Network cost contribution debate

With the current pace of technological innovation, it is clear that the volume of data being exchanged is larger than ever and will only continue growing. The EU’s ambitious connectivity targets are pushing policymakers to take a more forward-thinking approach to the telecoms sector. One question EU decision-makers must answer is whether the main digital players, who generate huge volumes of traffic and revenue using the EU’s telecoms infrastructure, should contribute to the cost of network roll-out and, if so, whether that would be ‘fair’.

Background

The revival of the debate on the European network cost contribution – or ‘fair contribution’ – stems from the idea recently re-introduced by the large European telecom operators (fixed and mobile) that market actors fuelling large volumes of data traffic (large online traffic generators such as Google and Netflix) should contribute to telecom operators’ network costs.

Large telecoms operators (telcos) suggest that a few large traffic generators are taking advantage of the network investment needed to support such data volumes without bearing the roll-out costs; in other words, they are ‘free-riding’.

Large traffic generators, meanwhile, argue that they contribute to the internet ecosystem too by investing heavily in infrastructure, such as data centres, undersea cables and satellites, and by creating attractive internet content, which is one of the reasons customers pay telecoms operators to carry data or decide to upgrade their subscriptions.

Finally, there is a fierce debate over whether or not a mechanism to extract a fair contribution from large traffic generators could undermine the net neutrality principle embedded both in the Open Internet Regulation and the declaration on digital rights and principles for the digital decade. The Commission has stated that any process of exploring a mechanism to secure a fair contribution to the costs of network infrastructure would take care to uphold the EU’s net neutrality rules.

Interconnection market: ‘Bill and keep’ versus ‘sending party network pays’ charging systems

The fair contribution debate is not entirely new. The European Telecommunications Network Operators’ Association (ETNO) proposed to introduce a kind of sending party network pays (SPNP) charging system back in 2012. The idea of this system is that large traffic generators should pay a fee to telcos for ‘delivering’ their data traffic (e.g. video streaming) to the end user’s network. At present, internet interconnection is largely unregulated and done on the basis of transit and peering agreements. The SPNP approach collides with the dominant bill and keep approach of interconnection, where data transport for internet services over telecoms networks is included in the end user price at retail level and each network agrees to terminate connections from the other network without any charge.

The Body of European Regulators for Electronic Communications (BEREC) published reports on the internet interconnection market in 2012 and 2017, concluding that there were no competition issues requiring regulatory intervention. In its 2022 preliminary assessment of the fair contribution mechanism, BEREC rejected many arguments raised by ETNO. For instance, BEREC reports that there is no evidence that large traffic generators are free-riding on telecoms networks, that such providers also invest in network infrastructure, and that the SPNP charging system could cause significant harm to the internet ecosystem.

Rebutting this preliminary assessment, ETNO notes that the EU fair contribution debate has now moved beyond the telco industry proposal, beyond analysis of the internet interconnection market and beyond Europe, (referring to the fair contribution act debate in the United States).
European Commission public consultation

The European declaration on digital rights and principles for the digital decade fuelled the debate on whether large traffic generators should contribute financially to telcos' deployment of very high capacity networks (VHCNs) such as optical fibre and 5G. The declaration commits to develop 'adequate frameworks so that all market actors benefiting from the digital transformation assume their social responsibilities and make a fair and proportionate contribution to the costs of ... infrastructures, for the benefit of all Europeans'. Although not legally binding, it provides a framework for meeting the EU's digital decade targets, including the connectivity ones of having all EU households covered by a fixed gigabit network (1Gbps) and all populated areas covered by 5G by 2030. An upcoming Commission study costs the infrastructure investment needed to achieve these targets at around €174 billion.

Along with its gigabit infrastructure act proposal and the draft gigabit recommendation, the Commission has launched a consultation on 'the future of the connectivity sector and its infrastructure', including a section on the fair contribution; this is running from 23 February to 19 May 2023. Focusing on the fair contribution concept, the Commission asks respondents to quantify their planned investment in network infrastructure capable of optimising internet data traffic. It also asks telcos to explain any obstacles to charging digital players for increased data traffic and whether such players should contribute fairly to finance network deployment. On this last point, the Commission also asks for views on the potential contribution mechanism structure (for instance mandatory direct payments to finance networks deployments or an EU or national digital fund).

Stakeholders' and experts' point of views

There are different positions on whether and how large traffic generators should contribute to the roll-out of the future-proof European telecoms network. Among the most controversial points:

Investment for upgrades in capacity and future network roll out: studies conducted for telecoms operators have estimated that data traffic driven by large traffic generators could generate costs relating to managing and deploying the networks conveying the traffic of €36 to 40 billion a year for EU telcos. BEREC points out that it has not seen such costs reflected in telcos' financial statements or loss warnings. Other studies and reports stress that large traffic generators also invest in the internet ecosystem and that content and application providers invested €183 billion in Europe's internet infrastructure between 2011 and 2021.

Double payment for data transport services: associations and experts demanding a careful impact assessment or against the fair contribution argue that telcos are already remunerated by their own customers through an internet subscription. In addition, there are concerns that a potential fee on large traffic generators would be passed on to consumers through higher prices for content or more advertising. Telcos argue that large traffic generators are not like individual internet users and should contribute to the costs of the traffic conveyance they benefit from and help achieve the digital decade goals.

Fair contribution mechanism: a report funded by the Computer & Communications Industry Association questions the compatibility of a fair contribution with global tax reforms on big tech, considering the lack of evidence on internet market failure or inefficiency. An expert commentator underlines the importance of clarifying who will be the final beneficiary of a potential 'fair contribution' fee on large traffic generators. A fee of this kind, if introduced, should be earmarked to finance investments in new very high capacity networks and not for other purposes (for instance to increase telcos' dividends). This article also suggests that 'the fee should be collected by public authorities and then distributed as public funds'.

South Korea: First experiment with a fair contribution to network financing

South Korea is the only country to have initiated a form of 'fair contribution' for large traffic generators, deviating from the 'bill and keep' principle and introducing the SPNP charging mechanism by law. Reports and expert views, with some exceptions, tend to agree that the South Korean experiment is failing and leading to: reduced diversity of online content, slower digital transformation, higher prices for end users buying internet content, a decline in internet service quality and a decrease of investment in network infrastructure. A number of civil society organisations and academics have called on the government of South Korea to repeal the legal framework.