Modernising Regulatory Frameworks

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The GSMA
The global industry voice shaping the future of mobile
About the GSMA

The GSMA was founded in 1987. The GSMA represents the interests of mobile operators worldwide.

12 offices worldwide:
- London
- Dubai
- Atlanta
- Brussels
- Barcelona
- Hong Kong
- Brasilia
- Buenos Aires
- Sao Paulo
- Nairobi
- New Delhi
- Shanghai

Uniting nearly 800 mobile operators with 300+ companies in the broader mobile ecosystem.

The world’s leading mobile industry events, Mobile World Congress and Mobile World Congress Shanghai, together attract 130,000+ people from across the globe each year.

The GSMA works to deliver a regulatory environment that creates value for consumers by engaging regularly with:
- Ministries of Telecoms
- Telecoms Regulatory Authorities
- International & Non-Governmental Organisations

Connecting 27,000+ industry experts. Exclusively for GSMA Members, InfoCentre is your place to connect with a global community of industry experts.

GSMA Working Groups provide frameworks and standards in commercial, operational and technical matters that help maintain and advance mobile industry ecosystems.

7.5 billion+ mobile connections worldwide.
The Mobile Economy 2016

**UNIQUE SUBSCRIBERS**

- **2015**: 4.7bn
- **2020**: 5.6bn
- **2015 Penetration Rate**: 63%
- **2020 Penetration Rate**: 72%

**ACCELERATING MOVES TO MOBILE BROADBAND NETWORKS AND SMARTPHONE ADOPTION**

- Mobile broadband connections to increase from 47% of total in 2015 to **71% by 2020**.
- By 2020, there will be **5.8bn smartphones**, growth of 2.6bn from the end of 2015.
- Data traffic to grow by a CAGR of **49%** over the period 2015–2020.

**GLOBAL CONNECTIONS**

- **2015**: 7.3bn
  - **99% Penetration Rate**
- **2020**: 8.9bn
  - **114% Penetration Rate**

*CAGR 2015 - 2020*
The Mobile Economy 2016

**Mobile Operator Revenues**
- Data growth driving revenues and operator investments
- 2015: $1.1tn
- 2020: $1.2tn
- Operator capex of up to $900bn for the period 2016-2020

**Public Funding**
- Mobile ecosystem contribution to public funding (before regulatory and spectrum fees)
- 2015: $430bn
- 2020: $480bn

**Employment**
- Jobs directly supported by mobile ecosystem
- 2015: 17m JOBS
- 2020: 20m JOBS
- Plus an additional 16m indirect jobs supported by 2020

gsamobileeconomy.com/2016/global/
The mobile platform importance

Connectivity
2.5bn without access to mobile internet

Mobile Money
1.37bn without access to a bank account

Digital Identity
1bn+ without a formal identity

Removing barriers to internet access and addressing the economic viability of coverage

Accelerating development of the mobile money ecosystem for the underserved

Building the ‘official’ digital identity ecosystem for those with and without ID
### Competitive Dynamics of the Digital Ecosystem

<table>
<thead>
<tr>
<th>Modularity</th>
<th>Economies of Scale and Scope/Network Effects</th>
<th>Dynamic Competition</th>
</tr>
</thead>
<tbody>
<tr>
<td>- All digital players engage each other across the value chain in a variety of roles</td>
<td>- Competition “for” the market, not “in” the market&lt;br&gt;- Consumers benefit from size and scope; regulation should not impose barriers to their realization</td>
<td>- Transformative innovation generates choice and value for consumers&lt;br&gt;- Static “dominant” positions are dynamically contestable&lt;br&gt;- Regulation should not inhibit innovation and investment</td>
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<td>- Digital sector is not a collection of related but separate markets but rather a single, integrated ecosystem</td>
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Modularity: Digital Services Require Four Components

- **APPLICATION**: Information processing
- **USER**
- **DEVICE**
- **COMMUNICATIONS**: Information exchange, network
- **CONTENT**: Information storage
Dynamic Competition - Drives Innovation and Investment

- Services, coverage, affordability
- User demand
- Business plan profitability
- Investment and innovation
## Dynamic Competition - Enables Disruptive Entry

<table>
<thead>
<tr>
<th>Category</th>
<th>Incumbent(s)</th>
<th>Entrant(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MOBILE PHONES</td>
<td>Blackberry, Nokia, Motorola</td>
<td>Apple, Samsung</td>
</tr>
<tr>
<td>INTERNET BROWSERS</td>
<td>Microsoft</td>
<td>Chrome</td>
</tr>
<tr>
<td>MOBILE MESSAGING</td>
<td>Wireless Companies</td>
<td>Skype, WhatsApp</td>
</tr>
<tr>
<td>ONLINE MUSIC</td>
<td>Apple</td>
<td>Pandora, Spotify</td>
</tr>
<tr>
<td>LONG DISTANCE CALLS</td>
<td>Wireline telco incumbents</td>
<td>Mobile carriers, Skype</td>
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</tbody>
</table>
Costs and Consequences of Legacy Regulation

