

# An internet traffic tax is a harmful solution to a non-existent problem

CISPE position on the 'Network Fees' debate

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In May 2022, the European Telecommunications Network Operators association (ETNO) released a [report](#) demanding that six large data and application providers (labelled 'large traffic generators') pay them **internet traffic fees**. This is an old idea that simply refuses to die.

The list of well-respected actors that expressed opposition to the idea is almost unprecedented. Three important points of principle are consistently reiterated in these positions:

- 1. No matter what ETNO says, the proposal greatly jeopardises the net neutrality model. Even if interconnection is not directly in the scope of the Open Internet Regulation, forcing big tech to pay for peering with ISPs means others would be relegated to slower and more congested networks, effectively leading to a differentiation by types of traffic.**
- 2. Network usage fees will lead to new unfair economic relationships, undermining the EU's competition policy objectives. They will favour large incumbents and push telcos to favour the content of large providers. Smaller ISPs and content providers will be competitively disadvantaged.**
- 3. A part of the 'network congestion' issue mentioned by telcos is a result of their own interconnection practices abusing their termination monopoly. Offering either settlement-free peering or direct transit at market rates could reduce congestion and improve consumer experience.**

However, given that these points have repeatedly been made by a plethora of actors in the wider internet ecosystem, from [BEREC](#) and [ISOC](#) to [MEPs](#), [EU Governments](#), [Internet Exchanges](#), as well as [many digital rights groups](#) and representatives of [broadcasters](#), [virtual network operators](#), etc., **in this paper we will focus specifically on the negative effects on Cloud Infrastructure Service providers (CISPs)**. CISPE is opposed to internet traffic fees and foresees unique and far-reaching negative impacts should such a proposal be applied particularly to cloud services.

# The effect on Cloud Infrastructure Providers

Telecom operators try to make the proposal politically more attractive by claiming to target only a small number of large companies. But there are certain aspects of the debate that raise serious concerns regarding the unintended impact on the wider internet ecosystem, including Cloud Infrastructure Providers.

## 1. **Cloud infrastructure service providers (CISPs) are not content providers and therefore must be clearly ruled out of scope.**

**CISPs don't generate content, and therefore they can never be 'Large Content Generators'.** Assurances made by telcos and the European Commission initially underlined that cloud and Content Delivery Network (CDN) providers are not the target of any Internet Traffic Fee proposal, are not credible for two reasons.

1.1. The [paper by AXON/ETNO](#) that re-kindled the SPNP debate **explicitly includes Cloud/CDN providers** as traffic generators who should be contributing more to the development of network infrastructure. A more recent [ETNO publication](#) directly implies that it believes all 'large' cloud and CDN providers should be in scope of the proposal. Question no. 49 of the Commission's own consultation directly raises the issue of differentiation and the thresholds by which 'large traffic generators' would be identified, suggesting that broader targeting is considered.

1.2. Even if not *directly* in scope, CISPs could still be *indirectly* made responsible for the content of third parties because of the general complexity of determining the exact originator of the traffic, leading to the same problems described above.

**It's important to reiterate that CISPs don't have control over the content or technology of 3rd party services on their platform.** A broad range of customers (public institutions, enterprises, startups, SMEs, etc.) use cloud infrastructure to host and distribute their data for a myriad of use cases. CISPs have neither visibility nor control over the volume of content their customers deliver.

## 2. **Imposing network usage fees on CISPs would have a profound negative impact on European companies and European consumers using cloud**

**2.1. This is a consumer tax in disguise.** The system proposed by ETNO will raise costs for European companies and lead to increased prices for European consumers. Ultimately, it will be consumers that are forced to subsidise network development. Imposing network usage fees on CISPs will increase costs for cloud customers and discourage cloud adoption. It will jeopardise the Digital Compass objective of 75% of EU companies using Cloud/AI/Big Data by 2030, which would have a profound impact on Europe's competitiveness. Modelling suggests that achieving the EU's Digital Decade agenda could unlock over 2.8 trillion in economic value, the majority of which (55%) is reliant on cloud computing.

