OTT Fair Share

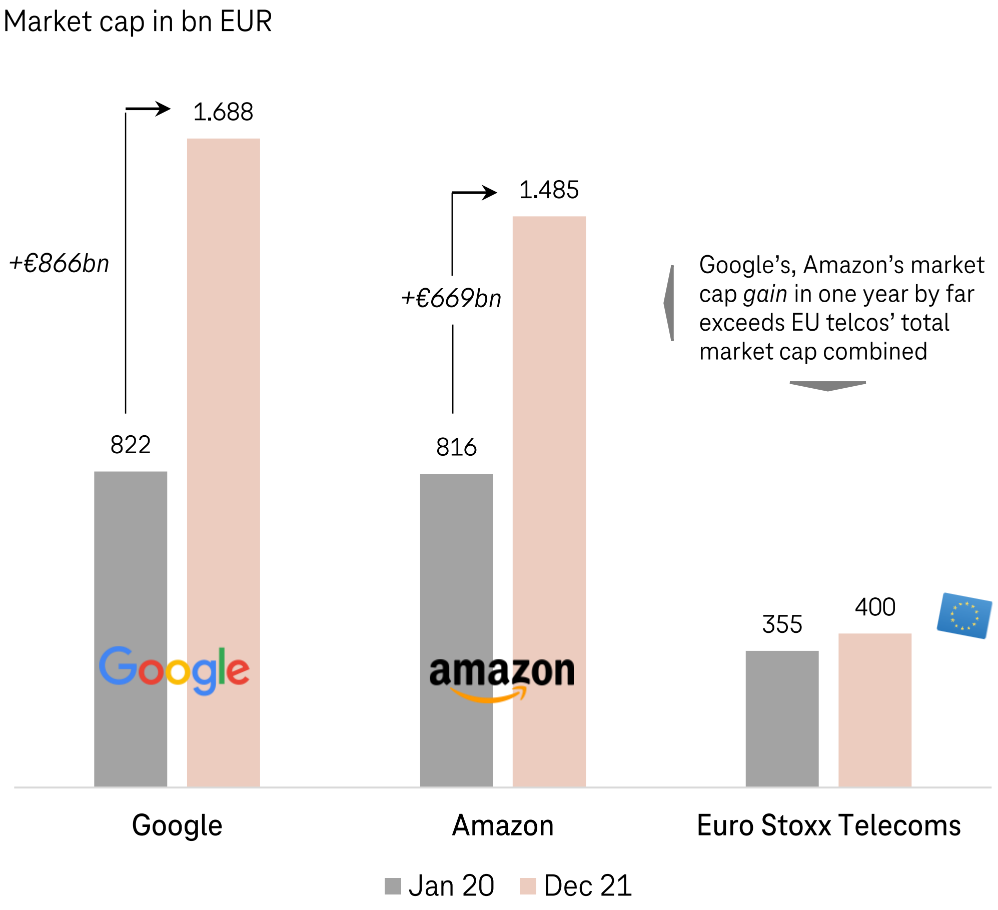
Should Big Traffic Originators Contribute to Network Costs (and How)?

Blagoj Hristov, Makedonski Telekom

Ohrid, May 2022

Big tech doesn't contribute a fair share to network costs

Internet companies thriving …



… but free-riding on telco networks

- **More than 70%** of Internet traffic: video streaming, social media, gaming
- **More than 50% of traffic** in European telco networks derives from four global Internet companies (FANG)
- **Bargaining asymmetry** increasingly prevents telcos from negotiating reasonable and fair fees with OTTs

Fast-growing OTT traffic **+30% p.a.**

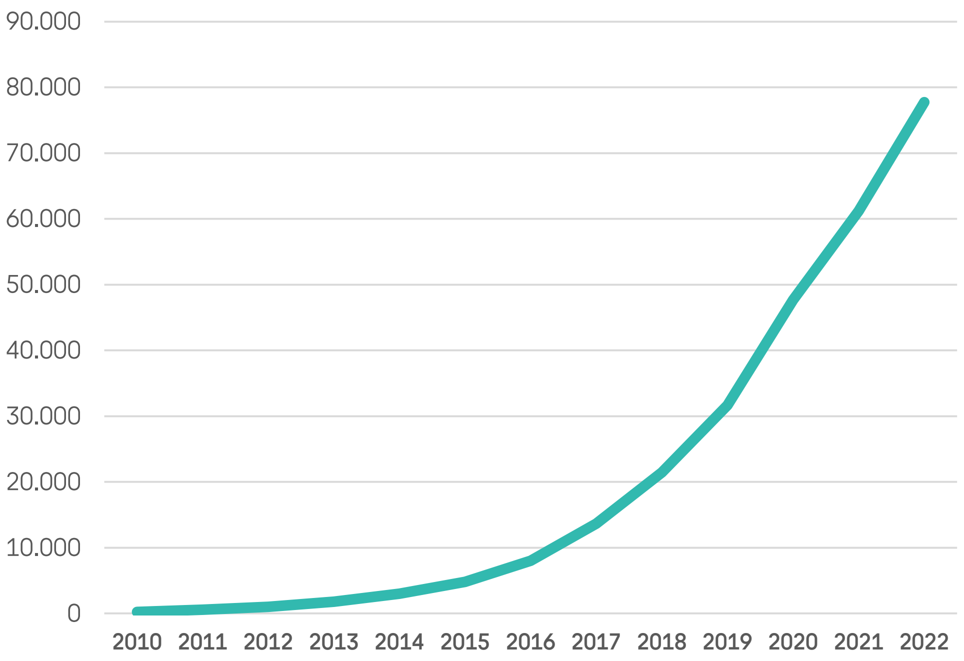
New EU legislation required
for fair cost sharing for a modern fibre infrastructure

