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**IEG/COMMENTS/
30 November 2000**

European Commission

**COMMENTS
ON
DRAFT REPORT OF THE SECRETARY-GENERAL
ON
IP TELEPHONY
FOR THE WTPF 2001**

As expressed at the meeting of the informal group of experts on 16-17 November 2000, the European Commission congratulates the ITU secretariat general for taking up this most complex subject. IP Telephony clearly represents both a challenge to public telecommunications operators (PTOs) and an opportunity which may well enable PTOs to provide new and more cost-effective communications services in the future, including in particular in developing countries. It is important both to recognise that increasing use of IP based technologies will be made, (including IP based voice services), and also to develop policy strategies to deal with any regulatory issues that arise and ensure that all countries are adequately prepared to best exploit these developments.

We concur that IP Telephony should be viewed as one of the many applications that employ IP technology. It should, therefore, be treated in government policy and regulation in a way which is consistent with how other related communication services applications are treated, so as to avoid artificial distortions or incentives. Current regulation may therefore need to be reviewed in many ITU member countries and possibly adapted to accommodate this requirement.

We also agree that IP Telephony may represent a strong catalyst for driving prices for voice services to incremental costs which is the classical scenario for describing a competitive market environment. ITU member states should view this scenario positively, as it can only help achieve both the ITU's objective of reasonably priced services and the objective set forth in Recommendation D.140 of cost-orientated settlement rates. For those ITU member states who so far are opting for a non-

competitive market for their voice communication services market, it would appear that this new technology would warrant careful consideration for their transition towards a competitive communication market scenario.

Within the European Community the communications policy regulatory framework applies generally. The type of regulation which is applied to a given infrastructure or service and to a given operator or service provider, is then subject to an individual assessment by the national regulatory authority. The principle used by the national regulatory authorities is that regulation is only applied when it is justified and then in a technologically neutral way. A basic public telephone service provided over an IP based network (or over something else) would not escape from justifiable regulation. We would encourage other countries and regions outside the European Community to follow a similar approach. This approach should, however, not be mistaken to mean that we endeavour to exclude so-called positive regulation, meaning regulation that provides the framework within which services may be provided without the need, for example, for a licence, but where merely a notification under a class licence concept would be acceptable. Note also that some countries regulation may be seen as 'enabling' rather than restrictive.

We agree with other comments presented at the meeting of the informal group of experts on 16-17 November 2000 that the Draft Report seems to focus heavily on the impact on traditional PTOs in developing countries. We would suggest that the report could be broadened in scope to also focus on the impact of IP telephony on consumers and the overall economy, which broader government policies address, such as human resource development and the ancillary services to basic voice telephony service which are important for the successful development and implementation of electronic commerce at a global scale. We are aware that IP telephony alone will not be the major reason for such impacts. Rather, it will be the impact of IP technology as such which then would need to be considered, of which IP telephony is only one particular application.

We consider that the current situation with the benefits of the Internet and the roll-out of new high capacity data and voice transmission networks taking place mainly in industrialised countries is not sustainable from a global perspective. We therefore suggest that the ITU WTPF agree on policy proposals in the form of opinions that address this issue and embraces the adoption and promotion of IP technology by all ITU members as a suitable way forward towards a more equitable world where all interested parties are able to benefit from the new network technologies and their applications.

PAGE BY PAGE COMMENTS ON THE DRAFT REPORT

2. TECHNICAL ASPECTS OF IP TELEPHONY

In general terms we would favour this section being split into a more specific technical annex and more executive or general reader friendly part which explains the technical aspects using less technical terms.

Paragraph 2.1: The statement that "Today voice represents a an ever-diminishing percentage of over all communications traffic when compared to date" should be qualified to take into account that voice measured in absolute terms remains an increasing market.

Paragraphs 2.16-2.18 on ENUM: It would appear important that national regulatory authorities decide as soon as possible if they want to involve themselves in the ongoing work by the IETF and the ITU. Furthermore, we feel that these paragraphs should be amended to be more flexible as to the need for international standards, in particular regarding the issue of safeguarding or developing national standards. In paragraph 2.18 the position of Study Group 2 is highlighted, but as we understand it, the topics will only get discussed in Study Group 2 if the member states and sector members put in the contributions and the manpower to develop the issues.

3. POLICY AND REGULATORY ISSUES FOR IP TELEPHONY

We would agree with the suggestion that the identification of a set of government policy objectives for IP Telephony should be elaborated in this section. The following set of such objectives could be addressed:

- Universal Service/ Universal Access
- Affordable communications services
- Rate re-balancing
- Technology transfer
- Human resource development
- Growth of the economy as a whole, and the communication services sector in particular.

