POLICIES AFFECTING THE VALUE-ADDED OF ICT SERVICES IN EXPORTS

Presentation by

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Policies to harvest the potential of services value-added

Kick-start services talk:
* Policies affecting the value-added of ICT services in exports

* Opinions expressed herein are strictly personal
1. The potential of ICT services

2. The (understated?) importance of ICT services

3. ‘REPES’ regime

4. National IoT Plan
1. The potential of ICT services

Digitization:

- Productivity
- Efficiency
- Supply capacity
- Coordination
- Innovation
- Services tradability
- Economies of scale
- Enabling of other sectors (e.g. professional services)
- Greater effects on trade in services than in goods

Production costs
Transaction costs
Trade costs
2. The (understated?) importance of ICT services in exports

- Telecom and ICT represent only 1.7% of exported value-added and 3.9% of direct service exports
- 65.8% of ICT direct exports flow to the United States
- ICT services went from 27.2% of the value-added in non-financial in services in 2007 to 19.3% in 2015 (IBGE) – Telecom in particular has lost share over time, more studies necessary to understand causes and address policy issues.
- Generally, crucial role in improving competitiveness in both goods and services exports generally and in diversifying trade.
2. The ‘REPES’ regime

‘Repes’ is the Special Tax Regime for the Export Platform of IT services.

✓ PIS/COFINS relief on the acquisition of fixed assets and software/IT
✓ Directed to services
✓ Legal uncertainty:
  ✓ Thresholds for participation are based on export revenues – but what is the definition of service exports?
  ✓ Thresholds for participation vary from regulation to regulation (50% exported gross revenues in Law 11.196/2005, 60% in Decree 5712/2006, 80% in IN 630/2006).
✓ High export thresholds

Consequence: Only 5 companies are qualified – Program has been in place for more than 10 Y.

For discussion: Revise thresholds and define service exports for the purposes of REPES? Tariff drawback regime for service exports?
3. IoT

- In Brazil, IoT market estimated to reach US$ 9 billion in 2019, 20% YoY growth to 2022 (ABES).
- In 2025, economic impact of IoT in Brazil expected from US$ 50-200 billion
- IoT can be a catalyst for other dimensions of ITC and is therefore strategic:
  - Telecom: increased internet access is critical for some IoT applications
  - Big data: IoT as a mechanism to access new and massive data
  - Cloud: IoT will require variable workload from connected endpoints and flexibility for data storage.
- IoT can also be a catalyst for other services sectors and for goods.
- National efforts to support IoT development undergoing in most industrialized countries.
3. IoT

IoT

Agriculture 4.0

Industry 4.0

Services 4.0

Human capital/workforce
Institutional framework
Regulatory framework
Connectivity infrastructure/interoperability

Productivity
Quality/safety
Sustainability
Economic complexity
Integration of value chains
3. IoT challenges and policy responses

• Human capital/workforce:
  • 7% of undergraduates are in engineering and computer -- 15% in Germany, 17% in Colombia and 19% in Mexico. Lack of formal classes on precision agriculture, industry 4.0, professional services and technology.
  • Education and human capital formation require a policy response: ‘S’ system?

• Institutional framework:
  • IoT Action Plan => Decree 9854/2019 establishes the National IoT Plan (sets-out objectives, topics, and IoT Chamber).
3. IoT challenges and policy responses

• Regulatory framework:
  • ANATEL’s re-assessment of telecom regulations “with a view to reducing regulatory barriers” to IoT development.
  • Example of challenge: product certification.
  • Taxation: Fees distort/kill business case for certain applications (TFF/TFL), legal uncertainty over taxation.

• Infrastructure connectivity:
  • Law 13879/2019 allowed the migration of concessions and may direct investments to expansion of high capacity network in areas where competition has been low => fostering, e.g., precision agriculture.
4. Proposals for discussion

• REPES:
  • Revise thresholds and define service exports for the purposes of REPES?
  • Tariff drawback regime for service exports?
4. Proposals for discussion

• IoT:
  • Improve supply of undergraduate and technical courses related to technology – including through “S” system.
  • Make clear that IoT services are not telecom services for taxation purposes.
  • Provided that product certification must be required, actively promote mutual recognition procedures and seek to base requirements on international standards, avoid idiosyncratic requirements in line with National IoT Plan.
  • Apply existing resources from sectorial funds to foster IoT.
  • Restructure taxation on IoT applications.
  • Use IoT as an opportunity to increase value-added in products/services and for upgrading (i.e., technology applied to tropical agriculture).
Thank you! Comments? Critique?

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