Source: Bloomberg, Sandvine

Exploding data traffic – also in CEE

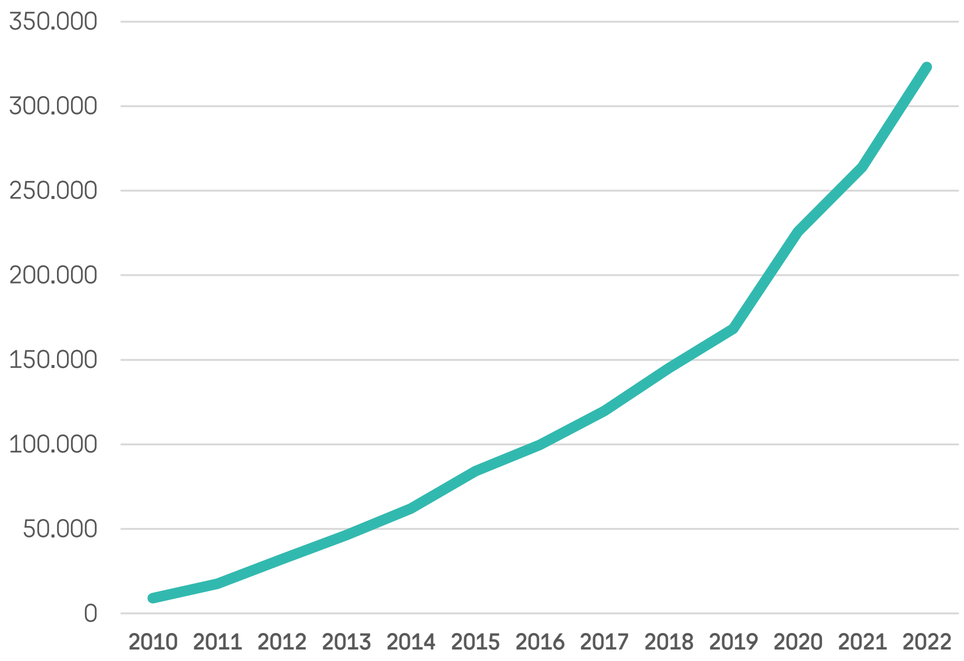
Data traffic in Central and Eastern Europe

Mobile data traffic (Petabyte)



CAGR 2010-2022: ***62%***

Fixed data traffic (Petabyte)



CAGR 2010-2022: ***35%***

Source: Analysys Mason

IP wholesale: growing traffic, but declining revenues

IP wholesale: Appropriate, cost-covering fees cannot be enforced due to the overwhelming market power of the large Internet companies

A large and increasing proportion of data traffic in telco networks is generated and monetized by large tech platforms

High telecom network investment for capacity expansion – users expect a good network experience

CAPEX

No content provider pays appropriate, cost-covering fees to telecom providers

€ < €€€

FEES COSTS

Price pressure from tech companies in IP wholesale continues increasing – many tech companies want to abolish IP transit fees entirely

IP-TRANSIT FEES

IP transit revenues plummeting despite IP transit traffic growing at around 30% p.a.

IP-TRANSIT REVENUES

For tech companies to make a fair cost contribution: political solution required at EU level

HARMONIZED EU REGULATION

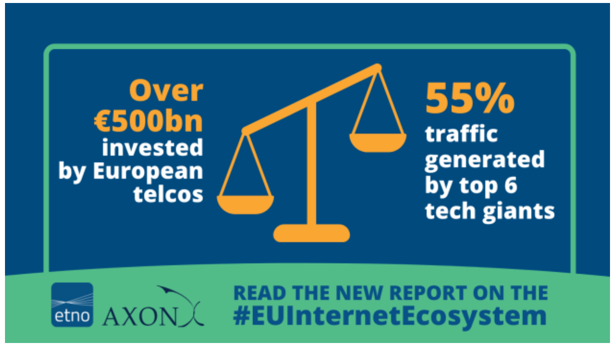
Two new studies are the „talk in town“ at Brussels

