

NETWORK FEES HARM CONSUMERS

Statement from the Federation of German Consumer Organisations (Verbraucherzentrale Bundesverband - vzbv) on the European Commission's exploratory consultation on the "future of the electronic communications sector and its infrastructure"

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Bundesverband der Verbraucherzentralen und Verbraucherverbände - Verbraucherzentrale Bundesverband e.V.

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The Federation of German Consumer Organisations (Verbraucherzentrale Bundesverband e.V.) is registered in the German Lobby Register. You can find the respective entry here.

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I. SUMMARY

In addition to the responses that the Federation of German Consumer Organisations (Verbraucherzentrale Bundesverband – vzbv) provided as part of the European Commission's exploratory consultation on the "future of the electronic communications sector and its infrastructure", vzbv recommends that due consideration be given to the points summarised below:

- vzbv opposes introducing network fees for Content and Application Providers (CAPs). It is almost impossible to accurately predict the negative consequences for consumers. There is a risk that such fees would lead to distortion of competition, which would negatively impact the relationship between price, performance and the diversity of available services. It might also undermine net neutrality, which is a cornerstone of open and free internet access.
- To date, there is no evidence of a market failure that would justify the introduction of network fees. Similarly, the Body of European Regulators for Electronic Communications (BEREC), as part of an initial analysis of the discussion about whether CAPs should pay Internet Service Providers (ISPs), also found no justification for introducing such fees in the current market. There is thus, objectively speaking, no regulatory need for network fees.
- vzbv criticises the fact that questions on network fees posed in the exploratory consultation took little consideration of consumer views.
- The example of South Korea shows that network fees for CAPs may have a negative impact on the price and performance of digital products and services for consumers.
- Network fees could potentially undermine net neutrality and thus put consumers' free and open access to the internet at risk. Before any regulations are drawn up, an impact assessment should be carried out to examine the interplay with Regulation (EU) 2015/2021.
- vzbv believes it is too early to evaluate universal service obligations. Many Member States have yet to fully implement the European Electronic Communications Code (EECC). Germany has yet to put the concept of a universal internet service into practice. If one regards the consultation purely from the perspective of broadband-related issues, consumers are still affected by various topics beyond that of universal services. For example, there are problems with double fibre rollout, greater financial burdens due to the fibre-optic provision fee (Glasfaserbereitstellungsentgelt), router freedom, door-to-door sales, and the lack of service provider obligations in the mobile market.

¹ European Commission: The future of the electronic communications sector and its infrastructure, 2023, https://digital-strategy.ec.europa.eu/en/consultations/future-electronic-communications-sector-and-its-infrastructure, 01/04/2023.

II. INTRODUCTION

European policy makers, digital economy stakeholders, NGO's and consumer organisations have been looking at the topic of network fees for more than one year now. The discussion on network fees was triggered by comments from the European Commissioner for the Single Market, Thierry Breton, who due to a lack of returns on investments made by the telecommunications industry, raised the issue of newly regulating payments between ISPs and CAPs.²³ Margrethe Vestager, Executive Vice President of the European Commission for A Europe Fit for the Digital Age, made similar comments.⁴ Stakeholders from civil society⁵⁶, academia⁷, various Member States⁸⁹, and Members of the European Parliament¹⁰ strongly criticised the initiative and the process's lack of inclusiveness to date.

With the launch of the exploratory consultation on 23 February 2023, the European Commission officially signalled the start of the process that might lead to legislation for network fees. As the situation develops, vzbv wants to see an open-minded dialogue which begins by determining whether there are problems in the market or evidence of a market failure.

The positions set out below are intended to support and supplement the responses vzbv provided as part of the exploratory consultation. vzbv thanks the European Commission for the opportunity to present its position.

⁴ Bertuzzi, Luca: Commission to make online platforms contribute to digital infrastructure, 2022, https://www.euractiv.com/section/digital/news/commission-to-make-online-platforms-contribute-to-digital-infrastructure/, 18/04/2023.

² Rudl, Tomas: Neuer Angriff auf die Netzneutralität (New attack on net neutrality), 2022, https://netzpolitik.org/2022/eudigitalkommissarin-vestager-neuer-angriff-auf-die-netzneutralitaet/, 11/04/2023.

³ Ibid.

