

Interconnection World Forum.

Mark Falcon

Head of Economic Regulation, Three

26 January 2011



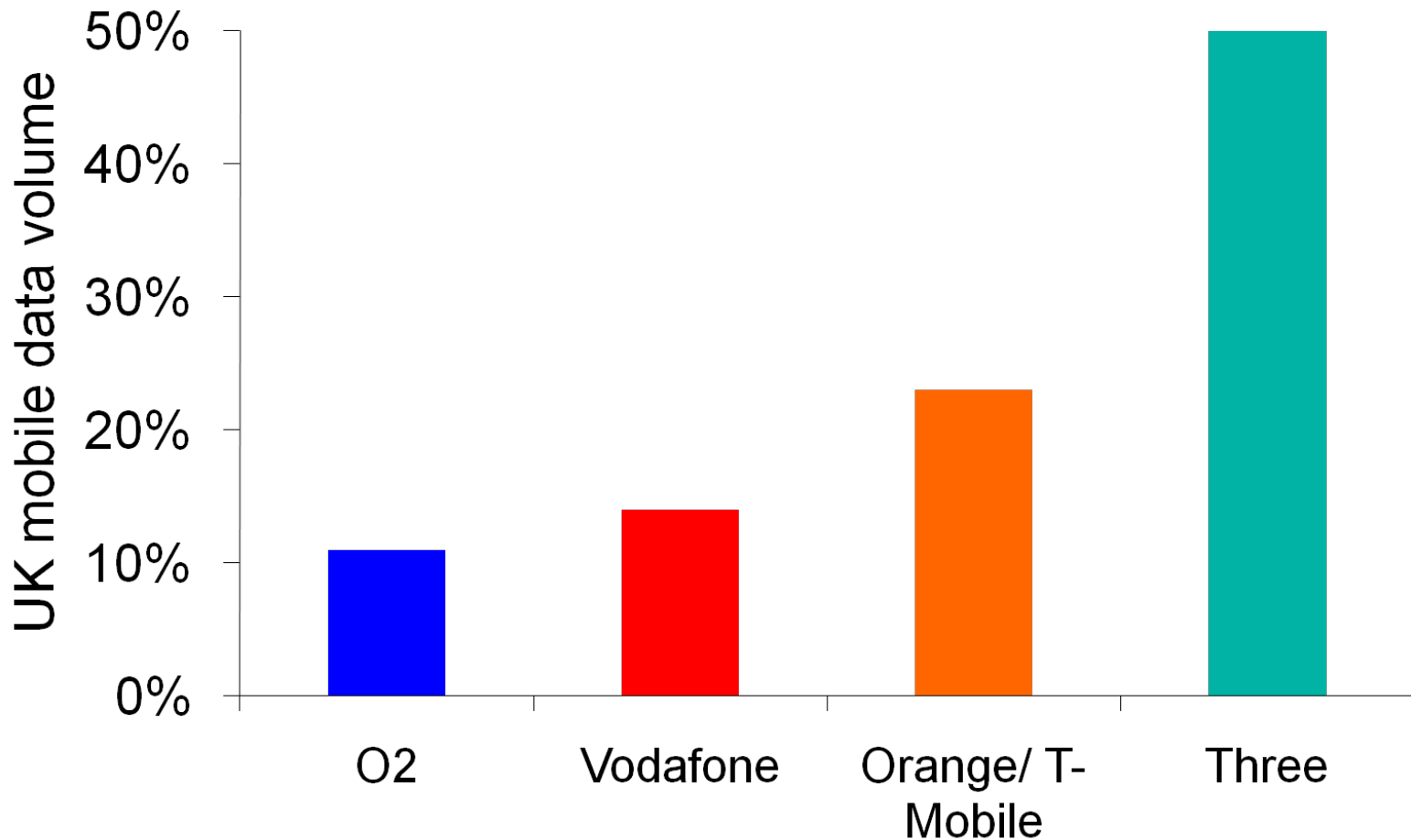
Three.co.uk

About Three.



