

OTT Players

Challenges and Opportunities

Agenda

1. Introduction
2. Regulatory environment
3. Challenges

The purpose of this roundtable is to initiate a discussion that would highlight key issues underlying the OTT business in our markets

Definition

Any Content and Applications Provider (CAP) providing online services that can be regarded as potentially substituting for traditional telecommunications and audiovisual services such as voice telephony, SMS and television¹

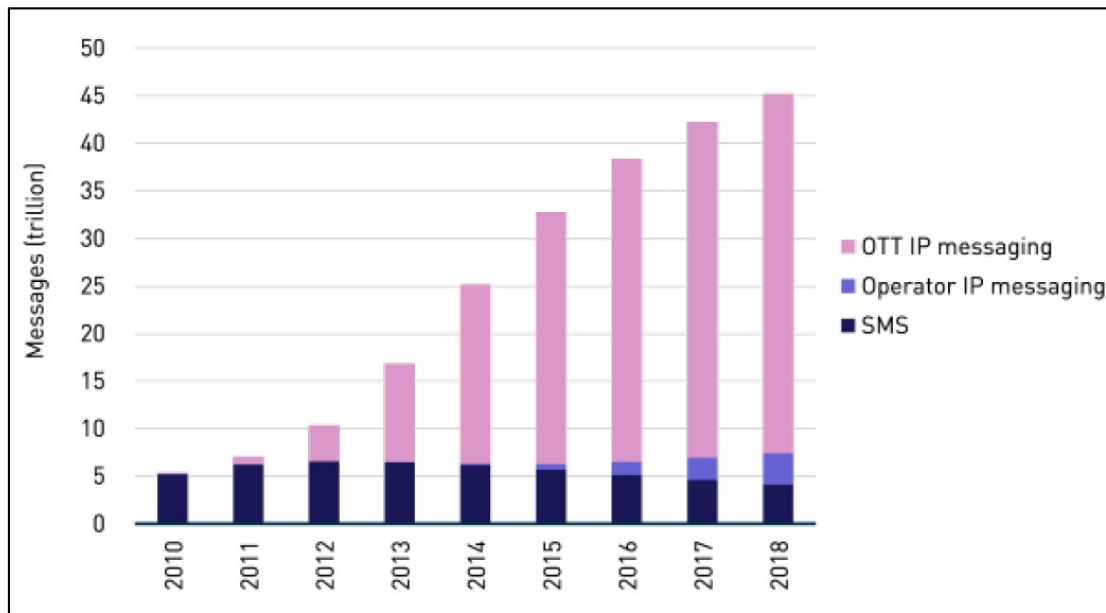


Source: <http://ottsource.com/ott-blog/>

¹Directorate General for Internal Policies, EU: OTT Players, Market Dynamics and Policy Challenges

Substitution Effect is real

International data on service volumes strongly suggests that OTT are substituting communication and audiovisual services



Source: Analysys Mason, 2014²⁸

- The largest effect is seen in messaging, where OTT has clearly overtaken SMS
- International traffic for Skype grew by 36% to 214 billion minutes in 2013¹
- In the same period, traditional carriers (fixed and mobile) witnessed an increase in international traffic by 7% to 547 billion minutes
- Traditional voice and SMS revenues have declined by 17%²

¹ TeleGeography, January 2014

² In a study done by STL Partners in 2014 covering USA, Canada, Germany, France, Spain, Italy, UK, Singapore and Taiwan for a period of 5 years covering 2008-2013

Central Theme

The level playing field is the central theme in the discussion about regulatory treatment of OTT

- Proportionality
- Goals

Services that have the same functionality and compete with each other should all be subject to the same regulatory treatment¹

¹Directorate General for Internal Policies, EU: OTT Players, Market Dynamics and Policy Challenges

