ITU Workshop on "Apportionment of revenues and international Internet connectivity"

(Geneva, Switzerland, 23-24 January 2012)

NETWORK EXTERNALITY IN TELECOMMUNICATIONS: Implementation of Recommendation ITU-T D.156

Pauline TSAFAK DJOUMESSI,
Head, Market Observatory Service, Ministry of Posts and Telecommunications, Yaoundé, Cameroon

International Telecommunication Union

Contents

1- INTRODUCTION
2- DIFFICULTIES IN IMPLEMENTING RECOMMENDATION D.156
3- CASE OF CAMEROON
4- CONCLUSION

1-INTRODUCTION

- Recommendation D.156 on network externalities was adopted at WTSA-08, despite abstentions on the part of the majority of developed countries, i.e. the countries whose operators would in principle be net payers of the network externality premium.
- An appendix to the Recommendation set out additional items for study by SG 3.

1-INTRODUCTION

- To respond to the issues in the Appendix, ITU-T SG 3 agreed on the principle of developing two annexes to Recommendation D.156.
- An Amendment 1 to Recommendation D.156 was approved by ITU-T SG 3 at its meeting on 25 May 2010. This amendment relates to the approval of an Annex A on the practical implementation of Recommendation ITU-T D.156.
- An Annex B on the method for calculating the network externality premium is currently being developed.

2- DIFFICULTIES IN IMPLEMENTING RECOMMENDATION D.156

- Recommendation D.156 is difficult to apply as it stands, insofar as *recommends* 2 stipulates that the externality premium is to be negotiated bilaterally on a commercial basis.
- It is interesting, however, to observe that some countries have invoked the notion of network externalities to introduce a tax on incoming international communications.
- Revenue from this tax is thus paid directly into the public coffers, whereas in the spirit of Recommendation ITU-T D.156 revenues from the premium should be ploughed back into development of the telecommunication network.

2- DIFFICULTIES IN IMPLEMENTING RECOMMENDATION D.156

Even in this context, it would be more appropriate to levy a network externality premium instead of a tax on incoming international communications, for the following reasons:

- Economic grounds: The presence of externalities is a market failure. It is to correct this distortion that the payment of a premium called the network externality premium was introduced in Recommendation ITU-T D.156.
- The tax on incoming international traffic is set without reference to the origin of the traffic, whereas the network externality premium is only to be levied when it is proven that the destination operator generates positive externality for the operator of origin.
- Revenues from payment of the network externality premium are intended exclusively for extension of developing country telecommunication networks.

3- CASE OF CAMEROON

- The regulatory framework governing telecommunications is under review. In the draft new decree which will redefine the regulator’s missions, it is planned to establish a platform to monitor international traffic, as a first step towards possibly introducing a network externality premium.
- The hypothesis of the possible introduction of a network externality premium on incoming international traffic will be discussed when reviewing the draft decree on charges.

3- CASE OF CAMEROON

- If the principle is agreed, the premium will thus be set by regulation and unilaterally for some operators terminating traffic in Cameroon for which Cameroon as a destination generates positive externalities.
- The level of the premium to be set will have to be determined on the basis of draft Annex B to Recommendation D.156 currently being developed within SG 3.

4- CONCLUSION

- Recommendation D.156 as it stands is not yet applied by telecommunication operators in Cameroon.
- In general, however, it may be observed that some governments and their partners appear rather to have invoked the thrust of the Recommendation, namely the introduction of a network externality premium, as a basic principle to justify levying taxes on incoming international communications.

THANK YOU FOR YOUR ATTENTION

QUESTIONS?