Hutchison
Whampoa
group

Three current UK market leader in mobile data.



What does interconnection mean in internet world?

Telecoms

Interconnection

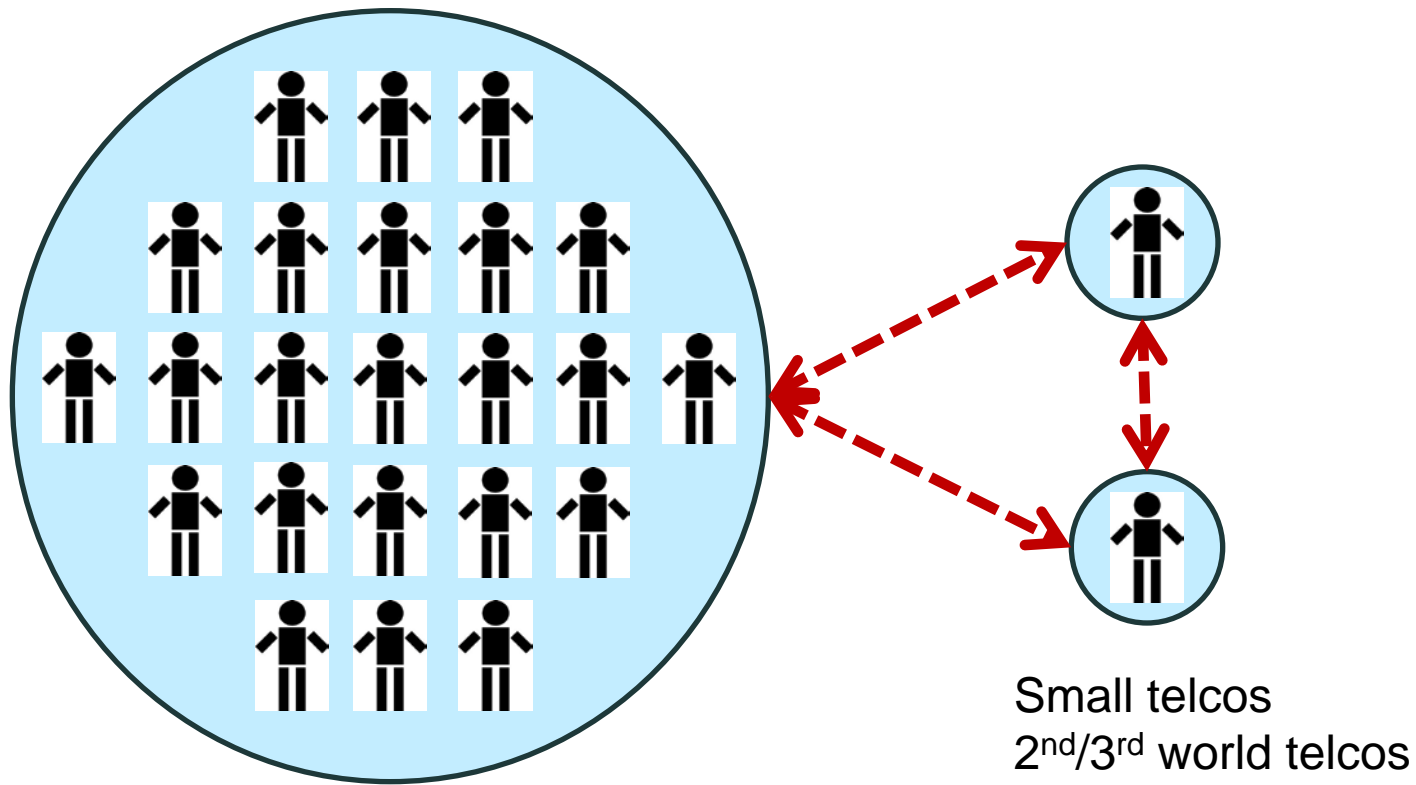
Internet

Net neutrality

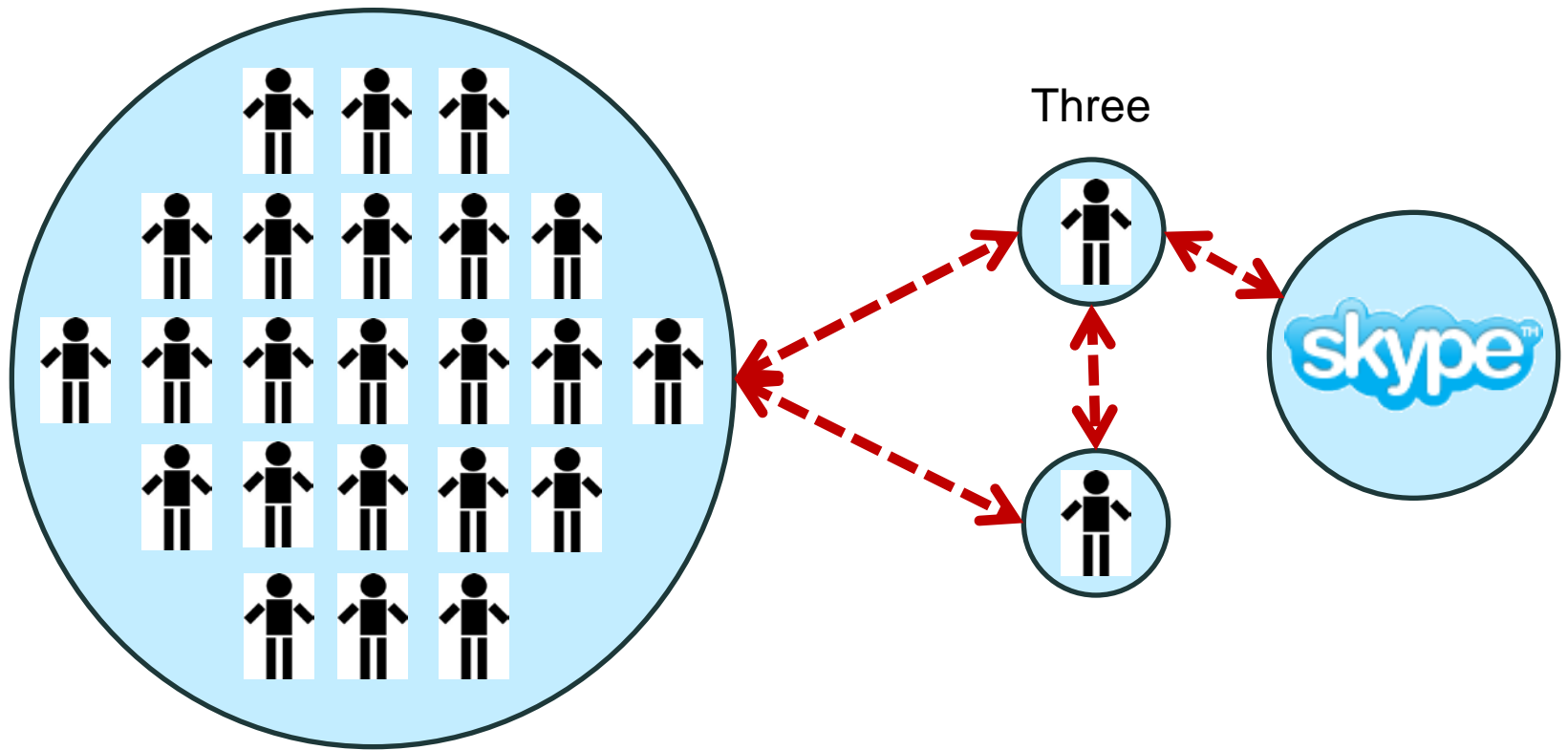
**“Committed
to
connecting
the world.”
(ITU)**



Telecoms regulation mandates interconnection...



...But no equivalent regulation for internet communications.



Or interconnection between new communications services.



Internet itself fragmenting between mobile platforms.

