April 23, 2010

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, SW
Room TW-A325
Washington, DC 20554

Re: *Ex Parte* Communication in GN Docket No. 09-191 and WC Docket No. 07-52

Dear Ms. Dortch:

Pursuant to Section 1.1206(b) of the Commission's rules, I am submitting for consideration in this proceeding a paper, entitled *"The Economics of the Internet,"* released recently by Vodafone through its Public Policy series.[1]

The first section of the paper, entitled "Internet Value Chain Analysis," analyzes how the Internet value chain functions and the nature of economic relations between firms in the Internet as a whole. This paper arose from our conviction that any proposals for regulation should be grounded in a sound economic understanding of the Internet as a whole rather than speculative presumption about where harm might arise. Its findings make clear that:

- The vast majority of revenues generated via the Internet flow to providers of content, applications and e-commerce services in the Internet's upstream portion, and not to network access providers.[2]

- More than 50 percent of the costs of the Internet are borne directly by consumers themselves, chiefly through their purchases of network access services and devices.[3]

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[1] *See The Economics of the Internet* (Vodafone Policy Paper Series Number 11) (April 2010) (available at www.vodafone.com/start/misc/public_policy.html).
[2] *See, e.g.*, at 2, 11.
[3] *See id.* at 2.

Vodafone Group Services Ltd
Public Policy
One Kingdom Street, London, W2 6BY
F + 44 (0) 1635 238 042 W – www.vodafone.com
Richard Feasey + 44 7748 776618
Registered Office
Vodafone House, The Connection, Newbury, Berkshire, RG14 2FN, England.
Registered in England No. 3802001

- Advertising revenues make a relatively modest contribution to total revenues generated by the Internet (although these advertising revenues accrue to a small number of firms, chiefly those providing search services).[4]

- Competition varies greatly along the Internet value chain, and many upstream markets, such as the markets for search, digital books and VoIP, are concentrated and yield high returns on investment.[5]

- There is currently a significant misalignment between the revenues generated from various Internet-based services and the costs imposed by those services on the Internet's network infrastructure. For example, file sharing and video account for more than 70 percent of all the traffic on the Internet, but contribute less than 10 percent of revenues.[6] Business to business services generate over 50 percent of total revenues, but account for less than 15 percent of the revenues earned by infrastructure providers. Imbalances of this kind suggest that new business models will need to emerge in the Internet of the future if certain activities are to remain economically sustainable.

The second section of the paper, entitled "The Economics of Price Discrimination," examines the central thesis underlying the Commission's proposal in this proceeding to prohibit network access providers from offering at different prices a range of service quality levels to upstream Internet content and applications providers. In light of the findings of the first section that more than 50 percent of the cost of the Internet is borne directly by consumers in the form of network access and device charges, the second section questions why the Commission would desire to prohibit potentially welfare-enhancing arrangements that could allow others to contribute to the payment of such costs in the future. The second section finds that price discrimination is pervasive in the general economy and that the Internet is no different in this respect.[7] It finds that there is no basis for presuming that consumers are harmed as a result of price discrimination, and that regulators do not generally impose prohibitions against price discrimination in other markets.[8] The authors find nothing to justify the introduction of

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[4] *Id.*
[5] *Id.*
[6] *Id.* at 2, 14.
[7] *Id.* at 28.
[8] *Id.*

such a prohibition in the dealings between network access providers and upstream Internet content and applications providers.[9]

I respectfully request that the Commission take into account these findings in its consideration of the issues raised in the *Open Internet* proceeding. These findings suggest that the Commission should refrain from imposing restrictions on the ability of network access providers and content and applications providers to negotiate commercial arrangements regarding the delivery of Internet traffic and the provision of other services.

Sincerely,

Richard Feasey

cc: Honorable Julius Genachowski
Honorable Michael Copps
Honorable Robert McDowell
Honorable Mignon Clyburn
Honorable Meredith Baker

[9] *Id*.