⁵ Epicenter.works and others: Open letter, 2022, https://epicenter.works/content/eu-kommission-droht-mit-aushoehlung-der-grundwerte-des-freien-und-offenen-internets, 10/07/2022.

⁶ Epicenter.works and others: Open letter, 2022, https://en.epicenter.works/sites/default/files/civil society letter to commissioners 0.pdf, 01/04/2022.

⁷ Dr. Komaitis, Konstantinos and others: 29 Internet Experts and Academics send a Letter to the Commission urging to abandon the "Sending-Party-Network-Pays" proposal, 2022, <a href="https://www.komaitis.org/personal-blog/29-internet-ex-perts-and-academics-send-a-letter-to-the-commission-urging-to-abandon-the-sending-party-network-pays-proposal, 01/04/2023.

⁸ Bloomberg: Vestager's Idea for Tech to Pay Telecom Costs Gets More Pushback, 2022, https://www.bloom-berg.com/news/articles/2022-07-19/seven-countries-voice-concern-over-eu-s-streaming-fee-idea, 19/07/2022.

⁹ Government of the Netherlands: Plans for charging Internet toll by large telecom companies feared to have major impact on European consumers and businesses, 2022, <a href="https://www.government.nl/documents/publications/2023/02/27/plans-for-charging-internet-toll-by-large-telecom-companies-feared-to-have-major-impact-on-european-consumers-and-businesses, 01/04/2023.

Joint letter: regarding the Sending-Party-Pays-Model; 2022, https://www.patrick-breyer.de/wp-content/up-loads/2022/07/20220712 COM Access-Fees-MEP-Letter final3.pdf, 19/07/2022.

III.INDIVIDUAL POINTS IN DETAIL

1. KEY POINTS REGARDING THE EXPLORATORY CONSULTATION

vzbv welcomes the fact that the European Commission decided to hold an exploratory consultation on specific issues relating to the telecommunications sector.

The consultation was launched as part of a series of European Commission measures aimed at advancing the provisions of the policy programme for the Digital Decade Policy Programme 2030. The European Commission has stated its desire to take a close look at the connectivity sector and investigate what is needed in the future.

The consultation itself consists of four sections: 1. Technological and market developments: Impacts on future networks and business models for electronic communications, 2. Fairness for consumers, 3. Barriers to the Single Market, 4. Fair contribution by all digital players.

From a consumers' perspective it is unclear why, in light of the consultation's stated aims, the consumer-related aspects primarily address the issue of universal services. Universal service obligations are regulated by the European Electronic Communication Code (EECC). The EECC entered into force by the end of 2018. The Directive was implemented in Germany with the amendment to the German Telecommunications Act (Telekommunikationsgesetz, TKG). The new regulations entered into force on 1 December 2021. In addition, with respect to universal service obligations, the Federal Network Agency issued an ordinance in 2022 to clarify European and national legal provisions that were not precisely defined. Up until May 2023, not one internet connection was created under the universal service obligation.

vzbv pointed out several times within the consultation that the implementation period to date has been far too short for a sufficiently comprehensive evaluation of universal service requirements. It is also not clear whether the European Commission is aiming to use the exploratory consultation to evaluate the implementation of the EECC. If that is the case, vzbv takes a critical view of the fact that there are no questions relating to Title III: End-User Rights of the EECC. Consumers are an integral part of the telecommunications market – without them, there would be no need for the connectivity sector. If one considers the market as a whole, there are numerous topics that are equally if not more important to consumers than the provision of universal services.

Even if the consultation is only intended to focus on specific issues relating to broadband rollout, this area also has numerous other topics relevant to consumers beyond universal services.

1.1 Consumer-relevant topics in the context of broadband rollout

vzbv wishes to take this opportunity to draw attention to other problems relevant to consumers in the telecommunications market.

As it is unclear whether the European Commission wishes to evaluate the EECC as part of the exploratory consultation, vzbv would like to draw attention to two published

¹¹ Telecommunications Minimum Supply Ordinance (Telekommunikationsmindestversorgungsverordnung, TKMV).

vzbv evaluation reports on the implementation of the EECC in national German law. 1213 Among other topics, vzbv investigated the way in which internet service providers deal with contract summaries and contract approval given by consumers.