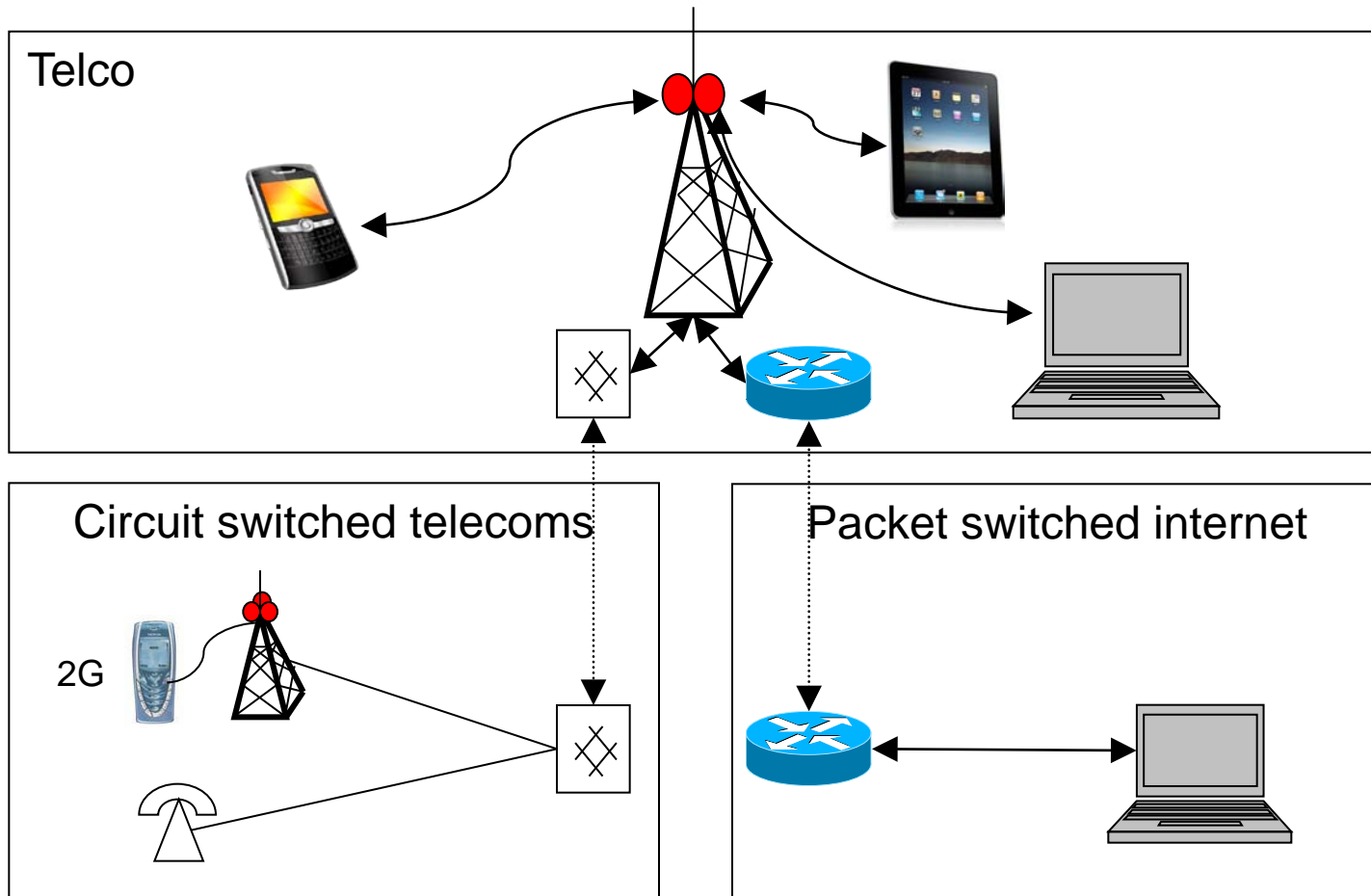
 **BlackBerry**

 **Windows
Phone**