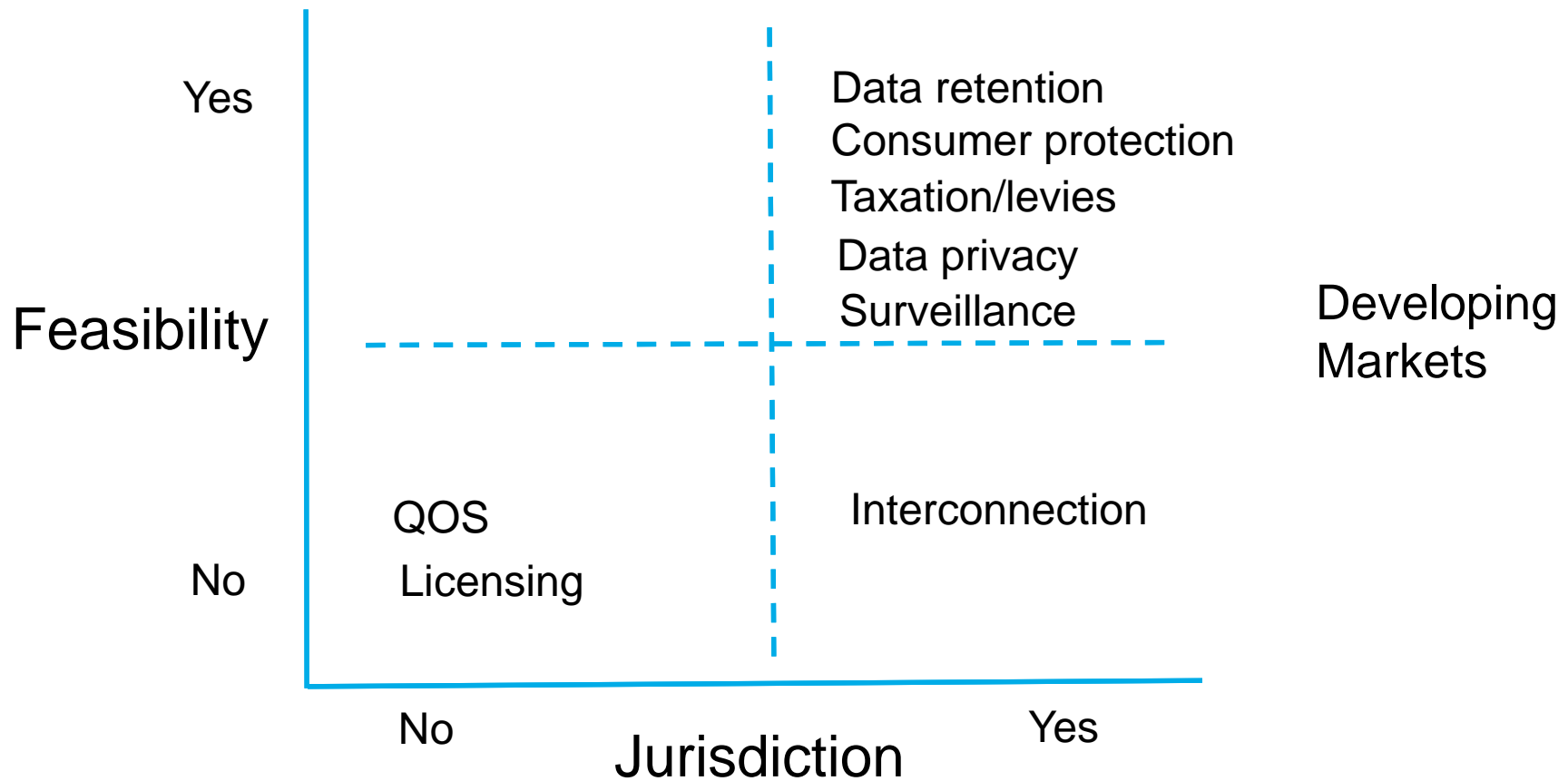
Regulatory Imbalance

Type of Regulation	Telecom Service Provider	OTT Service Provider
Spectrum	Bears cost and obligations	No cost
Licensing	Applicable with fees	No license
Coverage	Cost and obligations	No cost or obligations
Taxes/levies	Applicable	Not applicable
Data retention	Obligated under license	Not applicable
QOS	Obligated under license	Not applicable
Interconnection	Obligated	Not applicable
Surveillance	Obligated under license	Not applicable
Emergency services	Obligated under license	Not applicable
Consumer protection	Obligated under license	Not applicable
Infrastructure sharing	Obligated under license	Not applicable
Provisions of the Act	Applicable	Not applicable

Regulating OTT

Various options available

However, in the context of jurisdiction and technical feasibility ...



Licensing

Can licensing OTT level the playing field?

- The opportunity to license OTT presents itself as a binary problem
 - Local entities may get a class license and offer services
 - International players will find it impractical due to fragmentation and lack of harmony in licensing regimes – hence, risking being blocked
- There is precedence of blocking VOIP in various countries – e.g. UAE, Egypt, China, Russia, Vietnam etc.

