Mobile taxation: Surtaxes on international incoming traffic

Executive summary

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Taxation as a proportion of the cost of mobile phone ownership and use in Africa is amongst the highest in the world and has increased over the last five years.[1] This may increase barriers to entry into the mobile telephony market for poorer local consumers, reduce the usage of mobile services for existing consumers and reduce the efficiency benefits for local businesses. Against this background, four African countries are imposing a new additional telecommunication specific tax, in the form of a surtax on international inbound call termination ("SIIT").

The SIIT takes the form of an imposed fixed price that operators must charge for international inbound termination, of which the government takes a set amount. The governments use a private party to measure the number of international inbound minutes terminated by each operator and bill the operators accordingly. The tax charges collected in this way are then shared with the private party that carries out the measuring function. SIIT prices are different from the competitive market prices for termination which applied before the tax was introduced.

Imposition of the SIIT sets compulsory prices for international termination and is akin to imposed price fixing. This policy therefore appears inconsistent with the recent move towards liberalisation of telecommunication in Africa.

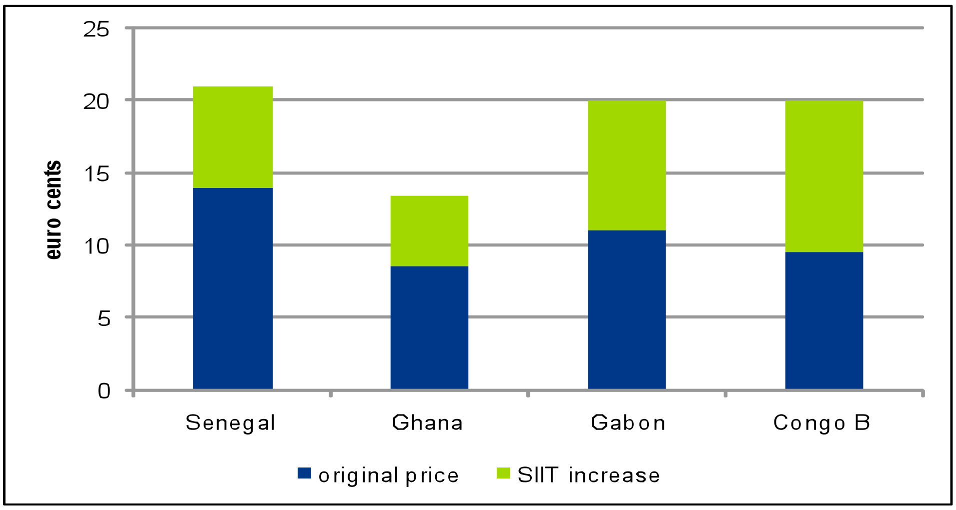
The SIIT has had the following impact where it has been applied:

- In **Senegal,** prices rose by 50%. A Mobile Network Operator ("MNO") in Senegal noted that the number of international call minutes terminated on its network decreased each month while the tax was in place.
- In **Ghana,** prices rose by 58%. One MNO reported revenues from inbound traffic fell by 12% in the first six months after the SIIT was imposed. Another MNO reported a 35% decrease in international call minutes terminated on its network in the month after the imposition of SIIT compared to the month prior to its introduction. This operator also reported an 18% fall in call minutes in the six months after its introduction compared to the six months prior.
- In **Congo Brazzaville**, the price of inbound traffic has risen by 111%. Data from one MNO showed that inbound traffic fell by 36% between May 2009, when the tax was introduced, and May 2011.
- In **Gabon,** prices rose by 82% when the SIIT was imposed in August 2011.

The main objective of this taxation is to raise revenues for governments, in this case by taxing users calling from abroad into the country. However, the government transfers approximately 50% of the revenue from the SIIT to the external call monitoring party. This leakage should be taken into account when assessing the effectiveness and net benefit of this tax.

[1] From results in the forthcoming Deloitte/GSMA Global Mobile Tax Review 2011

Figure 1 Impact of SIIT on inbound international prices



Source: Deloitte analysis based on interviews with operators

Our analysis has shown that the SIIT may create a number of unintended negative consequences for local operators, local consumers and local business in the countries where it is applied as well as in surrounding African countries. In the long term, this policy might also have negative implications for governments through impacts on economic activity, tax revenues and local employment. Our analysis has identified the following key impacts and risks:

- **Higher prices have caused a reduction in incoming call volumes:** Operators have reported significant decreases in incoming international calls against their forecasts as well as absolute decreases in call volumes and revenues. Since prices for calls into African countries from other continents are likely to be fixed in the short term, operators are expecting further decreases in call volumes as operators abroad begin to react to the increased termination charges by increasing retail prices. This affects the ability of local consumers and businesses to communicate with contacts abroad.

