



ITU-D Study Groups

Question 3/1 and Question 4/1 joint session on the Economic Impact of OTTs on National Telecommunication/ICT Markets

Tuesday, 1 October 2019 (Room K, ITU)

Summary of SAMENA Network Operator Contribution to ITU workshop on the Economic impact of OTT, 1 October 2019

Connecting the Unconnected

- ✓ To connect the remaining 49% that are predominantly rural, poor, illiterate, female and elderly, more innovative and collaborative efforts are required, including new mechanisms and approaches to broadening the local investment contributing basis

Funding the deployment of infrastructure

- ✓ Areas without 3G or 4G coverage are largely locations which are geographically or politically challenging and expensive, requiring substantial initial CAPEX and OPEX for roll-out, operation and maintenance
- ✓ Key challenges to an economically viable network roll-out and an adequate return on investment in these areas include low-income levels and lack of digital know-how and skills, weak or non-existent infrastructure such as electricity, declining average revenue per user (ARPU) and slower subscriber growth
- ✓ Additional challenges present current network investment models, that rely on cost recovery from services offered, which are significantly impacted by the trend towards the disaggregation of the provision of services from the network, as more services are provided “Over-the-Top”
- ✓ Finding a way to re-connect the recovery of investments in networks with contributions from services provided over those networks is a key challenge, which will persist in a 5G environment

Striking a Balance Between National Operators and Global Digital Platform Operators

- ✓ Digital Platforms create economic value by relying on platform economics (e.g. network effects, economies of scale and market power), intangible assets and user-generated data, with suppliers, consumers and marketplaces often located in different tax jurisdictions. This creates a mismatch of where services are consumed and value is created, where corresponding revenues are achieved, and profits are taxed or re-invested
- ✓ National operators are investing locally with positive impacts on the local community firstly through providing their networks and ICT capabilities, and secondly by committing cash towards national programmes, including local employment, investing in local start-ups and early-stage businesses developing locally relevant content; developing national training programmes; contributing towards the state’s social welfare; contributing towards philanthropic causes and contributing towards the fiscal budget through taxation and licensing fees
- ✓ Global Digital Platforms largely create local value and tend to pay taxes and undertake the bulk of their corporate social responsibility activities in their home countries, rather than in

consumption countries. This creates an imbalance in the contributions provided by different digital ecosystem stakeholders to local societies and economies

- ✓ There are no mechanisms in place to-date that address this imbalance between national operators and global Digital Platforms, as in many countries regulatory and taxation frameworks have not yet been modernised to accommodate the global nature of digital services provision

Adapting Regulatory Frameworks to the Digital Age

- Increasingly, more attention is paid to the impact that Digital Platforms and services have on local markets. ITU's Global ICT Outlook 2018¹ provides an overview and contextual discussion of the status of Digital Platform regulation and the various areas that are relevant to the debate. Other organizations such as UNCTAD and the OECD are also assessing the impact of Digital Platforms on Competition and Taxes.²
- In the GCC region, the most comprehensive consideration of Internet Applications was undertaken by the Telecommunications Regulatory Authority of Bahrain in 2014 in its study "Policy and Regulatory Framework for Governing Internet Applications"³, which concluded that the market is dysfunctional as network operators are unable to compete and counteract the global competition and therefore the central regulatory task is to analyse the dysfunctionality thoroughly and introduce counteracting measures.
- Other countries, including the Kingdom of Saudi Arabia and Jordan have considered Digital Platforms and Internet Applications in their Market Designation, Determination, Dominance Report – 2017, and the Strategic Market Review 2018. However, none of the considerations have led to any change in the Regulatory Framework or legislation to-date.
- Collaboration between network operators and MNOs is not institutionalized. Across the region it is general practice for MNOs to offer and advertise service bundles, including social media, IP messaging etc. to customers, however mostly without an underlying commercial relationship or agreement with Digital Platforms.
- The new European Electronic Communications Code ("EECC") changed the definition of "electronic communications service" to cover OTT services⁴, including number-based and number-independent interpersonal communication services.

¹ See: <https://www.itu.int/en/ITU-D/Regulatory-Market/Pages/Outlook/2018.aspx>

² See. UNCTAD Digital Economy Report 2019: "Value Creation and Capture: Implications for Developing Countries", OECD 2015 "Addressing the Tax Challenges of the Digital Economy", OECD / G20 Base Erosion and Profit Shifting Project, and "Tax Challenges Arising from Digitalization – Interim Report 2018"

³ See: http://www.tra.org.bh/media/document/Study_Policy_Regulatory_Framework.pdf

⁴ See: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L.2018.321.01.0036.01.ENG>

The EECC covers OTT services in Art. 2 (6) and (7). Recital 15 of the EECC explains the rationale that "The services used for communications purposes, and the technical means of their delivery, have evolved considerably. End-users increasingly substitute traditional voice telephony, text messages and electronic mail conveyance services by functionally equivalent online services such as Voice over IP, messaging services and web-based e-mail services."

- In its response to the ITU's CWG-Internet: Online Open Consultation "Public Policy Consideration for OTTs" (June-September 2017)⁵, SAMENA Council made a number of recommendations for regulatory reform towards a more even playing field.
- The Broadband Commission's Working Group Report "Digital Infrastructure Moonshot for Africa" 2019 recommends in Section 9 "Financing Digital Infrastructure Targets", that with digital services being increasingly provided by non-network operators and as the infrastructure gap is caused by a funding gap, innovations to finance models may of necessity require obtaining contributions from non-network operators on a direct or indirect basis.

Institutionalizing Local ICT Infrastructure Investment contributions

- New approaches to strike a balance are required to enable Global Digital Platforms to contribute towards the development of an ecosystem, which will foster the growth of digital services in a local market
- Such approaches can include taxation, dedicated ICT funds, "pay & play" models, commercial arrangements, and corresponding changes to policy and regulatory frameworks as a key enabler of new approaches

Key Message

- To achieve true meaningful universal connectivity, all ICT stakeholders must contribute to local infrastructure and the local ecosystem
- Adequate mechanisms must be identified that broaden the local investment contributing basis for infrastructure
- To determine the magnitude of contributions needed, it is important to assess in detail what is required in terms of cost of service delivery in a high-speed Broadband world

⁵ See: <https://www.itu.int/en/council/cwg-internet/Pages/display-June2017.aspx?ListItemID=74>