

1 December 2000

New Zealand's Response to the Draft Report of the Secretary-General on IP Telephony

1. New Zealand considers that the Draft Report of the Secretary General on IP Telephony contains some insightful analysis and raises important issues worthy of further discussion. It is New Zealand's view that the development of IP Telephony is positive for telecommunications consumers all over the world because of its potential to significantly lower costs and generate new services.

2. Given the potential benefits of IP Telephony, New Zealand considers that its regulation needs to be approached with considerable caution. The past regulation of traditional telephony does not, in New Zealand's view, provide a sound model for the future regulation of IP Telephony. Circumstances today are vastly different to when the regulation of voice networks was developed. Furthermore, the considerable costs of misguided regulation (to consumers, producers and economies in general) are now much more apparent.

Impact of IP Telephony on Universal Service Schemes

3. The draft report notes that in many countries the charging of outgoing and incoming international calls at above cost rates subsidises domestic network development and basic local access. While this may be true, there are valid questions about the efficiency and desirability of such a policy. It is also not known whether a reduction in international calling revenue would, in practice, have a significant adverse impact on domestic network development and basic local access.

4. In any event, domestic regulatory policy is likely to have a much greater influence on the level of domestic network development and basic local access of a particular country than international developments in IP Telephony.

5. The draft report considers that a permissive policy towards Internet Telephony may be designed to encourage the development of the Internet (see paragraph 3.23). However, it is not demonstrated why this assumption would be made and why it is relevant. IP Telephony will bring its own benefits to consumers, so a permissive regulatory policy can be justified even if it does not increase Internet access.

6. The draft report also seems to assume (in paragraph 3.24) that universal service schemes can only be funded from levies on telephony transactions. This is not necessarily true and it is conceivable (and maybe even desirable) that such levies could be amended to cope with a move to IP Telephony by levying an alternative base, e.g. becoming a levy on the gross revenue of domestic telecommunications companies or being combined with traditional forms of taxation.

Special Issues for developing countries

7. While it is true that there is a greater incentive for developed country correspondents to use IP Telephony as a form of by-pass of the accounting rate system used by developing countries, the report does not (in this section at least) recognise that this may be positive in forcing incumbent PTO's in developing countries to make efficiencies and lower prices, which would benefit both domestic and international consumers.

8. In this section the draft report again paints IP telephony as a threat to investment in extending domestic networks and meeting universal service obligations because of its ability to undermine highly profitable international termination and origination rates. Following this logic one would expect to see countries with the highest rates for terminating international calls investing the most money in domestic networks and universal service obligations and countries with the lowest rates falling behind in these areas. This clearly is not what happens in reality because there are many more factors in the equation and heavily protected state owned monopolies are unlikely to be good at generating and efficiently reinvesting surplus revenue. In any case, the draft report itself later states (in paragraph 4.13) that in increasingly competitive markets such hidden cross-subsidies can no longer be sustained.

Convergence and IP Telephony

9. New Zealand is puzzled by the statement in paragraph 3.33 that “ ... complexity makes effective telecommunication regulation more important than ever.” While effective telecommunication regulation may become more difficult with convergence, the need for it does not become more important. There has always been a need for effective regulation – no one would argue for ineffective regulation. The real debate has and continues to be about what degree and what form of regulation is most effective in protecting and promoting the interests of consumers.