If one regards the consultation purely from the perspective of broadband-related issues, consumers are still affected by various topics beyond that of universal services. Consumers in Germany not only pay to use the broadband infrastructure via their individual contracts. In many cases, property owners can pass on the cost of expanding the fibre-optic infrastructure to their tenants due to the fibre-optic provision fee recently introduced to the German Telecommunications Act. vzbv strongly opposes this fee and the additional financial burden it places on consumers. Furthermore, consumers frequently complain about the business practices of telecommunications companies when it comes to selling fibre-optic products. Door-to-door sales are frequently criticised in Germany.¹⁴. The dual rollout of fiber-optic networks by Deutsche Telekom in areas where fibre already exists should also be viewed critically. Scarce rollout resources are tied up in favor of profit maximization, and consumers in less profitable areas have to wait longer for a fast internet connection. 15 There are also frequent problems with providers not respecting users' freedom to choose their router. 16 Finally, vzbv would like to mention the limited competition on the mobile market due to the absence of service provider obligations. In past spectrum auctions relating to 4G/LTE and 5G standard in Germany, there was no service provider obligation implemented. Only a mere requirement to negotiate was stipulated. It is currently unclear whether this instrument is conducive to competition in the German mobile market.

These are just a few instances of consumer-related problems with respect to broad-band/fibre-optic rollout that would have been a suitable addition to the exploratory consultation.

vzbv also criticises the fact that questions about possible network fees for internet content providers take little account of consumer perspectives. The questions mainly focus on investment amounts in the broadband market, data quantities, questions about direct payments, or a funding solution. The structure of the questions raises doubts as to whether consumers and their interests are seen as an integral part of the market.

vzbv believes it is too early to evaluate universal service obligations. Many Member States have yet to complete implementation of the EECC. Germany has yet to put the concept of a universal internet service into practice. A reliable evaluation is only possible after sufficient time for implementation has passed.

¹² Federation of German Consumer Organisations: Telekommunikationsmarkt: Umsetzung einiger Kundenschutzrechte noch unzureichend (Telecommunications market: implementation of some customer protection rights remains insufficient), 2022, https://www.vzbv.de/pressemitteilungen/telekommunikationsmarkt-umsetzung-einiger-kundenschutz-rechte-noch-unzureichend, 01/04/2023.

¹³ Federation of German Consumer Organisations: Telekommunikation: Kundenschutz weiter unzureichend umgesetzt (Telecommunications market: customers still not sufficiently protected), 2022, https://www.vzbv.de/meldungen/tele-kommunikation-kundenschutz-weiter-unzureichend-umgesetzt, 01/04/2023.

¹⁴ Federation of German Consumer Organisations: vzbv kritisiert mangelnden Schutz vor Haustürgeschäften (vzbv criticises lack of protection against door-to-door sales), 2021, https://www.vzbv.de/pressemitteilungen/vzbv-kritisiert-mangelnden-schutz-vor-haustuergeschaeften, 01/04/2023.

¹⁵ CDU/CSU: Antrag der Fraktion der CDU/CSU, Glasfaser-Überbau einschränken (Request by CDU/CSU parliamentary group to limit fibre-optic superstructure), 2023, https://dserver.bundestag.de/btd/20/059/2005986.pdf, 01.04.2023.

¹⁶ Sawall, Achim: Vodafone und Deutsche Glasfaser abgemahnt (Vodafone and Deutsche Glasfaser issued with written warnings), 2022, https://www.golem.de/news/routerfreiheit-vodafone-und-deutsche-glasfaser-abgemahnt-2205-165115.html, 01/04/2023.

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2. NETWORK FEES FOR CONTENT PROVIDERS

In the view of vzbv and other stakeholders¹⁷¹⁸¹⁹, the consultation's questions show bias in some cases and are not conducive to delivering a neutral judgement on the issues at hand. In particular, the questions in the consultation's fourth section "Fair contribution by all digital players" gave vzbv the impression that the European Commission is already seeking a solution, even though analysis of the issue to date has not actually identified any problems that need regulating. The questions focus very much on how a financial contribution by CAPs could best be regulated, instead of first asking whether such a contribution is even required. The remarks by Commissioner Breton on the day the exploratory consultation was launched also lead to doubts regarding the neutrality of the European Commission's judgement on the matter.²⁰

vzbv would like to point out that, according to the European Commission's own guide-lines as set out in the "better regulation toolbox"²¹, clear steps are to be taken following the conclusion of the exploratory consultation period. Accordingly, such consultations can help determine whether a problem actually exists and whether corrective measures need to be taken. Such consultations help to inform the decision as to whether the European Commission ought to carry out additional studies and consultations. The results can also be incorporated in "green paper" drafts. However, exploratory consultations do not eliminate the need for a formal consultation if they lead to preparations for a specific European Commission initiative.²²

