

Russia: Big Brother for ‘Big Four’

Blog post by Adviser Alexander Smotrov, 08 July 2016

Just before the Russian State Duma was dissolved for the September elections, it voted for the controversial amendments to the counter-terrorism legislation dubbed the ‘Big Brother Law’. The new amendments signed by President Vladimir Putin yesterday could completely change the country’s mobile industry landscape and seriously affect Russia’s preparations for the 2018 FIFA World Cup.

One of them requires mobile providers from 1 July 2018 to store for six months not only technical data about customers’ calls and messages but the actual contents of those. Another obliges internet service providers to ensure backdoor access to encrypted data for security services.

Even leaving the contentious political implications of this move on one side, it will be difficult to ignore the economic and technological impact of these changes for the Russian telecoms and internet industry which until recently has remained one of the few actively growing sectors of the Russian economy able to attract considerable foreign investments.

The new law is a further step in the recent policy trend of data localisation and control shaped by Moscow’s growing political and economic nationalism. Access to data is framed as a key issue for national security.

To comply with the new requirements, telecom operators will have to urgently invest in new equipment and infrastructure, including data storage centres. The ‘Big Four’ mobile operators - MTS, VimpelCom, MegaFon and Tele2 - have estimated the projected cost of required changes at 2.2tn RUB (\$35bn). The costs will be borne not only by international shareholders but also by customers of the ‘Big Four’. This will almost inevitably cause considerable rises in tariffs for their 250+ million customers and force the operators to delay or abandon capex plans such as the rollover of reliable 5G networks by summer 2018 which is when Russia will host its first ever football World Cup.

It is not yet clear whether the factors such as essential services accessibility, technological advancement and international prestige - all previously set as important benchmarks by the Russian leadership - turn out to be sufficient to sway the politically-charged decision while saving face for the authorities. Normally, the government - who defines the exact implementation policy for new laws - serves as a safety valve and a field for compromises (as happened last year with the data localisation law). In the case of ‘Big Brother Law’ the government has not yet had its say. What it says will matter.