



RESPONSE OF MICROSOFT CORPORATION

BEREC Draft Report BoR (24) 93 on the IP Interconnection Ecosystem

July 2024

Microsoft thanks the Body of European Regulators for Electronic Communications (BEREC) for the opportunity to provide our comments and inputs on the draft report on the IP interconnection ecosystem¹. Microsoft welcomes the findings of the draft report and is pleased to see that BEREC's rigorous analysis echoes many of the insights and recommendations we have communicated to BEREC, as well as to the European Commission over the past years.

Microsoft is encouraged by BEREC's affirmation that the IP interconnection market is characterized by functioning market dynamics which testifies the collaborative efforts of industry stakeholders involved. Indeed, IP Interconnection is a market where disputes are the exception rather than the norm. The report's findings that disputes are rare and, when they do occur, are balanced in terms of bargaining power among the parties involved, reflect a mature and resilient market. We also note that this finding is aligned with the view outlined in the White Paper on Europe's digital infrastructure needs, whereby the European Commission has also remarked that "there are very few known cases of intervention (by a regulatory authority or by a court) into the contractual relationships between market actors, that generally functions well and so do the markets for transit and peering"².

Microsoft welcomes the collaboration with BEREC and its aim for continued evidence-based work. Hereby Microsoft would like to share more specific comments and observations with regards to the statements and findings introduced in the draft report.

Traffic Developments

The insights shared in the draft report highlight the empirical data analysis and the comprehensive understanding of market trends. Microsoft appreciates the rigorous methodology employed by BEREC, which enhances the credibility and reliability of the findings.

¹ Public consultation on the draft BEREC Report on the IP Interconnection ecosystem ([Link](#))

² White Paper - How to master Europe's digital infrastructure needs?, p.26 ([Link](#))

The observations drawn from the recent studies and analyses present a promising outlook for the management of data traffic growth³. As evidenced by the BEREC report, the stabilization of the data traffic growth rate and the peak-to-average traffic ratio from 2018 to 2022 indicates a maturing network capacity that has been able to keep up with the demands thus far. The widespread installation of on-net Content Delivery Networks (CDNs) within the networks of Internet Access Service (IAS) providers, as noted by BEREC, further supports the network's ability to efficiently manage data traffic. We agree with the reports findings that these proactive measures are likely to cushion the impact on peak traffic levels and maintain a balanced peak-to-average traffic ratio.

The current trends and future projections suggest that the network infrastructure is well-equipped to handle the evolving data demands. The ongoing technological enhancements and strategic deployments within the networks are indicative of a robust and adaptive digital ecosystem that is prepared to support the increasing data consumption patterns.

Pricing and Costing Developments

The downward trend in pricing and costs for IP-Interconnection (IP-IC) services is a testament to the efficiency gains achieved through technological advancements. BEREC report rightly points out that the installation of on-net CDNs is a prime example of such technological progress that has enabled service providers to handle increased data traffic without passing on the costs to consumers.

This trend is further reinforced by the observation that despite the uptick in network usage, the marginal interconnection network costs have declined due to continuous technological improvements and competitive market pressures. These factors have collectively contributed to a scenario where the benefits of reduced marginal costs outweigh any potential cost increases associated with higher network usage.

In essence, the current landscape of IP-IC services is characterized by a virtuous cycle of technological innovation and competitive dynamics that are driving costs down. This environment not only fosters affordability and accessibility for consumers but also encourages further investments and innovations in the network infrastructure, ensuring its sustainability and resilience in the face of growing data demands.

Market dynamics, disputes and bargaining situation between CAPs and IAS providers

The IP interconnection market is characterized by a robust spirit of collaboration among stakeholders and operates efficiently without the necessity for regulatory oversight. Since 2017, the occurrence of disputes has been notably minimal. Such disputes are outliers, and the

³ For example, according to France's telecom authority, ARCEP, 2023 data shows the rate of incoming interconnection traffic slowed to 7.6 percent ([Link](#)).

overarching market dynamics demonstrate a smooth operation that does not warrant regulatory intervention.

The insights presented in the report regarding the relative bargaining power dynamics between ISPs and CAPs are particularly astute. In chapter 7 of the report, BEREC delves into various factors that shape this equilibrium, such as the substitutability between transit and peering, along with the contrasting cost structures associated with transit (variable costs) and peering (fixed costs). These intricate insights highlight the equilibrium in bargaining scenarios among market participants, which is subject to evolution in response to technological advancements and competitive forces as described on page 31 of Chapter 7 of the draft report.

Moreover, the infrequency of typical disputes serves as an indicator of the market's overall efficacy. It is also important to note that workshops conducted by BEREC have revealed a consensus among stakeholders regarding the market's self-sufficiency, with no inclination towards seeking regulatory intervention. This consensus aligns with and reinforces the report's findings, advocating for the market's capacity for effective self-regulation.

Final remarks

Microsoft supports the findings of the BEREC draft report on the IP interconnection ecosystem. The report relies on solid analysis of the market and reconfirms the view that it is crucial to maintain an evidence and fact-based approach in adapting to market changes and fostering mutual understanding without rushing into initiatives or policy proposals that could prove to be detrimental.

Through its considerations, BEREC notes how the analyzed dynamics give a picture of a sectoral evolution rather than a revolution that needs prompt regulatory actions, noting that many developments continue progressively compared to past observations. Technological changes and competition dynamics, including occasional disputes, remain within normal levels, which testifies there is no need for policy measures as envisaged by Chapter 3.2.2. of the European Commission's White Paper on Europe's digital infrastructure needs.

We thank BEREC for the opportunity to comment on its draft report and look forward to continuing working with BEREC on these important topics.