¹⁷ Bundesregierung Deutschland: Öffentliche Sitzung zum Thema "Infrastrukturabgabe für Over-the-Top-Anbieter", Bezeichnung der Fragen als "stückweit tendenziös" (Government of the Federal Republic of Germany: Public hearing on the topic of "Infrastructure fees for over-the-top suppliers", questions labelled "somewhat biased"), 2023, https://www.bundestag.de/ausschuesse/a23 digitales/Anhoerungen/936364-936364, 12/04/2023.

¹⁸ Dr. Komaitis, Konstantinos: The European Commission insist on the 'fair share' debate, 2023, https://www.ko-maitis.org/personal-blog/the-european-commission-insists-on-the-fair-share-debate, 12/04/2023.

¹⁹ CCIA: Network Fees: EU Commission Launches Consultation on Telco Demands, 2023, https://ccianet.org/news/2023/02/network-fees-eu-commission-launches-consultation-on-telco-demands/, 12/04/2023.

²⁰ Breton, Thierry: Tweet: "Telecom Infrastructure costs billions. Who should pay for it? #GigabitEU", 2023, https://twitter.com/search?q=telecom%20infrastructure%20costs%20billions&src=typed_query&f=top, 13/04/2023.

²¹ European Commission: Better regulation toolbox, 2021, <a href="https://commission.europa.eu/law/law-making-process/plan-ning-and-proposing-law/better-regulation/better-regulation-quidelines-and-toolbox/better-regulation-toolbox en, 12/04/2023.

²² Ibid.

In addition, "better regulation guidelines"23 help create legislation that "achieves its objectives while being targeted, effective, easy to comply with and with the least burden possible"24. This process involves, for example, evidence-based evaluations and impact assessments to ensure that any measures taken are not unnecessary and actually add value.

vzbv urges the European Commission to adhere to the "better regulation guidelines" and "better regulation toolbox" when it comes to the issue of network fees. The aim must be to obtain evidence prior to any regulatory initiatives or amendments to ensure that such measures are truly necessary.

2.1 Market failure as a prerequisite for regulatory intervention

To date, the debate did not provide evidence indicating a market failure. However, it is necessary to establish a market failure to justify regulating a market that has hitherto proved itself to be functioning and to a large extent free. There needs to be an appropriate barrier to regulatory interventions that restrict companies' operational freedom. In vzbv's view, the reasons that telecommunications companies have provided to justify imposing a price regulation that favours them do not point to a market failure. Nor did a Federal Network Agency stakeholder workshop²⁵ held in September 2022, a public session of the German government's Committee on Digital Affairs²⁶ in March 2023, or a hearing at the Federal Ministry for Digital and Transport in March 2023 provide evidence of a market failure. Similarly, the Body of European Regulators for Electronic Communications (BEREC), as part of an initial analysis of the discussion about whether CAPs should pay ISPs, also found no justification for introducing network fees in the current market. BEREC states that the IP interconnection between CAPs and ISPs represents a competitive feature of the market and any disputes arising from it can, as a rule, be solved without regulatory intervention. BEREC thus sees no empirical evidence that the market for IP interconnection is no longer competitive.²⁷

There has been no evidence of a market failure. Similarly, the Body of European Regulators for Electronic Communications (BEREC), as part of an initial analysis of the discussion about whether CAPs should pay ISPs, also found no justification for introducing network charges in the current market. There is thus, objectively speaking, no regulatory need for such fees.

2.2 South Korea as a negative example of regulatory intervention

South Korea is the only country in the world that regulates IP interconnection (since 2016) and that has introduced the sending-party-pays model. Firstly, ISPs were obliged

²³ European Commission: Better Regulation Guidelines, 2021, https://commission.europa.eu/system/files/2021-11/swd2021 305 en.pdf, 12/04/2023.

