telia

DOCKET FILE COPY ORIGINAL

February 7, 1997

William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Re: International Settlement Rates -- IB Docket No. 96-261

Dear Mr. Caton:

Telia AB ("Telia") submits these comments on the important issues raised by the Notice of Proposed Rulemaking ("Notice") in the above-referenced proceeding.[1] As you may know, Telia provides local, domestic long-distance, and international telecommunications services in one of the world's most liberalized and competitive telecommunications markets, Sweden. Telia is also a long-standing advocate of accounting rate reform and has as low an accounting rate as any foreign carrier with the United States. As recognized in the Notice, it costs U.S. carriers just "9¢ a minute to terminate an international call" in Sweden.[2]

The Notice also recognizes that Sweden is one of only a handful of progressive countries that has explored accounting rate reform.[3] For the past decade, Telia and its predecessor, Televerket, have been at the forefront of Sweden's efforts.

---

1 See International Settlement Rates, Notice of Proposed Rulemaking, IB Docket No. 96-261, FCC 96-484 (rel. Dec. 19, 1996) ("Notice").

2 Id. at ¶ 71.

3 See id. at ¶ 16.

telia

Before the ITU in 1987, for example, Telia explained that advances in technology had significantly reduced the cost of providing international services. For this reason, Telia urged carriers to reduce accounting rates to approximate "tariffs" for domestic long distance services "in order to protect the long term interests of all customers."[4] Moreover, before the Commission, Telia has consistently advocated the need for settlements reform and called on the agency to "join it in seeking to address the reduction of international accounting rates."[5] Telia is therefore pleased that the Commission has initiated this and other proceedings to explore means of promoting competition in the global telecommunications market.[6]

In the Notice, the Commission has recognized that above-cost accounting rates have severely impeded the growth of competition in the global telecommunications market, significantly increased the price of using such services, and, as a result, suppressed demand for international services.[7] Telia shares these concerns. Like the United States, Sweden has high volumes of outgoing international traffic and a considerable net

---

4 See Dr. Tony Hagström, Director General, Televerket, "Integration of Technology and Telecommunications Policy," ITU Forum, Geneva, (Oct. 22, 1987); see also Televerket, "Remuneration and Accounting Rates Between Operators for the International Service, International Telegraph and Telephone Consultative Committee, Study Group III (1990-92); Notice at ¶ 9.

5 "Reply Comments of Televerket (Swedish Telecom Group)," CC Docket No. 90-337, at 1-3 (filed Nov. 13, 1990); see also "Comments of Televerket," CC Docket No. 90-337, at 2 (filed Mar. 23, 1992).

6 See generally Policy Statement on International Accounting Rate Reform, 11 FCC Rcd 3146 (1996); Regulation of International Accounting Rates, Fourth Report and Order, Docket No. 90-337, FCC 96-459 (rel. Dec. 3, 1996).

7 See Notice at ¶ 5.

settlements deficit.[8] Accordingly, Telia has the same incentive and desire as the Commission to promote the use of "cost-based accounting rates that encourage the use of telecommunications services and promote international telecommunications and trade."[9]

Telia also shares the Commission's concerns about the potential for market distortions, such as one-way settlement bypass, created by above-cost accounting rates and asymmetric market access conditions.[10] The Swedish telecommunications market is completely open; there is no reciprocity-based market access standard. Nor is there a regulatory equivalent to the Commission's International Settlements Policy. This situation has led to certain competitive imbalances.

More specifically, carriers from non-liberalized countries have entered the Swedish market and established affiliates with which they can "self correspond" without using accounting rates. By "self corresponding" in this manner, foreign carriers can engage in one-way bypass of the settlements process into Sweden and terminate international traffic in Telia's domestic network at a low national interconnection rate, rather than an accounting rate. Because some of these carriers are from non-liberalized countries, reciprocal "bypass" opportunities are not always readily available to Telia.

To focus attention on this growing problem, Telia plans to submit a contribution to Study Group III highlighting the danger of one-way settlements bypass by

---

[8] As recently as 1992, Sweden even had a net settlements deficit with the United States. Although the flow of traffic has since shifted, settlements between the United States and Sweden are almost in balance.

