

ICPS newsletter

Licensing Internet providers is risk-prone for society

Talks about the introduction of licensing for Internet providers are becoming more serious. The Prime Minister declared that in March the Cabinet of Ministers would submit a corresponding draft law to be considered in the Parliament—as the Presidential Decree dated 6 December 2001 ordained. Implications of the introduction of licensing Internet providers were evaluated in an article prepared by the International Centre for Policy Studies for the first issue of the new *Korrespondent* journal, issued on 18 March 2002

The Presidential Decree never mentions a single word as to why Internet access services should be licensed. The explanation furnished by the Prime-Minister—“...to create an environment fit for equitable competition in the Internet market, and also favourable conditions for Ukraine’s population to access the network...”—does not respond to the question “but why licensing?” either.

The state is useful for citizens only when it dedicates itself to solving the most essential social problems. Do Internet providers cause any problems for society that require government interference? Whereas the government ignores this question, we will endeavour to analyse the situation by ourselves.

First of all, the problem that the government wants to solve should be identified. This itself is not an easy task, as there have been no public conflicts stemming from Internet providers’ activities since this sector emerged in

Ukraine. Consumers have not made any complaints to the authorities as to the non-execution of obligations by providers. There are no monopolisation problems, either—the market for Internet access services is highly competitive, and if consumers are not happy with price or quality, they can simply go to another provider.

It is true that Internet access in Ukraine is still expensive for most Ukrainians, and that is a problem. However, state regulation is needed only when the market cannot cope with the problem on its own. This situation is different—along with economic growth and tighter competition in this market, the problem of financial inaccessibility will ameliorate.

However, there is one problem related to Internet provider activities that the market will definitely never tackle. That is, the opportunity for law-enforcement agencies (with court orders) to tap information off connection channels. It is actually true that offenders may

connive to commit offences using electronic mail and commit illegal actions (e.g., credit card frauds) via the Internet. Therefore, the government must have an opportunity to effectively fend off offences like these, as well as investigate them.

It seems that access of law-enforcement agencies to modern means of data transmission is the problem that the government is seeking to resolve; this is a legitimate position, regulated by the Criminal Procedural Code. Nevertheless, if that is the case, it should be openly discussed, because if legitimate goals are concealed from the public-at-large, it raises suspicions of illegal ones—that is, intentions to limit freedom of speech, uncontrollably gather information about citizens, present opportunities for corruption when issuing licenses, or force somebody’s rivals out of the market.

It should also be disclosed to the public that the government probably wants to force Internet providers to purchase—with their own money (that is, for our money)—all the equipment needed for the special services to acquire data, as well as for storing information on Internet traffic. That was the actual idea behind licensing, because purchasing such equipment can be set as a condition upon which the license is granted.

Now that we have made some guesses as to what the real problem is, society itself has to answer a number of questions, e.g., Are we ready to pay more for Internet access in order to ensure tighter security? Do we trust our law-enforcement agencies to such an extent as to give them access to all the information being transmitted via Internet networks? and Is the court system capable enough to shield Internet providers from the pressure exerted by representatives of law-enforcement agencies that attempt to

What is the purpose of issuing licenses in the European Union?

In the European Union, to which Ukraine aspires to accede, there are two types of licenses: general and individual. General licenses are granted without any restrictions, without preliminary conditions, and actually serve as notifications for the government that an enterprise has launched their business in a certain realm. The Ukrainian counterpart of such a license is the license for the right to trade in alcohol and tobacco products, which provides the government with the information as to where excisable goods are sold and where to look for smuggled goods or faked products.

In the EU, the number of markets where individual (i.e., permission) licenses are required is strictly limited. In the telecoms sector, which incorporates Internet providers, it includes mobile communications, which has a natural restriction—radio-frequency resource. Therefore, the number of operators is limited, and the best are selected among the candidates.

force them to disclose information without any legal grounds?