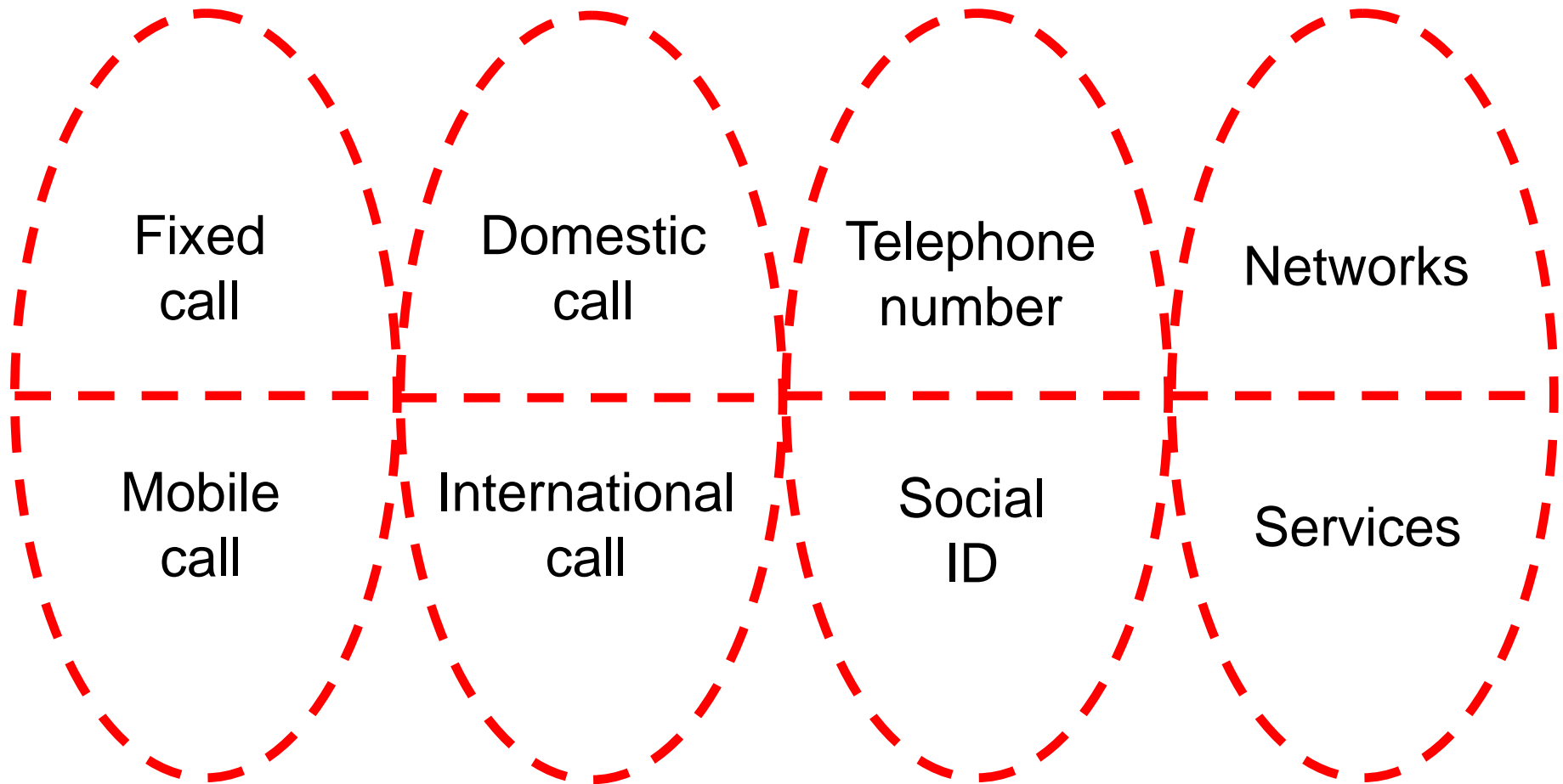


symbian

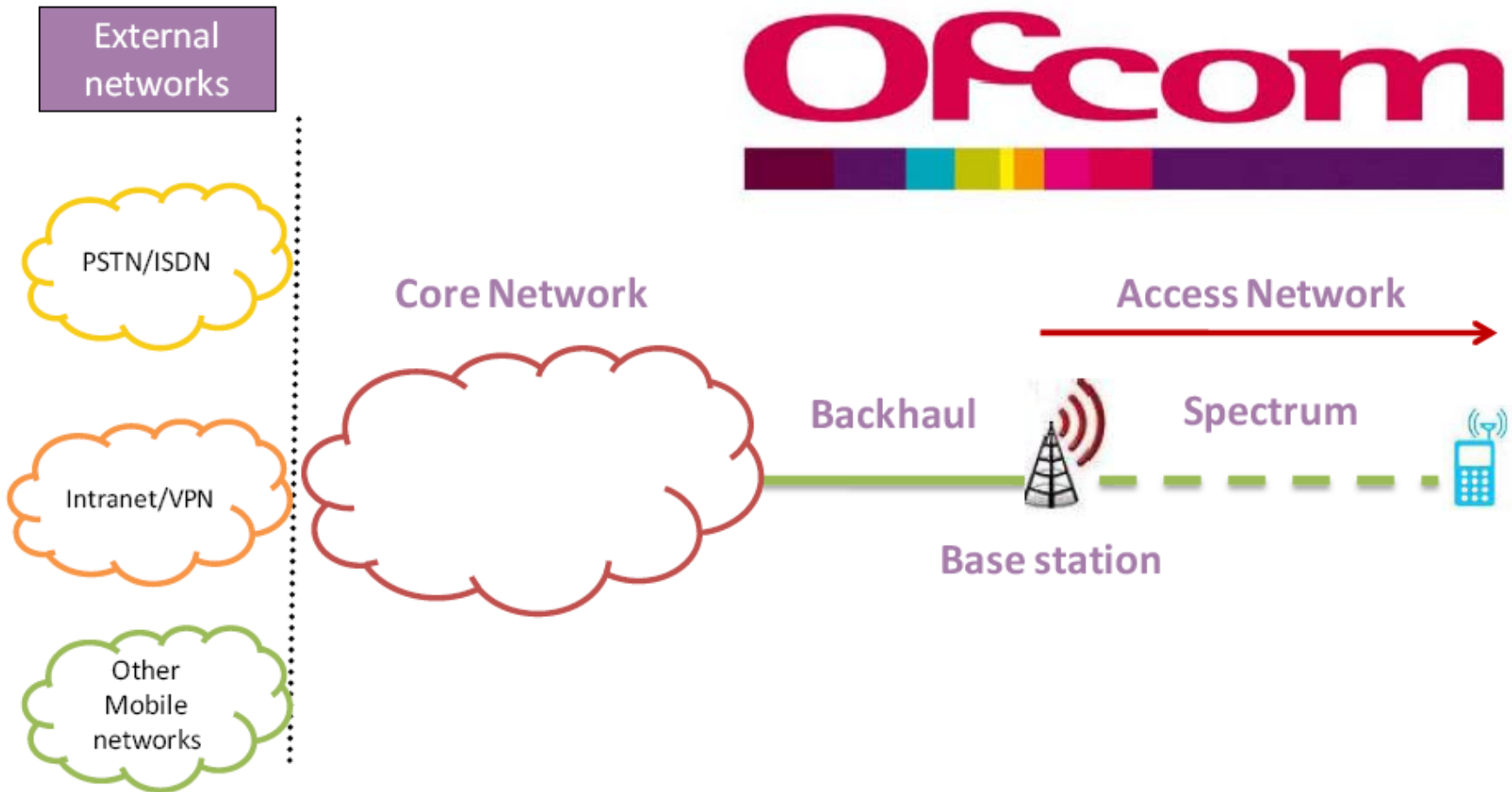
Challenge for telcos bridging telecoms/internet worlds.