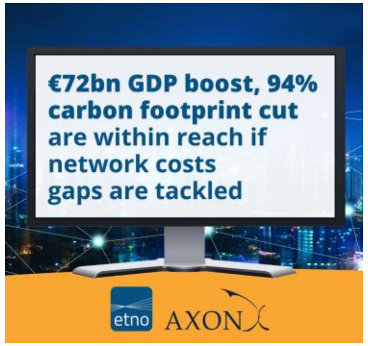
NEW
2 May 2022

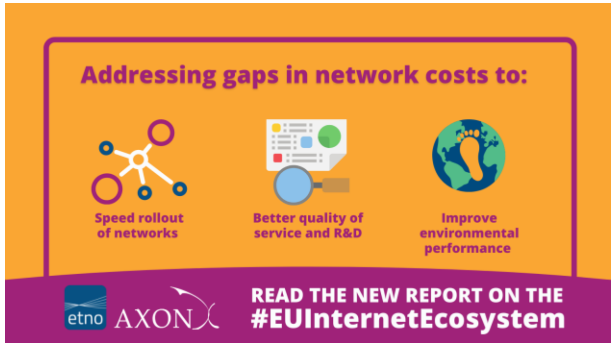
Frontier Economics, Estimating OTT traffic-related costs on European telecommunications networks

- Traffic driven network costs: 36-40 billion Euro p.a. across Europe (LRIC+)
- On average 40-47 Euro per customer in wireline, 43-46 Euro in mobile
- These estimates illustrate the dimension of the costs, that are attributable to OTT trafdfic., This is **NOT** what the European Telcos consider to be the „OTT fair share“(!)
- The analysis is based on actual cost data provided by Deutsch Telekom, Orange, Telefononica and Vodafone

Axon, Europe’s internet ecosystem: socio-economic benefits of a fairer balance between tech giants and telecom operators







Ending big tech's free ride: the debate is on

In the US ...

Newsweek

Ending Big Tech's Free Ride

BRENDAN CARR, *FCC COMMISSIONER*

Mai 2021

"It is time to fundamentally rethink how we fund our high-speed networks. We should start requiring Big Tech to pay its fair share."

In South Korea ...

SK Broadband
"Netflix should pay for the use of the network"

Legal battle

Netflix
"We don't have to pay for the use of the network because of network neutrality"

New legislative proposal to clearly specify network charges

... and now in Europe

Statement of intent for future legislation

EU platform regulation

Digital Markets Act (DMA)

- DMA to secure competition in the digital economy ...
- ... but does not regulate fees Internet companies pay to telecom operators

ETNO Joint CEO Statement

Joint CEO Statement: Europe needs to translate its digital ambitions into concrete actions

REUTERS

EXCLUSIVE Europe's telcos want U.S. tech giants to help fund network costs

Nov 2021

EU Commission

Draft Declaration on Digital Rights and Principles for the Digital Decade, 26.1.2022

"We commit to ... develop adequate frameworks so that all market actors benefiting from the digital transformation ... make a **fair and proportionate contribution to the costs of** public goods, services and **infrastructures**"

New EU regulation for a fair contribution from Internet companies

STATUS QUO

- Unregulated markets
- Internet companies leverage their market power in digital services markets to exercise bargaining power in IP transit fee negotiations
- Negotiated IP transit prices do not reflect the true underlying costs

TARGET

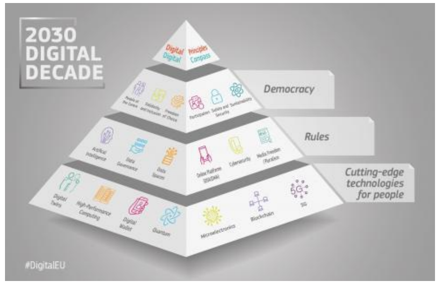
New regulation at EU level
best suited to solve the problem

Favoured model:

- Legal anchoring of the „sending-party-pays“ principle
- Mandate for commercial negotiations on fair and reasonable terms
- Mandatory arbitration by competent authority if no agreement is reached

- Green connectivity and digital technologies contribute to more sustainability and efficiency, strengthen Europe's green leadership and create green jobs.
- Without an adequate ‘price’ for data transport, the incentive for large content providers to optimize their data traffic remains low.

EU Commission in the starting blocks



“We commit to … developing adequate frameworks so that all market actors benefiting from the digital transformation … make a **fair and proportionate contribution to the costs of** public goods, services and **infrastructures**”

European Commission, draft Declaration on Digital Rights and Principles for the Digital Decade [1]

CULLEN INTERNATIONAL

European Commission to further look into big tech companies’ contribution to network costs

22 March 2022 Jacek Kowalski

“We need facts and figures to better understand who is contributing to what […] and whether big platforms are already contributing in another form”, according to Rita Wezenbeek (DG Connect, director unit B – connectivity).

mlex

Issue of fair reward for telecom network investments under examination, EU official says

23 Mar 2022 | Matthew Newman

Evidence is being collected to assess if there's a “fair balance” between telecom operators investing in networks and content producers that use those networks, a senior European Commission official said today (...) Roberto Viola, director-general of the commission’s digital department, said at an event today that “clearly" there should be a fair split.

[1] European Commission, COM(2022) 28 final, https://digital-strategy.ec.europa.eu/en/library/declaration-european-digital-rights-and-principles#Declaration

Take-aways

WHY

If there is no economic price signal, the resource will continue to be “over used”

WHAT

Traffic will continue to rise, the growth rate is currently exponential

HOW

This is a topic that needs to be appropriately addressed in the WB6 region