Regulating well is always difficult…

• Lack of information leads to regulatory errors, distorting markets and competition
• Market conditions and technologies change in unpredictable ways
• Regulations often impose substantial compliance burdens
• Regulation inevitably benefits some interests over others

…and more so in the digital ecosystem

• Complexity of digital markets increases regulatory error
• Rapid change accelerates regulatory obsolescence
• Innovation and entry are distorted by regulatory burdens and risks
• Higher regulatory distortions raise returns to rent-seeking

Discriminatory, prescriptive regulations inhibit the growth of the digital ecosystem and reduce consumer welfare
### Examples of Discriminatory Regulation

<table>
<thead>
<tr>
<th>Issue</th>
<th>Applications</th>
<th>Communications</th>
<th>Content</th>
<th>Devices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competition Enforcement and Economic Regulation</td>
<td>General competition law</td>
<td>Industry specific obligations and regulatory institutions</td>
<td>Compulsory licensing for some content; otherwise general competition law</td>
<td>General competition law</td>
</tr>
<tr>
<td></td>
<td>Asymmetric access regulation to SMP operators</td>
<td>Asymmetric access regulation to SMP operators</td>
<td>Restrictions on advertising time</td>
<td></td>
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<tr>
<td></td>
<td>Retail price regulation and tariffs</td>
<td>Retail price regulation and tariffs</td>
<td>Restrictions on foreign ownership</td>
<td></td>
</tr>
<tr>
<td>Resource Management</td>
<td>None</td>
<td>Regulated allocation of spectrum, numbering and access to property (rights of way), regulation of technology transitions</td>
<td>Regulated allocation of spectrum for broadcasters</td>
<td>None</td>
</tr>
<tr>
<td>Privacy and Data Protection</td>
<td>General privacy regulation</td>
<td>Industry specific regulation (e.g., “CPNI”); license conditions</td>
<td>Specific regulation (e.g. images of minors; “right to be forgotten”)</td>
<td>General privacy regulation</td>
</tr>
</tbody>
</table>
Regulatory Discrimination Impedes Competition

Unregulated Competitor

Business innovation → Implementation

Regulated Competitor

Business innovation

Regulatory analysis → Disclosure to competitors → Risk of rejection → Longer time to market → Implementation

Innovations discarded → Filing with regulator → Regulatory approval
Principles of a New Regulatory Framework

**Functionality-based**
- Pursue regulatory goals based on achieving regulatory objectives, not legacy structures based on industries or technologies

**Dynamic**
- Prefer performance-based regulation with ex post enforcement over prescriptive, ex ante rules

**Bottom-up**
- Evaluate regulation – including the need for regulation – in light of current market realities

The new framework will reduce regulatory asymmetries, promote dynamic competition and innovation, and allow regulatory objectives to be achieved more effectively at lower cost.
## Applications of the New Framework

| Access Regulation | • *Ex ante* access regulation aims to increase static efficiency at the expense of dynamic efficiency  
• Consistent standard across the ecosystem should limit regulation to enduring bottlenecks (if any) |
|-------------------|--------------------------------------------------------------------------------------------------|
| Barriers to Entry and Exit | • “Mother-may-I” regulation of communications carriers is discriminatory and harms competition  
• Focus should be placed on consumer welfare rather than protecting status quo beneficiaries |
| Privacy and Data Protection | • Communications carriers subject to specific, more stringent rules than other digital players  
• Technology- and business-model-agnostic rules will benefit consumers and competition |
| Merger Review | • Communications carriers currently subjected to more burdensome reviews than other digital competitors  
• Reviews should take a dynamic perspective in analysis and apply equal standards to all players |
| Spectrum Management | • Critical input for mobile wireless more heavily regulated than critical inputs to other players (e.g. IP rights)  
• Spectrum should be managed to reduce scarcity and enhance flexibility through market mechanisms |
| Universal Availability and Affordability | • Legacy policies are focused on communications infrastructure and local content  
• A holistic approach should focus on leveraging economies of scale and scope across the entire ecosystem |
Conclusions

- The spread of connectivity, and particularly mobile broadband, has enabled new services and products to come to market.
- Changes to the digital ecosystem have been wide ranging and have benefited consumers and businesses.
- Regulation has failed to keep pace with innovation and change.
- Now is the time to put in place new, future proof, regulatory regimes that:
  - Ensures the right incentives are in place to continue to roll out and upgrade mobile networks.
  - Applies rules consistently to all relevant players in the digital ecosystem.
Telecommunications market evolved to digital and requires new regulatory frameworks

No longer a “telecommunications market” but a “digital market”. Broadband connectivity enables a new ecosystem and this affects the whole economy.

Regulatory objectives can be better achieved if we focus on the services delivered to users, rather than the type of company or technology that they deliver.

Regulations should be prescriptive, with a measurable and performance-based approach, in order to promote market dynamism.

Policy makers should take a fresh look at traditional rules and discard those that are no longer relevant, applying consistent criteria throughout the entire ecosystem.
Parting words:

The rapidly changing dynamics of the mobile industry, require a thorough revision of its regulatory frameworks.

Thank You

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