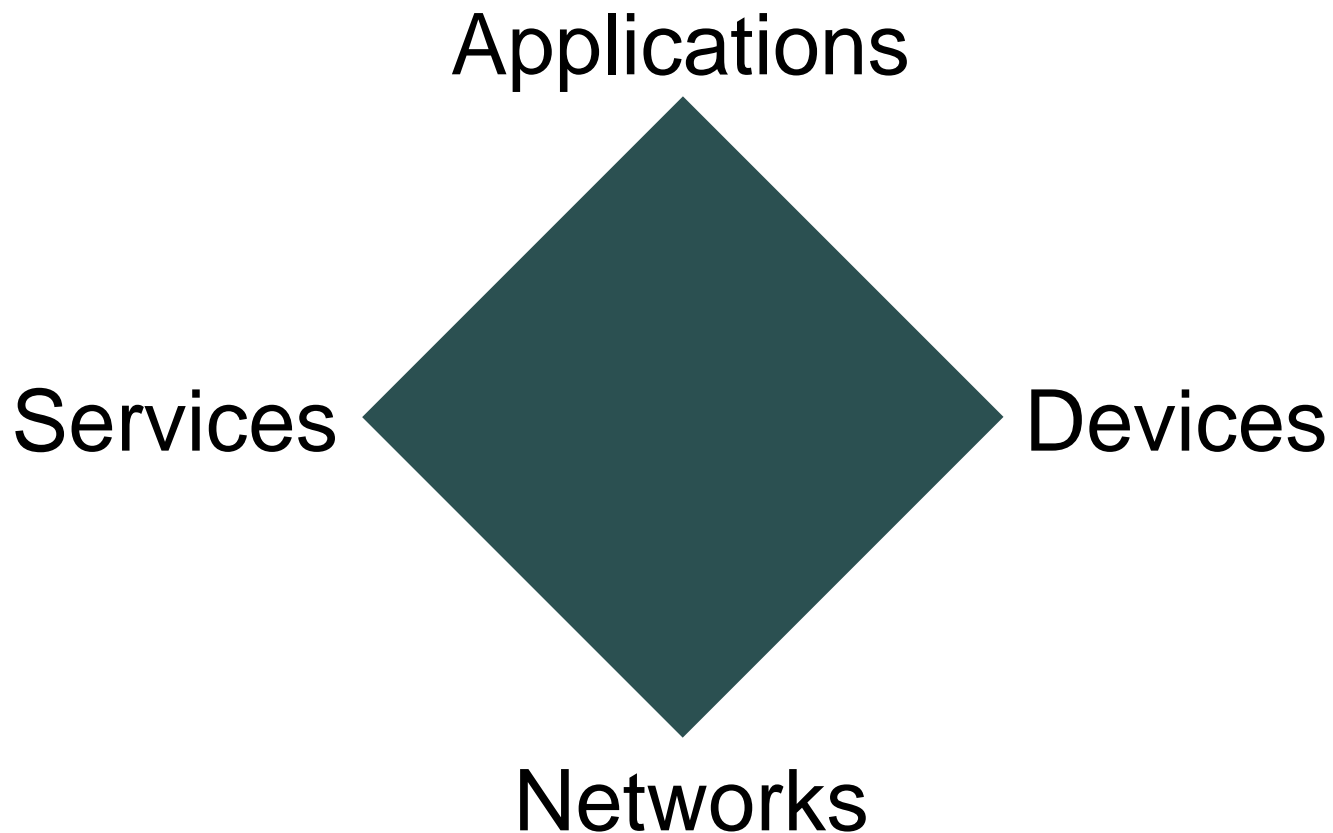
Regulation needs to bridge numerous artificial divides.



Ofcom now trying to bridge some regulatory gaps.



Regulatory challenge – make internet truly open.



Thank you.



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Interconnection World Forum – 26 January 2011

1. Thank you Eric. Good morning.

2. So who are Three?

Three is a challenger mobile network operator in six countries in Europe

- UK, Ireland
- Denmark, Sweden
- Austria, Italy

We acquired new 3G licences in each country and are owned by Hutchison Whampoa of Hong Kong.