- **Operators in African countries in the region are reciprocating the higher termination prices:** This is particularly concerning given that a very high proportion of outbound international calls from African countries are to other countries within Africa, estimated by operators to be 60% to 80% of the total. In Congo Brazzaville, an MNO reported that operators with which they have direct interconnection reacted to the SIIT by increasing the charges for termination for calls originating in Congo Brazzaville by approximately 30%. Similarly in Senegal, an MNO reported that nine operators in other African jurisdictions responded to the SIIT by increasing international termination rates from calls originating in Senegal by 23% to 80%. This may lead to higher prices for calls by local consumers to friends and family in the region and to local businesses with regional business activities, such as sales and suppliers.

- **The price differential increases incentives for illegal traffic:** The SIIT has caused a significant disconnect between the cost and price of international call termination which presents an opportunity for arbitrage in the affected countries[2], where illegal traffic is routed via illegal SIM boxes which channel national or international calls away from MNOs and deliver them as local calls. Operators have reported significant increases in illegal traffic since the introduction of the SIIT. This takes away revenue from operators and governments, and because illegal SIM boxes work in a way that congests a disproportionate amount of spectrum, also reduces the average quality of service for legal calls.

[2] Arbitrage refers to the situation where the same good (in this case call termination in the SIIT country) can be bought at one price in one market (in this case the local termination market) and sold at a higher price in another market (in this case the international incoming call termination market).

- **Impacts of the SIIT can have negative economic consequences:** Increased telecommunications prices increase costs for local businesses, particularly those that are service or communications specific, such as call centres. This policy also risks removing the benefits of being connected to the global information economy via undersea fibre optic cables that are now being delivered across Africa. An increased cost of doing business in Africa could also contribute to decreasing Africa's global competitiveness and disincentives foreign direct investment. In turn, this would have negative implications for local governments through reductions in tax receipts.

These key impacts and potential flow on effects of the introduction of the SIIT are summarised in the below table.

Key impact	Implication for affected parties			
	Local consumers	Local business	Local MNOs	Local government
1. Prices fixed	• Higher call charges for family and friends abroad • Potentially receive less remittance if family members abroad spend a higher portion of income on call charges • Potential loss of service offers such as 'one-net' packages which allow lower cost calls when roaming in the region	• Increased cost of running a business, where international calls are involved • Risk of becoming less attractive to foreign direct investment, particularly for telecommunications related businesses	• Distortion of investment incentives • Distortion of competition	• Reputational risk • Risk to perception of willingness to abide by international agreements • Risk to perception of enthusiasm for international integration • Reduction of competition
2. Reduction in incoming calls	• Less connected - receive fewer calls from family and friends abroad	• Less integration in the region and internationally • Decreased economic activity	• Lower inbound call volumes • Lower revenue • Lower incentives for investment	• Less international integration • Reduction in economic activity, due to negative impact on business • Reduced taxation revenues
3. Reciprocation of termination rates in the region	• Higher call costs, further decrease in contact with family and friends in reciprocating African countries	• Further increased cost of doing business in the region • Reduced competitiveness • Reduction in demand for exports and locally sold goods • Potential reduction in investment incentives • Risk of becoming less attractive to foreign direct investment, particularly for telecommunications related businesses	• Lower outbound call volumes • Lower revenue • Lower incentives for investment	• Reduced taxation revenues • Less international integration • Reduction in economic activity, due to negative impact on business
4. Increased illegal traffic	• Lower average call quality, increased risk of dropped calls	• Lower average call quality, increased risk of dropped calls • Further exacerbating effects described from key impacts 1,2 and 3	• Reduced call volumes • Reduced revenues • Distortion of investment - might have to invest in network improvements	• Reduced taxation revenues • Less international integration • Reduction in economic activity

Key impact	Implication for affected parties			
	Local consumers	Local business	Local MNOs	Local government
			earlier than otherwise would have	

The SIIT potentially generates a number of negative effects for local consumers, local businesses, MNOs and governments. In particular, the SIIT may affect a significant proportion of intra-African traffic and risks a domino effect in African countries. This effect, combined with an increased flow of illegal traffic, may further reduce demand and service quality and lead to increasing prices and the cost of doing business in the affected countries. In the medium term, the flow on impacts could damage employment opportunities, social cohesion, investment (particularly in communication- based business), international competitiveness, terms of trade and government tax revenues.

To avoid these negative effects on local operators, local consumers and local businesses, the governments of the remaining SIIT countries could consider undertaking a comprehensive review of whether the benefits of this taxation exceed the potential negative impacts outlined above and returning to a process where prices for international termination services are allowed to be set through the interaction of operators in a competitive market.

Download the full report: www.gsmworld.com/tax

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