



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)

ITU Workshop on OTTs 1 October 2019

Session 1: OTTs and Network Infrastructure

Introduction

In the developing world, there is no coverage in many hard to reach areas in Africa, Asia, South America and the Pacific Islands. Half the world is not online – that is 3.7 billion people. The ITU estimated that it would cost \$450 billion to connect the next 1.5 billion people. The UN Broadband Commission 'Moonshot for Africa' Working Group estimates it will cost over \$100 billion to achieve ubiquitous broadband coverage in Africa by 2030. This is just for broadband connectivity by today's standards.

In the developing world internet speeds are behind the US, EU, Japan, South Korea – constant investment required but even those areas that are connected have a lesser quality of experience.

The Funding Gap – is a two tier digital world acceptable?

There is a funding gap – it is simply not economically viable to connect the unconnected based on the traditional commercial models of telecoms service revenue cost recovery. If network operators could get a return on investment from expanding their networks they would have already done it.

A problem in many developing countries is that people do not have a lot of disposable income. Therefore a model where the end user pays for the network does not work.

The ad funded and subscription based business model where OTTs transact directly with end users or advertisers and ignore the network operators has led to significant problems in developing countries. The trend towards the disaggregation of services is making this more acute – recovery of cost from services has always been an important part of the model.

Further, incoming service revenues from wealthier countries were also always part of the model particularly in smaller countries which are heavily dependent on tourism - however incoming international calls and roaming have fallen off completely – down 70% in some countries, again as people switch to OTT competitors.

An example of the funding challenge, in the Eastern Caribbean voice traffic is falling away as people switch to OTT competitors, but revenues are not being replaced by data services. The uptake of mobile broadband still around the 50% level while there is constant demand for upgrades to capacity driven by video.

If we want to solve this problem everything must be on the table and we need to find a way to re-connect the contribution from services to the cost of network

Citizens in developing economies cannot afford to directly pay for the network investment through higher prices. Their Governments do not have the tax revenues to fund the development and taking money off network operators through Universal Service Funds only to hand it back to them to build the network is an exercise in futility. Looking at external sources of funding the World Bank cannot fund every project. Therefore, another external source is required. There is a need to broaden the funding base.

All who benefit from networks must play a part

Two core principles need to be agreed:

- One – is it acceptable that there is a two tier digital economy? Why should people in Africa not aspire to the same internet speeds as in the US?
- Two – in order to solve this do we agree that every business that derives benefit from the network has a role to play - and should make some form of contribution?

Although it is difficult to be prescriptive at this stage as to what a solution might look like, there are initiatives that we could look towards.

There are plenty of examples of contributions from service revenues paid towards infrastructure funds in the form of USF funds around the world. These act as an indirect levy on the users of telecoms services in better off sectors of the economy and country to fund network rollout in uneconomic areas. This approach does not work when the persons with service cannot afford to pay and where the service revenues are moving outside of the scope of the levy in any event. What we need to do is innovate to enable contributions from all of the service providers in the digital economy of the 21st century.

The long established principle of universal service requires cross subsidization and subvention of rollout in less wealthy areas by those in the wealthier areas. If we are all global digital citizens then this approach needs to be adapted for the global digital economy where the service providers are global.

As regards potential approaches, new Digital Service Taxes are proposed in a number of jurisdictions and earmarking a % of any new DST for an infrastructure fund could be considered. Vanuatu has a very interesting USF “Pay or Play” model under which the Regulator can agree rollout commitments and forego levy payments.

Such arrangements might suit some OTTs that are developing projects and wish to make a capital contribution or ‘Play’ contribution under such a system. Other OTTs might prefer to make an Opex contribution and pay into a fund or engage in partnerships with network operators.

The structure must be formalized by regulation – Governments must make this mandatory as otherwise some OTTs may not participate. Ultimately, networks benefit OTTs and targeted contributions by them will benefit their businesses too.

Conclusion

The size of the opportunity is significant as currently the annual revenues of the Digital Giants earned outside of the US and EU are currently of the order of at least \$10 billion and are predicted to increase significantly.

If 1% of the current level of revenue was to be earmarked for infrastructure over a 15 year lifespan that would amount to \$1.5 billion for infrastructure. This will not solve the problem on its own, but such a sum would vastly improve the business case for connecting the unconnected.