3. Three is a market leader in mobile data.

Three is the market leader for mobile broadband in each of our operating countries.

In the UK, Three has 40% of the mobile broadband market and almost 50% of total mobile data traffic, including mobile broadband, smartphones and tablets devices.

We have built this position through network investment, innovation and price competition.

4. Today would like to address – what does interconnection mean in internet world?

The initial answer is the interconnection in the telecoms world is fundamentally linked to the debate on “net neutrality” in the internet world.

Net neutrality is the equivalent of interconnection.

This is important because:

- (1) the convergence – and coexistence – of telecoms and internet
- (2) the very different regulatory treatment of telecoms and internet services.

5. Since the creation of the first global telegraph system – almost 150 years ago – the need for interconnection has been recognised.

As a “way to connect the world”, the forerunner of the ITU created a multilateral system of interconnection – to ensure technical and user interoperability between domestic telegraph, then telecoms, networks.

6. That system exists successfully to this day as a way to mandate telecoms interconnection between different operators and different countries.

This system creates large direct benefits for users – in a seamless global telecoms system.

Also creates large indirect benefits for users through encouraging competition between smaller operators and new entrants, rather than just favouring large incumbents.

However, this system – and these benefits – are under threat in the internet world.

7. However, for internet communications – for example, VoIP – no such mandated interconnection exists.

In the case of VoIP, while some telecoms operators – in particular Three – voluntarily facilitate their customers to make calls to third-party VoIP providers (such as Skype), no such mandated interconnection exists for all operators.

Indeed, there is no common identification system for making a call from a phone number to a VoIP ID.

The consequence of this is that if I want to call someone on Skype, I also need be a customer of Skype.

(In contrast to the telecoms system, if I want to call someone on another telecoms operator or in another country, I don't also need to be a customer of the same operator.)

This is an additional challenge because, for many mobile (as well as fixed) operators, voice calls (and text) are now in decline, as

consumers move to alternative means communication, such as instant and social messaging.

8. For new communication services, there is no interoperability or interconnection between them.

This means that users needed to be signed up to multiple communication providers to be able to connect.

It also means that there are huge scale effects for the biggest platforms, which helps to explain the \$50bn valuation on Facebook.

9. A similar thing is happening is happening as the internet goes mobile.

The internet is fragmenting into different platforms, each with own ecosystem of applications and devices.

This is backward step, because it means that, unlike the internet as we've known it, users need to choose between alternative systems.

And content providers, publishers and application developers need to duplicate across multiple platforms, at greater cost and complexity.

The internet is starting to return the bad old days of the "walled garden".

10. This is big challenge for telecoms operators bridging the old world telecoms/new world internet divide.

While this reflects convergence, there will also need to be coexistence of old telecoms and new internet for a long time to come.

11. Regulation faces an even greater challenge of needing to bridge the numerous artificial divides that exist.

- fixed and mobile call distinction becoming increasingly blurred, as technologies converge, but termination regulation still quite different

- domestic and international or roaming distinction blurs with services that do not recognise borders, but still have no European or international markets in telecoms services – telecoms still very national
- telephone numbers becoming obsolete as users prefer a social ID, but numbers regulated and IDs not
- lastly, regulation mostly applies to networks, but not services – as telecoms completely unbundles, networks remain regulated, but “over the top” services do not.

12. In the UK, Ofcom is trying to bridge some of these regulatory gaps.

In Ofcom’s extensive review of mobile call termination services, Ofcom now proposing to regulate termination rates on not just the four main mobile network operators, but also many other virtual network operators and pure VoIP-only operators.

The objectives are to

- ensure consistency and convergence between different technologies, fixed and mobile, telecoms and internet
- promote competition and consumer benefits by rapidly reducing obsolete fully-absorbed cost termination rates

13. In conclusion – to make a truly open internet – the objective of net neutrality and the ITU’s objective of connecting the world means

- open services
- open applications
- open devices
- open networks

This means services, applications, devices and networks that are truly interoperable and interconnected across each other – and will be a regulatory and industry challenge for some time to come.

14. Thank you.