Challenges

- This will most likely result in stifling growth of internet and innovation in the sector
- It will limit consumer choice and in the long run, neither benefit industry or the economy
- We have our own specific example of blocking YouTube that did not serve the intended purpose

Interconnection

- Key issue here is network service providers demanding a fair share of data traffic carriage from OTT in order to recoup burgeoning investments in data infrastructure
- OTT on the other hand maintain that their investments are best utilized by spurring demand side economic activity
- Some high profile disputes are prompting European regulators (e.g. ARCEP) to study peering arrangements in more detail¹
- In the USA, FCC through its Open Internet Report and Order is seeking a case-by-case judgement on IP interconnection disputes²
- An appropriate wholesale IP interconnect charging model is an ongoing debate and will most likely take two routes:
 - a) Standardization at the industry level
 - b) Dispute resolution on a case-by-case basis at the level of national regulatory authorities

¹ARCEP's administrative inquiry on the technical and financial terms governing IP traffic routing

²FCC 2015 Open Internet Order

Data Management

Protection

There are ongoing discussions between EU and USA – e.g. Safe Harbour Agreements, which are very complex

Not feasible to duplicate at individual country's level

Retention

Cross-border data access is unregulated for OTT but prohibited for Telco thus, causing various innovations to evade our markets –

e.g.:
Cloud computing
Network virtualization

Surveillance

'Mere Conduit' provision¹

With increasing influence of online services, the onus is slowly shifting from Telco to OTT players (at least in EU and USA)

It is important that the regulatory burden of data management on the telecom operators is reduced in order to level the playing field

¹Mere Conduit Provisions – article 12 e-commerce Directive, EU

Consumer Protection

Asian markets impose tough consumer protection regulations for Telco in the following areas:

- Contractual and pricing transparency
- Protection against harmful content
- Access to emergency services

OTT on the other hand, are not subjected to any of these regulations

The principle of equal treatment implies that the regulatory burden of telecom operators must be reduced from the current high levels

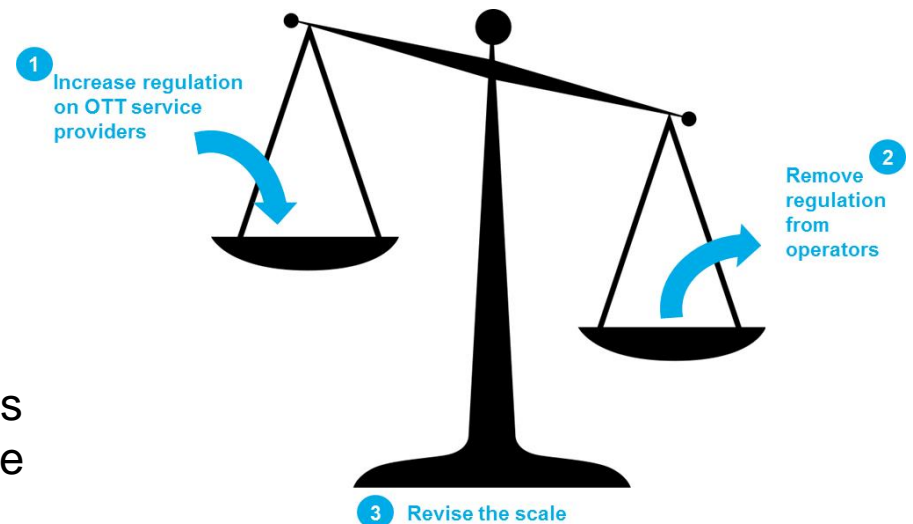
Taxation/Regulatory Levies

- Typically in our markets, Telecom is one of the highest taxed sectors of the economy
- Then there are regulatory levies like spectrum fees, universal service, numbering, etc
- OTT on the other hand, don't pay any taxes yet continue to offer competing services to their consumers across national borders

What other way to remove this imbalance other than reduction in taxes/levies for Telecom Operators?

Way Forward

- The discussion on regulating OTT is an evolving one with no clear answers yet
- These discussions will most likely take many years to evolve, even in the most developed of markets
- In our region, it could take even longer, maybe until a time that we are able to organize ourselves as credible sectoral/economic blocs
- It is therefore, necessary that during this time of uncertainty, we make way for the “same service, equal treatment” principle by reducing the regulatory burden on telecom operators



Thanks