Internet tax, a flawed idea

“We’ve become the bad gatekeepers,” lamented Sunil Mittal, CEO, Bharti Airtel. “When somebody watches YouTube on a mobile and ends up [with a] big bill, he curses under his breath at telecom operators. But YouTube is consuming a massive amount of resources on our network. Somebody’s got to pay for that.”

What Mittal suggested at the Mobile World Congress in Barcelona last year, and is gaining rapid popularity with service providers around the world, was an “inter-connect charge”, an effective Internet tax that would force companies such as Google and Facebook to pay network operators a levy similar to the termination fee that networks pay one another to complete a voice call.

This growing clamour for an Internet tax was obliquely backed by the Government at a U.N conference, held last month.

The advantages for both telecom operators such as Airtel, and the Government (which too might look to levy a similar tax) are immediate and obvious. Telcos, which dole out huge investment for spectrum and network infrastructure, will be able to get a bigger slice of what goes to companies such as Google. This is exactly the new source of revenue that operators, which are suffering from shrinking revenue and rising costs, have been waiting for.

Gated highway

If this is put into practice, service providers would be able to essentially prioritize certain types of traffic, and the “sending party”—Facebook, YouTube— would have to pay Airtel and BSNL for the privilege of reaching consumers.

It’s glaringly obvious to see where this idea, where the “sending party must pay”, originates from however. Data inter-connections in the phone world work this way— where if Rajesh in America, a customer of AT&T, wanted to call Lata in India, a customer of Airtel, Rajesh would first pay AT&T. AT&T would then pay Airtel a little for their efforts in connecting the call. The principle of allowing the ‘sending party’ to pay is a good, and natural fit for the way phone networks work.

This will not work on the Internet though, for the simple reason that 99.5 per cent (OECD statistics) of the exchange of traffic between Internet networks typically happens for free. This method, which is known as the ‘peering system’, has benefited both content providers and telcos.

It is also what has directly led to the rapid growth of the Internet over the past fifteen years — if a telephony inter-connection model would be imposed on the Internet, it would create big problems; for content networks and ISPs would have to use massive resources to bill each other. A customer would also have to think twice before jumping onto Google to make a quick search, lest he rack up his bill too much.

Other disadvantages would surface – unregulated markets for Internet service have proved to work exceedingly well. Even in places with limited broadband competition, for instance, the amount of bandwidth that consumers get for their money has increased at rates far beyond those of any other industry.

Lowest common denominator

Having an inter-connection pricing model for a better quality service would also unwittingly create strong incentives for ISPs to let their current service get worse than what it is today. It is similar to how the less-than-average quality of 'general-compartments' on trains has led to the popularity of the more expensive air-conditioned compartments.

This tiered- Internet, where one must pay more and more for better service, will only result in the lowest denominator reaching rock-bottom—a result that will have devastating consequences for a country where its population can hardly afford the basic package.

While most of this talk of an Internet tax was mere wishful thinking on the part of telcos, the recent International Telecommunication Union conference in Dubai has shown that the Indian Government is only too willing to jump on board.

The conference, which sought to bring the Internet under the framework of the U.N agency, saw a proposal from the Indian Government which said: "Member States are free to levy fiscal taxes levied on collection charges for international telecommunication services...in accordance with their national laws."

Another section of the proposal stated: "Member States should endeavour to take measures to ensure that an adequate return is provided on investments in network infrastructure. If this cannot be achieved through market mechanisms, then other mechanisms may be used."

These two statements point to the fact that the Government is indeed eager to cash in on a time when public finances have been stretched thin. The funds collected from this tax could, ostensibly, be used for the development and laying of fibre optic throughout the country, something the Government is planning.

Not that easy

However, a recent study shows that the "sending party pays" principle may not result in the growth of Internet-related development infrastructure – as it hasn't worked for telecommunication networks.

A study from the Mercatus Centre at George Mason University charted international billing rates against four statistics that measure the development of telecommunication networks: fixed telephone lines per 1090 people, mobile subscribers per 100 people, Internet users per 100 people and broadband subscribers per 100 people.

The author, Eli Durado, found little correlation between long distance rates and fixed telephone line construction. For the other three variables – he found a negative correlation.

“My results contradict the hypothesis that the ability to charge more for international Internet traffic is all that is needed to build out telecommunications infrastructure in poor countries," Dourado concludes.

No chest-thumping

“High international telephone collection rates have not led to greater build-out and adoption of telecommunications infrastructure in the past two decades. It seems unlikely, therefore, that adopting a sender-pays model for Internet traffic would increase build-out of Internet infrastructure today."

Therefore, it becomes clear that the development of the telecommunication/fibre optic network depends on the quality of domestic institutions, rather than collection of external funds which are often misused. The curious part, however, is that there are solutions with far less political implications and make more economic sense. Taxing Internet advertising, for instance, is something that can be done easily and legally.

An additional tariff could be placed on the purchasers of ads being shown to Indian residents. This would have nearly the same effect as taxing Internet companies directly, minus the political fuss.

Vint Cerf, Vice-President of Google, Special Services and founder of the TCP/IP protocol, feels that the move to tax Internet firms is strongly anti-competitive, and does not bode well for the spread of Google’s services in India.

“I don’t deny that if Governments and telcos collect the money, they might do something with it. But for that, I might as well go rob a bank and justify myself, saying, I am robbing the bank and getting this money and doing something good with it. I see this proposal as a gun to the head,” he said.

“If you are building a piece of infrastructure, and we are building applications on top of that – there’s nothing wrong with your Government and companies building applications to compete with us. But when you oppose network neutrality and inhibit other people from using that pipe – it is anti-competitive and it is wrong.”

(The Hindu)