[9] "Comments of Televerket," CC Docket No. 90-337, at 2 (filed Mar. 23, 1992).

[10] See Notice at ¶ 11.

carriers from non-liberalized countries. This contribution also will call for the use of cost-based accounting rates, based on the cost of the national extension rates at both ends. For countries that do not employ such a system, Telia advocates the application of a benchmark pricing arrangement established through a multilateral forum.[11]

As a guideline for calculating cost-based rates, Telia's Study Group III contribution will suggest that operators use a methodology -- based on the cost of providing the international half-circuit, international gateway switching, and the national extension -- similar to the methodology used by the Commission in the Notice.[12] In this regard, Telia agrees with the Commission that benchmarks based on tariffed component prices will fully compensate carriers for the cost of terminating international traffic if the tariffs have been rebalanced to a reasonably cost-based level.[13] Such rebalancing, Telia believes, is necessary to ensure that the tariffed component prices approximate those that would exist in a competitive market.

Although Telia supports the Commission's goal of accounting rate reform, it urges the Commission to continue to pursue alternatives to the approach proposed in the Notice to achieve this objective. In particular, the Commission should continue to support a multilateral solution to the problem of above-cost accounting rates through work being done in international fora such as the International Telecommunications Union and the

---

[11] In implementing accounting rate reform, Telia believes that it is useful to first seek broad international support. See id. at ¶ 88.

[12] See id. at ¶ 35.

[13] Id. at ¶ 42.

telia

World Trade Organization.[14] By doing so, the Commission can take full advantage of the much-needed attention to the problem of above-cost accounting rates that has been generated by the agency's Notice.

At the same time, Telia believes that the Commission should continue to promote market-based solutions. As recognized in the Notice, the most "effective way to ensure settlement rate reform that results in reasonable calling prices is through the development of competitive markets for IMTS."[15] Plainly, the decision of the European Communities to liberalize all markets after January 1, 1998 is an important step towards the creation of competitive markets. As a result of this decision, much of the OECD region, which represents a major portion of the IMTS market, will soon be open to competition. This decision, Telia expects, will also lead to the lifting of pricing and other regulatory constraints.

Telia also concurs with the Commission that the agency's accounting rate policies "should reflect diverse national market structures."[16] With respect to competitive markets, such as Sweden, Telia believes that there is no need for benchmark settlement rates. As recognized in the Notice, experience "in the global telecommunications market has shown that where competitive market structures have been promoted, prices have

---

[14] See id. at ¶¶ 15-16.

[15] Id. at ¶ 20.

[16] Id. at ¶ 21. Telia also finds that a country's level of economic development will provide the Commission with a good starting point for categorizing countries, although further analysis may be necessary.

decreased."[17] This is certainly true of the U.S.-Sweden market, "where it costs U.S. carriers 9¢ a minute to terminate an international call."[18]

Experience has also demonstrated that market-based approaches can be effective in addressing the problems created by above-cost accounting rates. Through carrier-to-carrier negotiations, Telia has successfully reached accounting rate reductions and addressed certain competitive imbalances in the Swedish market caused by above-cost accounting rates and the uneven pace of global liberalization. Moreover, Telia believes that the Commission also should continue to promote the use of alternative settlement arrangements to terminate international traffic between liberalized markets. Such arrangements place direct downward pressure on inflated accounting rates and provide monopoly telecommunications organizations and governments with strong market incentives to open their markets to competition. For its part, Telia is eager to introduce an alternative arrangement and thus discontinue the use of accounting rates with operators in the United States, wherever feasible.[19]

---

[17] Id. at ¶ 71.

[18] Id.

[19] See Telia North America, Application for Authority, IB Docket No. 96-545 (filed Sept. 29, 1996); Telia North America, Opposition to Petitions to Deny, IB Docket No. 96-545, at 19-20 (filed Nov. 29, 1996).

telia

In closing, Telia again wishes to offer its support for the Commission's goal of reforming the international settlements system.

Respectfully submitted,

TELIA AB

By: Kelley Boan

Kelley Boan
North American Representative
234 Oak Court
P.O. Box 752
Severna Park, Maryland 21146
(410) 544-36951