



Much Ado About Net Neutrality in India

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India is witnessing a raging debate on [Net Neutrality](#). The causal events are well known but generally misunderstood. What we are witnessing instead is an increasingly raucous, take no prisoners, adversarial war of attrition between a bevy of content providers and online companies arrayed against the Telcos and companies like Flipkart.

Is the Internet facing an existential threat in India?

Net Neutrality proponents answer with an unequivocal yes. They maintain that Internet websites must be equally accessible, at the same speeds and at the same cost. They are absolutely correct that no Telco or ISP should have discretionary control over what content consumers get to access. Neither should Telcos be allowed to block content and/or throttle access speeds to suit their goals. Anti-competitive concerns are well founded, based on past (mis)behavior by Telcos in India and must be addressed by the regulators.

However, there are flaws inherent in these Net Neutrality "principles". It is disingenuous to suggest that all Internet traffic is the same as different applications place differential demands on network resources. Using just one example, mission critical communications require dedicated network resources which Net Neutrality would not allow. If all Internet traffic is treated equally, first responders, law enforcement agencies and other users of mission critical communications would be stuck in the same "slow" lane as ordinary consumers with disastrous consequences.

The final "principle" of Net Neutrality that all access for content must be priced the same is also flawed. All businesses aren't created equal and prices charged for services are a function of the underlying cost structures and business strategy. One can legitimately protest extortionate pricing but to require all businesses to have uniform rate cards is absurd. Differential pricing is the lifeblood of all business, regardless of size or sector and the telecom sector is no different.

Should India imitate the US example with Net Neutrality legislation?

Net Neutrality proponents in India often cite the recent landmark ruling in the US as evidence that India must follow suit. The US decision is relevant and replicable only to the extent that Indian regulators must take note of possible anti-competitive behavior witnessed in other markets and make provisions against this locally. However, the two markets have evolved on their digital journeys in fundamentally different ways. The US market is mature, has near ubiquitous broadband Internet, at home, the office and increasingly when mobile. Most consumers in India access the Internet over their mobile devices. To put this in perspective, there are over 70 million mobile broadband users as per TRAI (more than 250 million if you count Internet access over 2G networks) versus barely 15 million wired broadband users.

This perspective is important to keep in mind since most proponents of Net Neutrality in India are making one basic fallacious assumption. To paraphrase a recent blog by a prominent venture capitalist - bandwidth is infinitely available, marginal cost is virtually zero so any charges for data in such a scenario are scandalously unfair. Wrong. First, bandwidth is always finite and as networks are built, applications emerge to leverage bandwidth upto the available ceiling, forcing capacity upgrades thereafter which mean the marginal cost is not zero. India's mobile Internet is severely bandwidth constrained, with spectrum allocations much lower than global averages and highly fragmented. It would be akin to comparing the consistency of an Ethernet connection to the vagaries of a 3G Internet connection in India.

The US and India also differ when it comes to the proverbial "last mile". The American last mile is dominated by cable companies who are the primary ISPs and have virtual monopolies. In India, there is plenty of choice to go with rock bottom prices compared to global levels. India's Telcos are mired in a harsh operating environment of high competition, high input costs, low spectrum availability, high license fees and staggeringly high debt. Despite this, most operators have built networks across the country, offer services and some do even turn a profit. Not only do Indian consumers have choices, those unhappy with their providers are able to switch using number portability. Millions already have.

The rise of application-specific pricing in India is linked to the prepaid phenomenon

Net Neutrality proponents protesting the rise of application-specific data access should understand that such services are closely linked to the phenomenon of prepaid in India. Over 95% of India's mobile users are prepaid, or pay-as-you-go. The challenge for India's Telcos has been how to get the proverbial Next Billion to buy Internet access. Postpaid users generally buy data packs for 1GB or higher while prepaid users rarely purchase all you can eat data packs. They use specific apps like WhatsApp for specific purposes and are willing to purchase affordable, prepaid, application-specific packs. An example would be a special data pack for unlimited usage of WhatsApp, for 16 Rupees a month.

Postpaid users needn't worry about being nickel and dimed as their data packs are not application-specific, therefore unrestricted. App-specific pricing is in fact making the Internet more widely available and affordable to India's masses. Such services would indeed violate Net Neutrality principles but that doesn't mean that they should be restricted, as such a policy would exclude millions of Indian consumers from Internet access, thereby segregating the Internet into haves and have nots.

Catering to India's prepaid masses is also at the core of the practice of "zero-rating". Zero rating in its original form involved partnerships between Telcos and application/content providers whereby data charges for a specific service were waived for a limited period. For example, prepaid subscribers could access Twitter free for three months and thereafter upgrade to a full data pack for continued access. Internet giants like Google, Facebook, Twitter and even services like Wikipedia have been "zero-rated" their services around the world.

Airtel's controversial Zero platform, announced close on the heels of TRAI's paper, has set off a round of conspiracy theories. The offering would indeed violate a strict interpretation of Net Neutrality. However, Airtel Zero is not strictly "zero-rating" but more a Sponsored Data B2B program that seems designed to drive revenues for Telcos by dipping into marketing budgets of application/content providers that are normally spent on other media channels. Flipkart signed up for this platform and withdrew under pressure. The original decision was likely borne of a need to extend marketing reach to India's Next Billion and also reduce cost of customer acquisition at the same time.

What is the way forward?

The imbalanced evolution of communications and the Internet has left all stakeholders in the Net neutrality debate aggrieved. India's burgeoning Internet scene is on the cusp of greatness and is crucial for the next phase of growth in the technology sector. Regulators must be alert to anti-competitive behavior that restricts their ability to reach consumers and limits their growth. The challenge for the India's regulators will to strike a balance between these rising Internet players and the Telcos who feel an existential threat of their own.

In India's resource scarce environment, the sad truth is that there is a hard tradeoff. That is, all users avail limited bandwidth "equally" or skirt network congestion through differential pricing. The only realistic way forward is to strike a policy balance by preventing anti-competitive behavior by Telcos or large Internet players on the one hand while equally not artificially mandating pricing strategy. Let us not shed a tear for India's Telcos but let us not demonize them either. Adopting a strict interpretation of Net neutrality as policy would have the unintended consequence of kneecapping mobile Internet growth and herding the remaining mobile Internet users into a permanent "slow lane". The resulting network gridlock means we remain united in our broadband poverty for the foreseeable future.

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