Paragraph 3.4: We would suggest the following rewording:

"At present, three broad national approaches emerge:

- First there are countries that include IP Telephony within their regulatory system or which do not regulate IP based telephony.
- Second there are countries that prohibit it.
- Lastly there are countries where the situation is uncertain or the issue remains to be formally addressed."

Functional equivalence

Paragraph 3.22: The whole approach is very negative and to say that the main purpose of IP telephony is to by-pass the PSTN should be reworded. [Who would not try to find a way around telephone calls at \$2 a minute.] There may well be genuine concerns about loss or diversion of revenues, but we have seen this before with resale and call-back in the context of high accounting rates. Nevertheless, inherent in any service is the issue of payment, and international agreements will still be needed for

international interconnection or service termination under asymmetric market conditions, i.e., between competitive and monopoly markets.

Special Issues for developing countries

Paragraph 3.27: The conclusion that developing countries do not benefit directly from a permissive IP Telephony policy appears based on a rather short-sighted view. Stimulating increased international calling, whether inbound or outbound, can increase settlements revenues and promotes general welfare. Stimulating a market through cost-effective competition for small and medium sized enterprises both in the communication sector and in sectors using communication services also promotes general welfare and economic growth.

Convergence and IP Telephony

Paragraph 3.31: The report, when raising the question of *requiring* all operators, both ISPs and telephone service providers, to interconnect with each other, should clearly specify that the WTO basic telecommunications agreement places the obligations for interconnection only upon “major suppliers”. (“Major suppliers” are defined as network operators who control bottleneck facilities or possess market power). The reasoning behind this is that only major suppliers have the ability to distort or abuse the market for interconnection. This point should be included in this paragraph and elsewhere in the paper where this issue is discussed.

Cross-border issues

Paragraph 3.35: We agree that International agreements should be driven by what is commercially viable. This paragraph may therefore not be necessary.

4. ECONOMIC ASPECTS OF IP TELEPHONY AND ITS IMPACT ON PUBLIC TELECOMMUNICATIONS OPERATORS

Costs and prices, and substitutability

Paragraph 4.4: It may be unclear whether IP technology is, in fact, a less costly way to transport voice traffic in competitive markets *where prices already reflect incremental costs*. But IP technology nevertheless offers much greater opportunities for the provision of new services to consumers which traditional circuit switching technology cannot offer at comparable service levels.

Paragraph 4.9: Rather than elaborating on the issue of by-pass or re-routing of traffic, we would suggest to focus more on the issue of price and current pricing structures in the traditional telephone markets. Because, rather than the use of IP telephony between computer terminals, it is the traditional telephone markets that makes IP telephony an attractive new opportunity for citizens and business.

5. ASSISTANCE TO MEMBER STATES AND SECTOR MEMBERS: AVENUES FOR INTERNATIONAL COOPERATION

Paragraph 5.2: The first question in the second bullet will, as we understand it, be better explained in the context of a draft opinion for the WTPF on interoperability.

We fail to fully understand the second question in the second bullet as we do not see the need for separating interconnection arrangements between IP backbone providers and PSTN providers from other interconnection agreement between conventional PSTN providers. Unless, this issue is further elaborated on in the report, we would suggest to delete this second question of the second bullet.

The sixth bullet point: we would propose to reword the text to read: "Explain the concept of technology-neutral regulation as it applies to the provision of functionally equivalent public voice telephony services, the aim being to establish a common approach to technology-neutral regulation within the ITU membership". However, note that by this we do not mean to say that all communications services should be subject to the same level of regulation. For example, within the European Union data services are less regulated than public voice telephony services.

Annex B:

Table B.1 should be amended to read as follows:

Table B.1: Countries that include IP Telephony within their regulatory system or which do not regulate IP based telephony

Final comment:

As discussed during the informal expert group meeting in Geneva on 16 and 17 November, we concur with the suggestion to recast the paper with the following main headings:

1. Summary (including of technical aspects of IP telephony)
2. Economic aspects of IP telephony and its impact on the telecommunications industry as a whole and on the global economy, in particular on developing countries
3. Policy and regulatory issues for IP telephony
4. Infrastructure and human resource development

Annex A: Council Decision 498

Annex B: Status of ITU Member States with regard to IP telephony

Annex C: Technical aspects of IP telephony