²⁴ Ibid, p. 3.

²⁵ Workshop "Aktuelle Diskussion um einen Beitrag von Inhalteanbietern zu den Kosten der TK-Netzbetreiber – Chance oder Risiko?" ("Current discussion on content provider contributions to the costs of German telecommunications network providers - opportunity or risk?") in Bonn on 22/09/2022.

²⁶ Bundesregierung Deutschland: Öffentliche Sitzung zum Thema "Infrastrukturabgabe für Over-the-Top-Anbieter" (Government of the Federal Republic of Germany: Public hearing on the topic of "Infrastructure charges for over-the-top suppliers"), 2023, https://www.bundestag.de/ausschuesse/a23_digitales/Anhoerungen/936364-936364, 12/04/2023.

²⁷ BEREC: BEREC preliminary assessment of the underlying assumptions of payments from large CAPs to ISPs, 2022, https://www.berec.europa.eu/system/files/2022-10/BEREC%20BoR%20%2822%29%20137%20BEREC preliminaryassessment-payments-CAPs-to-ISPs 0.pdf, p.12, 01/04/2023.

to exchange data traffic for a fee for what was considered a transit service.²⁸ In addition, regional CAPs have been obliged to pay ISPs to terminate data traffic since 2020.²⁹ The price is based on the amount of data sent.³⁰ According to Consumers Korea, net neutrality has practically been abolished in South Korea.³¹ It is worth noting that the debate surrounding network fees in South Korea is by no means finished. The relevant legislation is still being worked out. If current regulation remains in place or become even stricter, a drop in infrastructure investments and a slowing of the digital transformation is expected.³² There is also a risk of market concentration and dominance on the part of a small group of ISPs.³³

In this debate, vzbv focuses on aspects relevant to consumers. Establishing network fees between ISPs and CAPs could negatively impact end users. For example, broadband costs rose in South Korea.34 Some CAPs reduced the quality of their streaming services.35 Traffic is also routed through other countries. These longer pathways not only reduce the quality of the content, but also lead to greater IT security risks. According to a study carried out by the Organisation for Economic Co-operation and Development (OECD), South Korea has the highest latency rate among OECD countries.³⁶ In September 2022, users of the Twitch platform experienced an overall deterioration of the streaming/gaming quality. Twitch blames rising costs for the drop in quality.³⁷ This real-life example shows just how little transparency such occurrences are for consumers. Individuals are almost never in a position to understand why the quality of their service deteriorates. Consumers are the ones who pay a monthly fee but ultimately have little influence on the quality delivered. The fact that consumers in Germany often fail to get the broadband speed guaranteed in their contracts is a long-standing problem and one which consumers can do little about.38 The problem could worsen further if network fees are imposed on CAPs, leading them to reduce quality in order to cut costs and data volume.

²⁸ WIK-Consult: Wettbewerbsverhältnisse auf den Transit- und Peeringmärkten, Auswirkungen für die digitale Souveränität Europas (Competitive conditions on transit and peering markets, impact on Europe's digital sovereignty), 2022, p. 35.

²⁹ Ibid.

³⁰ ITIF: Consumers Are the Ones Who End Up Paying for Sending-Party-Pays Mandates, 2022, https://itif.org/publications/2022/11/07/consumers-are-the-ones-who-end-up-paying-for-sending-party-pays-mandates/, 01/04/2023.

³¹ Consumers Korea: Network access fees: fair share or the end of the open internet?, 2023, https://www.youtube.com/watch?v=TqcF5CDgAcA, 01/04/2023.

³² Ibid, p. 39

³³ Internet Society: Internet Impact Brief South Korea's Interconnection Rules, 2022, https://www.internetsociety.org/wp-content/uploads/2022/05/IIB-South-Korea-Interconnection-Rules-2022.pdf, 14/07/2022.

³⁴ Park, Kyung Sin,Nelson, Michael R.: Korea's Challenge to the Standard Internet Interconnection Model, 2021, https://carnegieendowment.org/files/202108-KoreanWayWithData_final5.pdf, p. 74, 01/04/2023.

³⁵ Ihid

³⁶ OECD: BROADBAND NETWORKS OF THE FUTURE, 2022, https://www.oecd-ilibrary.org/docserver/755e2d0c-en.pdf?expires=1681664970&id=id&accname=guest&checksum=E774C06CCC36D46A27FC0786DCDE40F4, p. 50, 01/04/2023.