**2.2. The precedent of Korea should be a significant cause for alarm for the Commission.** Studies by the [Internet Society](#) and [Wik](#) show that network usage fees in Korea had negative implications for domestic and international players, leading to higher prices and degraded quality of service for consumers. Many of the large content providers have started to serve the Korean market from other countries in the region, such as Japan, to avoid the high fees. This contributes to higher latency, reduced quality and increased cybersecurity risks.

**2.3. It undermines EU Sustainability goals.** A [report by S&P Global](#) has shown that running business applications on cloud infrastructure, rather than in on-premises data centres, could reduce associated energy usage by nearly 80%. Higher costs for cloud services and the slower transition to the cloud will undermine the EU's sustainability targets by disincentivising businesses from replacing their outdated and inefficient data centres with cloud solutions.

**2.4. It threatens CAPEX investments by CISPs.** Any solution including cloud and CDN in its scope would also undermine CISPs' ability to continue their significant investment in infrastructure. CISPs have invested hundreds billions of euros in cloud and edge infrastructure to enable customers to place their data closer to end users to improve latency and reduce the carbon emissions of data sent over third-party networks.

'Real' 5G and future 6G services need edge infrastructure as there is no way to deliver low latency 5G services without edge for connected cars, Industrial IoT, drones, etc. A report by Analysys Mason estimated such investments to lead to *direct* cost reduction for the telecom industry of between 5 and 6.4 billion euros.

**2.5. It distorts competition.** The ETNO proposal also raises many competition concerns. Taxing cloud and CDN providers for the benefit of telcos will harm competition because telcos provide cloud (e.g. [Vodafone](#), [Telefonica](#)) and CDN (e.g. [Orange](#), [Deutsche Telekom](#)) services themselves. This would therefore lead to an uneven playing field as telcos are incentivised to raise interconnection prices to drive out competition. Indeed, even without any SPNP proposal, many studies show that there is already a power imbalance that favours large incumbent telcos against CISPs due to (local) termination monopolies.

**2.6. Many ISPs have unjustifiably restrictive peering policies.** For example Deutsche Telekom peers only with Tier 1 backbone operators [...], only offers transit to CAPs and does not allow any on-net CDN servers, as noted in the [study by Wik](#). The study also shows that such practices lead to worse outcomes for consumers, including lower speeds and network congestions. A proposal for an internet traffic fees would provide telcos with the ability to leverage their termination monopoly at an even larger scale, leading to significant harm.

## Conclusion

The proposal to tax internet traffic for the benefit of large ISPs is largely misguided. As shown by many actors, the internet infrastructure has proven remarkably resolute and adapted well to changing social and market conditions. As such, the current ‘network fees’ debate is not merely trying to tackle a non-existent problem, but in doing so risks creating substantial problems itself by undermining the network neutrality principle, leading to privacy issues and degrading competition. Such proposals will ultimately only benefit the bottom line of large ISPs, while harming customers and jeopardising Europe’s digital ambitions in the process. **Therefore, we believe that internet traffic fees should be rejected outright, due to their negative impact on the digital economy – and CISPE particularly opposes their application to cloud and CDN services.**

CISPE therefore calls on the Commission to completely rethink its approach to future networks and find solutions that are in line with the fundamental principles of internet governance. Should the Commission find that there is some kind of market failure or ‘funding gap’ that needs addressing, CISPE could potentially support the exploration of alternative paths, such as an optimisation of the merger and acquisition rules to enable better economies of scale for ISPs – but only if the Commission can guarantee that consumers and SMEs would not be harmed.

## About CISPE

Cloud Infrastructure Services Providers in Europe (CISPE) is a non-profit association that focuses on developing greater understanding and promoting the use of cloud infrastructure services in Europe. Members based in 14 EU Member States range from SMEs to large multinationals. CISPE members have invested billions of euros in Europe's digital infrastructure and currently provide services to millions of customers, including organisations in multiple countries and locations outside the EU.

