



The Threats to the Development of Global e-Commerce



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Since PSINet was founded in 1989, the Internet has grown from a research tool used primarily by academics in the US to a global 'network of networks' that is revolutionising global commerce in ways we could not have imagined only a few years ago.

I have been giving presentations forecasting the future of the Internet and its implications for economic development for over 10 years. More often than not, I have initially been criticised for overstating the transforming effect of the Internet on the global economy, before the realisation, just a short time later, that I had actually underestimated its incredible influence.

Consider some of the recent predictions made by Forrester Research, based in Boston, Massachusetts. According to their projections, by 2003, e-commerce will be supporting transactions worldwide, such as the following:

- 9 million loans will be processed online;
- 500,000 cars will be purchased entirely online;
- online travel bookings will total US\$29.5 billion;
- online grocery sales will reach nearly US\$11 billion; and
- insurance policies contracted for completely online will reach US\$4 billion.

These numbers are clearly staggering, but there is little doubt that these predictions will either be met or even exceeded, eventually generating millions of new jobs around the globe. However, the continued incredible development of the Internet and global e-commerce is by no means assured. In particular, three international public policy issues have been identified that, if handled incorrectly, could hamstring the development of global e-commerce

and slow the spread of the potential economic and social benefits it will bring.

Regulation

Since the breakup of the Bell System in the early 1980s, the US Congress, the Federal Communications Commission and the Federal Judiciary have taken a worldwide lead in deregulating telecoms markets.

Deregulation has generally proceeded on the proven principles that competitive markets are the most efficient means of delivering new and better services at lower prices to the consumer and that when incumbent monopoly power blocks the formation of competitive markets, government has an obligation to break that power.

At times, these efforts have been frustrated by incumbent monopoly phone companies who continue to leverage their dominance of the local loop by deploying armies of lawyers and lobbyists paid for by captive ratepayer dollars. However, it now seems clear that advances in technology, coupled with the steady progress of deregulation, have brought us to the verge of true competition in telecoms markets.

A wide variety of access technologies – including wireless, satellite and cable – are being introduced by entrepreneurs and new entrants into the market. What we are seeing gradually created is a true marketplace in telecoms services where competition, rather than government, will mandate universal services to all. Worldwide, telecoms monopolists are living on borrowed time.

I believe governments the world over need to forge ahead with the free market in order to continue to establish a truly competitive telecoms marketplace. We believe that, in the US, this will allow the government to phase out the Universal Service Fund,

as subsidies for communications services in rural areas are replaced with competitively priced alternatives.

PSINet believe that government needs to be vigilant in wresting monopoly control of the 'local loop' (the 'last mile' circuit connecting homes and businesses to the nearest telecoms switch) from incumbent telecoms service providers. If it does not, we believe that the entire course of telecoms deregulation will be threatened, with consumers and businesses alike ultimately paying the price in the form of higher prices and more restricted services.

Encryption

The primary method available to guarantee the security and privacy of information travelling over the Internet is encryption – a technique in which mathematical algorithms are used to encode communications so that they are indecipherable to anyone except the sender and the intended recipient.

I believe that only free and unfettered access to the strongest type of encryption commercially available can guarantee privacy on the Internet.

The current explosion in online commerce will make individuals more, not less, vulnerable to the piracy and abuse of private information. As businesses migrates onto the Internet, more and more personal information, including sensitive medical and financial data, will have to travel there as well – information that deserves to be secure from prying eyes.

Currently, governments around the world are locked in a debate concerning the regulation and availability of encryption technologies. Representatives from law enforcement agencies and the national security community have expressed dismay at the ability of some individuals to use encryption to evade detection, while breaking laws and conducting espionage. They have often called for a 'compromise' to strike a balance between the need for national security and the privacy rights of individuals.

I oppose limiting the strength of encryption available to individuals or weakening the strength of encryption technologies that can be made available for export. I also oppose 'key escrow' schemes that would make the keys to encryption codes available to law enforcement under varying circumstances.

In a sense, these plans are akin to both regulating the strength of deadbolt locks so they will be easier for police to break down during a raid and giving law enforcement authorities a skeleton key to your

front door as well. This is a possibility none of us should welcome, because of the plain historical truth that governments throughout the world have poor track records in protecting personal privacy. We need look no further than Federal Bureau of Investigation surveillance of US civil rights leaders in the 1960s for a chilling example. History demonstrates that entrusting an individual's personal security to any government agency – no matter how seemingly incorruptible and well-intentioned – is no substitute for individual control over private information.

Taxation

The rise of the Internet and e-commerce will pose vexing challenges to systems of taxation and revenue collection. Worldwide, there are over 30,000 different governmental authorities that could lay claim to taxing transactions over the Internet – a medium of communication that traverses the borders of these tax jurisdictions instantly and invisibly.

Devising taxation regimes to cope with this new reality will take time. As a consequence, a general consensus is developing between business and government that, for the time being, the Internet must be a tax-free zone.

The US Congress recognised this when it voted recently to delay implementation of any new Internet taxation for three years. The legislation prohibits the introduction of new Internet taxes targeted at online consumers or vendors, including any new tax on Internet access, e-mail or online searches.

I believe that all governments need to resist the urge to enact tariffs on Internet commerce just as it gets off the ground. At the same time, I recognise the legitimate interest of all governments in raising revenue for common social goals through technology-neutral taxation that does not stifle innovation or create incentives for evasion.

Conclusion

I am convinced that the Internet has rapidly developed into the ultimate tool of free speech, the free market, freedom of inquiry and freedom of action – ideals that are contributing directly to the explosion in global e-commerce. If international regulators are not careful and begin to regulate the Internet in a manner similar to the way they have regulated the telephone network over the last century, we run the risk of slowing its growth and delaying the incredible benefits it will bring to individuals around the world. ■