

Mobile Internet in Brazil - a fast path to digital inclusion

by Rogerio Takayanagi, Chief Marketing Officer, TIM Brasil

There are 96.8 mobile phones per 100 inhabitants in Brazil, but Internet access lags far behind. Broadband Internet access is lacking in many parts of the country; it is expensive, and mostly low quality. To increase access and quality requires investments by operators and Government alike. Tax relief is important; taxes amount to 43 per cent of the bill. The demand exists; a coordinated effort by the Government and private sectors can provide the needed services and accelerate economic growth.



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The total number of mobile phones in Brazil reached 187 million in June 2010, which means 96.8 devices per 100 inhabitants. Thanks to an excellent model of privatisation and to a highly competitive marketplace, its market penetration is gradually reaching 100 per cent.

Today mobile communications networks (voice and SMS) cover over 95 per cent of the Brazilian urban population. The figures show the importance of mobile service in the daily routine of a country with continental dimensions and a population of nearly 200 million inhabitants. Brazilians have already adapted to the use of the mobile

phone to make calls. Now the focus of mobile telecommunications companies is on extending mobile coverage and making the use of the Internet via mobile devices more widespread. A joint study by the Brazilian Institute of Public Opinion and Statistics (IBOPE) and Nielsen Online shows that only 46.9 million Brazilians accessed the Internet from their homes or offices in May 2010.

This situation - widespread network coverage in urban centres, widespread use of mobile phones by Brazilians and the vast number of people with no Internet access - is extremely favourable to the growth of Internet use via mobile phones in the country. We believe that

the natural pathway of telecom companies is to fill this gap.

The value of the mobile phone industry for Brazilian society can be measured by the volume of capital invested by the sector. A study carried out by Fundação Getúlio Vargas and commissioned by Acel (an association of telecom companies) shows that the mobile network operators' contribution to the generation of wealth in the country is much greater than the large investments made. According to the study, the production chain of the mobile phone industry contributed R\$74 billion to the Brazilian economy in 2009, directly or indirectly.

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It must be stressed that digital inclusion is a key factor for social inclusion. Telecommunications operators, especially mobile phone operators, have contributed effectively to the development and the democratization of communications in Brazil in recent years, thus making it unnecessary for the Government to invest in the amplification and modernization of the infrastructure. During this period, the country leaped from one million mobile phones (in 1994) to 187 million in July 2010. However, there are still 90 million potential users who have no access to the Internet via their mobile phones; they also lack other services that can and should be available, especially in more remote regions of the country which still have no voice service.

The repressed demand is not only for voice, but also for the Internet. Although Brazil has a highly connected population - it is fifth in the world in terms of number of users and has the highest number of hours per user - Internet access is still expensive and of low quality.

Thus our urgent and constant challenge is to ally quality, network coverage and cost. To increase the number of services offered requires investments by the major mobile operators and also by the Brazilian Government. Tax and fiscal relief does not solve all problems, but it is important as, on average, taxes amount to 43 per cent of the cost of the service.

An alternative would be the use of the telecommunications universalisation funds, which have raised R\$36.5 billion (US\$20 billion in current rates) over the last eight years. In addition, today every network operator pays Fistel (the Telecommunications Fiscalisation Fund) R\$26 per mobile phone activated, and R\$13 per annum for the maintenance of mobile phones in its base, an amount much greater than the sum Anatel needs to operate, and which, in the end, makes the service more expensive for the user. Tax reduction directly benefits the user and stimulates both voice and data consumption, thus generating benefits for the entire production chain.

The Brazilian Government’s recent initiative to implement the PNBL (*Brazilian National*

Broadband Plan), which aims to make the service available for all and reduce the cost of Internet access in the country, has been the subject of much debate: who would carry out the task most efficiently? Such dualism is essentially ideological, since, in practice, both actors - the State and the private sector - are needed in the process. First, it must be recognised that the State has a relevant role in bringing about development, hence it is not and never will be an opponent of private enterprise. On the contrary, the Government has a key role in the coordination of efforts, in helping with investments and in ensuring the necessary conditions for the reduction of service costs.

On the other hand, it would be irrational and counterproductive for the Government to construct an infrastructure that was entirely independent and superimposed in some areas. The total sharing of both the public and the private network is the most viable option for the sector to achieve its objectives, namely, to make the service available for all as quickly as possible and in a way which is economically viable. Sharing the existing infrastructure can result in an economy of up to 50 per cent and consequently cheapen the service for users and reduce the length of the implementation process.

Regulatory agencies throughout the world try to increase competition by offering these networks to competitors who do not have such resources. In Brazil, many attempts have been made, although unsuccessfully, to discuss the remunerated desaggregation of the concessionaire’s networks to make them available to competitors. Also, choosing a single telecom operator to carry out the entire plan is inefficient - a waste of public money, and would create a dangerous competitive imbalance. Competition is essentially the key to the development of telephony services in Brazil.

As a matter of fact, the sector’s figures are high and attractive to any company planning on popularizing telecommunications as a whole. According to Ipea (the *Institute of Applied Economic Research*), an organ linked to the federal Government, the Brazilian private sector alone plans on investing around R\$67 billion (US\$37 billion) by 2014. The largest slice of this investment will go to

mobile telephony for the expansion of 3G technology and broadband. In this context, I believe both Government and telecom companies should focus their dialogue to ensure the execution of a coordinated telecommunications services expansion plan that will satisfy the interests of all actors.

In this sense, Brazil has an enormous opportunity to develop a wide-ranging public/private joint programme, to work on various fronts and ensure the rapid development of high-quality, affordable and innovative telecommunications infrastructure. The Government should coordinate the programme as a whole and ensure the basis for its implementation - assured regulatory stability to attract investments, the allocation of more spectrum to telecom companies, co-investment in areas which are not economically viable for private enterprise, the assurance of balanced rules that stimulate competition, and, finally, to work together with the main actors with a view to making the exoneration of service taxes possible.

Telecommunications companies, on the other hand, must also do their homework, starting with a reduction of their internal costs (transport, unbundled access and, why not, interconnection?). There is also the need for long-term commitment in terms of sharing the existing network, coordinating future investment for the construction of the necessary infrastructure, as well as the commitment to invest over the next few years.

In short, Brazil does not have a demand limit; it has an offer limit. A coordinated initiative by all actors will allow the country to take a qualitative leap in terms of its infrastructure and give it the level of services it deserves and which will further accelerate economic growth. ●