³⁷ Consumers Korea: Network access fees: fair share or the end of the open internet?, 2023, https://www.youtube.com/watch?v=TqcF5CDgAcA, 01/04/2023.

³⁸ Federation of German Consumer Organisations: Telekommunikation: Kundenschutz weiter unzureichend umgesetzt (Telecommunications: customers still not sufficiently protected), 2022, https://www.vzbv.de/meldungen/telekommunikation-kundenschutz-weiter-unzureichend-umgesetzt, 01/04/2023.

The example of South Korea shows that network fees for internet content providers may well have a negative impact on the price and performance of digital products and services for consumers.

2.3 Network fees as a threat to net neutrality

Regulation (EU) 2015/2021 has regulated net neutrality since 2015, ensuring equal treatment of data transferred via the internet and discrimination-free access when using data networks. Telecommunications providers are obliged to treat all data traffic equally. Users have the right to use their selected broadband package as they please and to access whatever content they want. To this extent, the regulation has major effects on business relationships in the area of IP interconnection and possible network charges for CAPs.

The exploratory consultation does not contain questions about the possible impact of network fees on net neutrality. In our view, the European Commission and the Directorate-General for Communications Networks, Content and Technology (DG Connect) do not take the concerns of civil society, Member States, Members of the European Parliament, Members of the Bundestag, academics, content providers and consumer organisations seriously enough. On the one hand, the European Commission is committed to the Open Internet Regulation and promises that there are no plans to modify the regulation.³⁹ On the other hand, according to a DG Connect representative, the concerns voiced by the above-mentioned stakeholders are not comprehensible, as the very notion that telecommunications companies would harm net neutrality if CAPs failed to pay network charges is "absurd".⁴⁰ And even if net neutrality were called into question, concerned parties could take the matter to court.⁴¹

Considerations regarding net neutrality ought to be analysed as part of an impact assessment, precisely to prevent such a scenario. Ultimately, any regulation must be designed to ensure that it is not left to a court to establish whether it complies with other EU legislation.

From a consumer perspective, it is useful to look back at the discussion and legal proceedings in relation to zero-rating practices. Here, too, telecommunications providers argued that such products are compatible with net neutrality. The European Court of Justice ruled in 2021 that zero-rating practices are not compatible with net neutrality.

Zero-rating practices, examples of which include StreamOn from Telekom or VodafonePass, mean that the data volume entailed by the use of certain services (such as Spotify, Netflix, WhatsApp) does not count towards the total volume included in end users' selected data package.

The telecommunications companies' own pricing structures not only incentivised the use of unlimited amounts of data for certain services, but also meant these companies benefited for years from the circumvention of net neutrality. StreamOn alone boasted some 4.6 million customers in Germany in 2021.⁴²

³⁹ European Commissioners Vestager and Breton: Letter to Epicenter.works, https://epicenter.works/sites/default/files/re-ply-to-letter - net neutrality and inter-connection.pdf, 01/04/2023.

⁴⁰ Lechler, Stefan: The network fee: fixing a real problem or creating one?, 2022, https://ww.youtube.com/watch?v=XmH_wNT7VoU, 01/04/2023.

⁴¹ Ibid.

⁴² Deutsche Telekom: Annual Report 2021, 2022, p. 72.

BEREC believes that net neutrality is not at risk as long as the "best-effort principle" is pursued and all data is treated equally. According to BEREC, the best-effort principle is apparent in the current interconnection agreements between IP networks in the form of transit and peering agreements.⁴³ However, changes to this approach at the wholesale level, as would be the case with network charges, could negatively impact net neutrality and end users if they no longer have access to all internet content.⁴⁴

vzbv believes that introducing network fees for CAPs could favour companies that are in a position to pay ISPs in order to reach end users. This would inevitably discriminate against companies unable or unwilling to pay.

Network fees could potentially undermine net neutrality and thus put consumers' free and open access to the internet at risk.

Before any regulations are drawn up, an impact assessment should be carried out to examine the interplay with Regulation (EU) 2015/2021.

⁴³ BEREC: An assessment of IP interconnection in the context of Net Neutrality, 2012, p. 5.

⁴⁴ Ibid.