

# Why Should OTTs Pay?



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On August 14, this page published 'Netflix Your OTT Muscles', by V Sridhar, Rohit Prasad and Mansi Kedia. In the piece, the authors argued that OTTs that are large traffic generators (LTGs) should pay a fee to telecom companies for the capex investment they make to support the traffic generated by OTT video services.

The arguments to justify this, unfortunately, included various alternative facts and some misplaced theories, and are flawed for several reasons.

- ▶ Customers are paying telcos data charges for watching OTT platforms.
- ▶ Isn't the value of the telecom service linked to the demand for OTT apps, and if these are taken off, would customers stick to a particular network?
- ▶ OTTs are being told that the fee is a fair share of the capex investment in the network. Were OTTs consulted and involved in the selection of the equipment and the negotiation of the prices thereof? Wouldn't fairness and natural justice have demanded such involvement?
- ▶ It is also being stated that 5G has entailed huge investments, and OTTs must pay their fair share. But did telecom companies consult OTTs and take their consent before participating in the 5G auction and committing huge sums for procuring the 5G spectrum? Is it fair to ask an entity to contribute to a cost where they had no say?
- ▶ Don't telecom companies enjoy tariff forbearance by Trai,

and, hence, operators are free to charge customers appropriate data tariffs to cover their costs? So, isn't asking LTGs to pay for infrastructure development double-dipping?

The August 14 article relies on the lone example of South Korea to justify paying a network fee. However, the attempt by South Korea, the only country that has implemented the Sending Party Network Pays (SPNP) model, has failed.

As a WIK-Consult report ([bit.ly/47CEEQh](http://bit.ly/47CEEQh)) shows, South Korea's action led to the following outcomes:

- ▶ Consumer prices went up dramatically.
- ▶ Content offering became less diverse.
- ▶ Internet became slower, while investments in network infrastructure declined.
- ▶ It forced many small and large providers of content and apps to exit the South Korean market and relocate their data centres abroad.

The Body of European Regulators for Electronic Communications (Berec), the regulator for the EU, has also concluded that arguments made by telcos and their supporters on the fee issue are flawed.

Expert agencies such as Analysys Mason and WIK-Consult have made a few more key points:

- ▶ Consumers drive data traffic, not OTT or tech companies.
- ▶ Traffic growth is stable, not exponential.
- ▶ Telcos can easily handle more traffic

at a negligible cost.

▶ Network-related costs for ISPs have remained stable, while traffic volumes have grown significantly. There is no additional cost for telcos if a user streams more content, as the user is likely to pay the operator for a higher data plan.

▶ Mandatory fees may put smaller telecom operators at a disadvantage, while bigger telecom companies with their own streaming or cloud services may discriminate and unfairly promote these services.

▶ Berec also concluded that imposition of such fees may lead to price hikes for consumers, disincentivising Big Tech from making investments.

▶ Tech invests in infrastructure benefit telcos.

Most of the EU nations (18 of the 29) have rejected the telcos' proposition of sharing the network cost by OTTs, and they have upheld the findings of the Berec report.

To be sure, a significant fraction of the telcos' network traffic and revenues is due to customers' heavy utilisation of video streaming and other OTT apps. OTTs could also legitimately ask for a fair share of their revenues, resulting from their products.

Such arguments could go on endlessly, but as advised by Trai and International Telecommunication Union, both

sectors 'engender benefits for each other in a symbiotic, complementary and mutually reinforcing manner... and... both sectors have invested heavily in the infrastructure to support it'.

The need of the hour is to look at customers' interests through enhanced liberalisation and competition and peaceful coexistence of all players.

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Takes two to tango