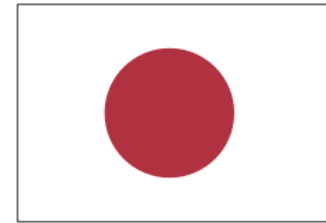
- In the US, a set of NN rules, including restrictions on zero rating offers, were introduced by the FCC in 2015. They were reversed in 2017.
- The CRTC in Canada undertook in 2017 a study of differential pricing including zero rating. On foot of this, it has identified practices which do not cause concerns and found others to be discriminatory





Regulatory and policy approaches: Japan, Korea and India

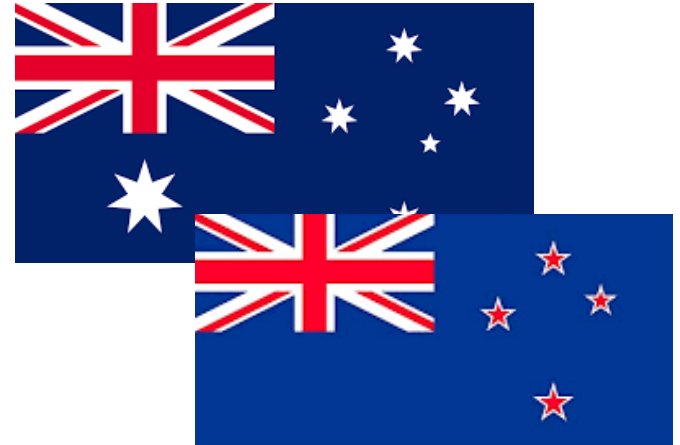
- In Japan, there are indications that zero rating offers are predominantly offered by MVNOs rather than MNOs
- Korea has not so far found zero rating offers to conflict with NN, but the relevant Ministry is reviewing this at the onset of 5G
- India has since 2016 imposed a comprehensive ban on price discrimination, including zero rating





Regulatory and policy approaches: Australia and New Zealand

- In Australia, both fixed and mobile operators have used zero rating in the past as a competitive weapon, without apparent great controversy. However the elimination of data caps in fixed, and latterly in mobile services, has undermined its significance






Regulatory and policy approaches: Australia and New Zealand



- The national radio broadcaster peered with smaller ISPs who zero rated the content
- The largest ISP wanted to charge transit to the broadcaster -> traffic routing via the US West Coast – ISP had to pay to backhaul the traffic



Regulatory and policy approaches: Australia and New Zealand

- In 2016 its Government agreed with the three MNOs to zero rate certain content of the Social Development Ministry
 - The 'cheap as data' programme is available to customers of all network operators, but not to MVNO customers
 - Exclusion of MVNOs is an unintended consequence of how unmetered data is made available
- 
- Competitive dynamics influenced by zero rating programmes



Regulatory and policy approaches: Latin America

- Several Latin American countries (Brazil, Chile, Colombia) have longstanding NN laws, which often restrict but do not prohibit zero rating
- A 2016 study found zero rating (especially of Facebook and Whatsapp) very prevalent in Latin American countries



Summary

- Zero rating impacts on several economic and non-economic policy objectives
- It is thus not surprising to find different practices in different countries
- The dominant regulatory model for enforcing zero rating rules is a case-by- case one
- Despite challenging obstacles, national regulators have been able to decide these cases