As the representatives of public interests, the government and the President should also answer these questions. What is currently more essential, expanding public access to information, or protecting people against offences and external threats? How tangible are the risks that a licensing system can be utilised with illicit intentions—restrictions on public freedoms, bribery, dishonest competition?

The available experience shows that the weaknesses of restricting mechanisms in Ukraine make these risks too great. This is the chief reason that raises doubts as to the need for implementing licensing of Internet providers.

If in the process of adopting the State Budget law-enforcement agencies manage to prove that public funds need to be spent on purchasing equipment to tap information, and not on some other things, then such equipment will be

purchased with public funds. This would be a far more transparent and less risky way of accomplishing public goals than the introduction of licensing.■

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Ukrainian Government has begun to employ an economic model for forecasting

Working out an effective public policy depends greatly on the government's capability to forecast and predict the implications of implementation (or non-implementation) of suggested measures. Therefore, government officials should have a good command of the skills necessary to forecast the implications of a certain policy alternative as accurately as possible, based on available information and taking into account expected changes which are beyond the government's control. This week, the participants of the joint project "Economic Modelling and Forecasting in Ukraine" reached the most important stage—utilising the constructed model of Ukraine's economy to do short-term forecasting

This week, the International Centre for Policy Studies hosted seminars under the framework of the "Economic Modelling and Forecasting in Ukraine" project. At this stage, government officials participating in the project embarked on the most important project exercise—utilising the constructed model of Ukraine's economy for short-term forecasting of major macroeconomic indicators.

Apart from training on the methods and approaches employed in forecasting, Ukrainian government officials develop skills on how to publicly represent and justify its economic forecasts. These skills are essential because policy alternatives are developed by public servants who are specialists in certain sectors, but decisions regarding the implementation of measures should be adopted by politicians—who do not usually have the relatively substantial knowledge and time needed to fully grasp the problem. Thus, the public support of proposed policy alternatives will largely depend on how convincing and comprehensible the forecast presentation will be.

The Canadian experts on the project believe that the constructed model might become a powerful practical instrument, which will allow Ukraine to develop more effective public policy. Specifically, the Economy Ministry and Finance Ministry will be able to employ the constructed model during the drafting of the State Budget of Ukraine, and

also in evaluating the effectiveness and implications of implementing fiscal policy steps. The National Bank of Ukraine, in its turn, will be able to develop monetary policy more effectively.

The project "Economic Modelling and Forecasting in Ukraine" was launched in September 1999. This project is carried out jointly by the Conference Board of Canada, the International Centre for Policy Studies, and the government of Ukraine, represented by the Ministry of Economy and European Integration, Finance Ministry, National Bank of Ukraine, and State Statistics Committee. The project is funded by the Government of Canada via the Canadian International Development Agency.

The project's goal is to reinforce the institutional capacity of the Ukrainian government in the realm of developing economic policy, by way of constructing a macroeconomic model of Ukraine.

The key types of activities carried out under the project framework include training seminars for Ukrainian government officials, and their carrying out individual assignments on collecting and analysing information.

At every project stage, Ukrainian government officials are given specific individual assignments. Under the framework of the project, Ukrainian government officials learn to work with modern-day computer applications utilised for constructing economic models and forecasting in the majority of countries worldwide.

The training is built around the example of constructing a complex model of Ukraine's economy. For this purpose, a powerful database was designed which describes the state and basic trends of the Ukrainian economy. The particularity of the training was that Ukrainian government officials themselves ventured the assumptions and analysed the interrelations of different economic indicators.

The project participants are the Ministry of Economy and European Integration, Finance Ministry, and National Bank of Ukraine. The seminars that have been taking place for two and a half years were led by Canadian experts from the Conference Board of Canada. ICPS is in charge of coordinating the project events. ICPS economists, who have extensive experience in conducting research on Ukraine's economy, consult the Ukrainian participants of the project.■

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