

VoIP: Legacy Carriers vs. New Entrants



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October 1, 2004

Overview

- VoIP technology will be highly disruptive of the market dynamics for voice services.
- The public policy debate will be the most powerful dynamic for the near term (18 to 24 months). A national, consistent regulatory framework is a prerequisite to the success of IP technologies and services.
- There is a significant force favoring a framework where IP-based services enjoy the same “minimal regulation” that has fostered the success of the Internet. There are others who favor pervasive regulation.
- Despite efforts by the market players to drive the policy debate, the regulatory framework for VoIP remains largely unformed and uncertain.
- It is easy to make mistaken assumptions about the positions of the various players.

Big Myth #1

Myth 1: “Legacy carriers believe that VoIP technology and services threaten their survival.”

- Fact: Some legacy carriers view IP technology as a opportunity to offer new and innovative services over a lower cost platform.
- Solution: Social subsidy structures must be eliminated so as not to tilt the playing field to players whose rates are not regulated.
- Dynamic: States artificially suppress prices and shift the losses to other services. The inter-carriers compensation mechanism is used to assure that incumbents are compensated for the high cost of maintaining ubiquitous networks.

Big Myth #2

Myth 2. "Legacy carriers seek the demise of VoIP providers through legacy regulation."

- Fact: Legacy Carriers have no interest in legacy regulation of VoIP services. Most carriers are at the forefront of advocating a national, non-regulated framework for VoIP.
- Solution: The Legacy Carriers have argued that *IP Platform Services* are interstate information services subject to the FCC's exclusive jurisdiction. The Carriers have urged the FCC to preempt the states and not to apply common carrier rules under Title II.
- Dynamic: Contemporary regulation is complex and fractured, there is no easy solution that does but some part of the market at substantial risk.

Big Myth #3

Myth 3: “Requiring VoIP providers to pay access charges is an attempt to stifle VoIP with legacy regulation.”

- Fact: Access charges are designed to compensate network providers for the use of their facilities. The compensation scheme is in part what funds *universal service* in this country.
- Solution: For elimination of access charges, regulators must allow rates to rise to cover their costs. If they aren't willing to do that, all service providers should pay access charges.
- Dynamic: This is a very difficult thing for political organizations to do. It is equally difficult to expect new entrants to pay access since the avoidance of access is, at least in part, the source of their perceived competitive advantage.

Big Myth #4

Myth 4: “In order for VoIP providers to survive, they must be completely free from regulation.”

- Fact: Most VoIP providers recognize they will be subject to some regulation, and to some extent that their customers expect them to perform “regulated” functions (e.g., provide 911 services).
- Solution: Preemption of state regulation by the FCC, selective imposition of critical public policy regulation on VoIP providers, with elimination of “monopoly regulation” on the incumbents.
- Dynamic: 51 separate jurisdictions imposing disparate and complex regulatory requirements will make it difficult and costly for new entrants. Reduction of this regulation for legacy carriers will help reduce their costs and make them more competitive and agile.

The Bottom Line:

Direct regulatory oversight is not appropriate in a competitive market.

- Regulation is necessary only when consumers have inadequate bargaining power.
- Entry, exit, rate, term and condition regulation is not needed because VoIP consumers can vote with their pocket-books.
- Where consumers have choices, providers conform to satisfy market demand.
- General consumer protection regulations are sufficient to deter misconduct.
- Public Policy regulation (e.g., 911, CALEA) must be address on a national basis so that VoIP providers don't have to deal with inconsistent regulations.

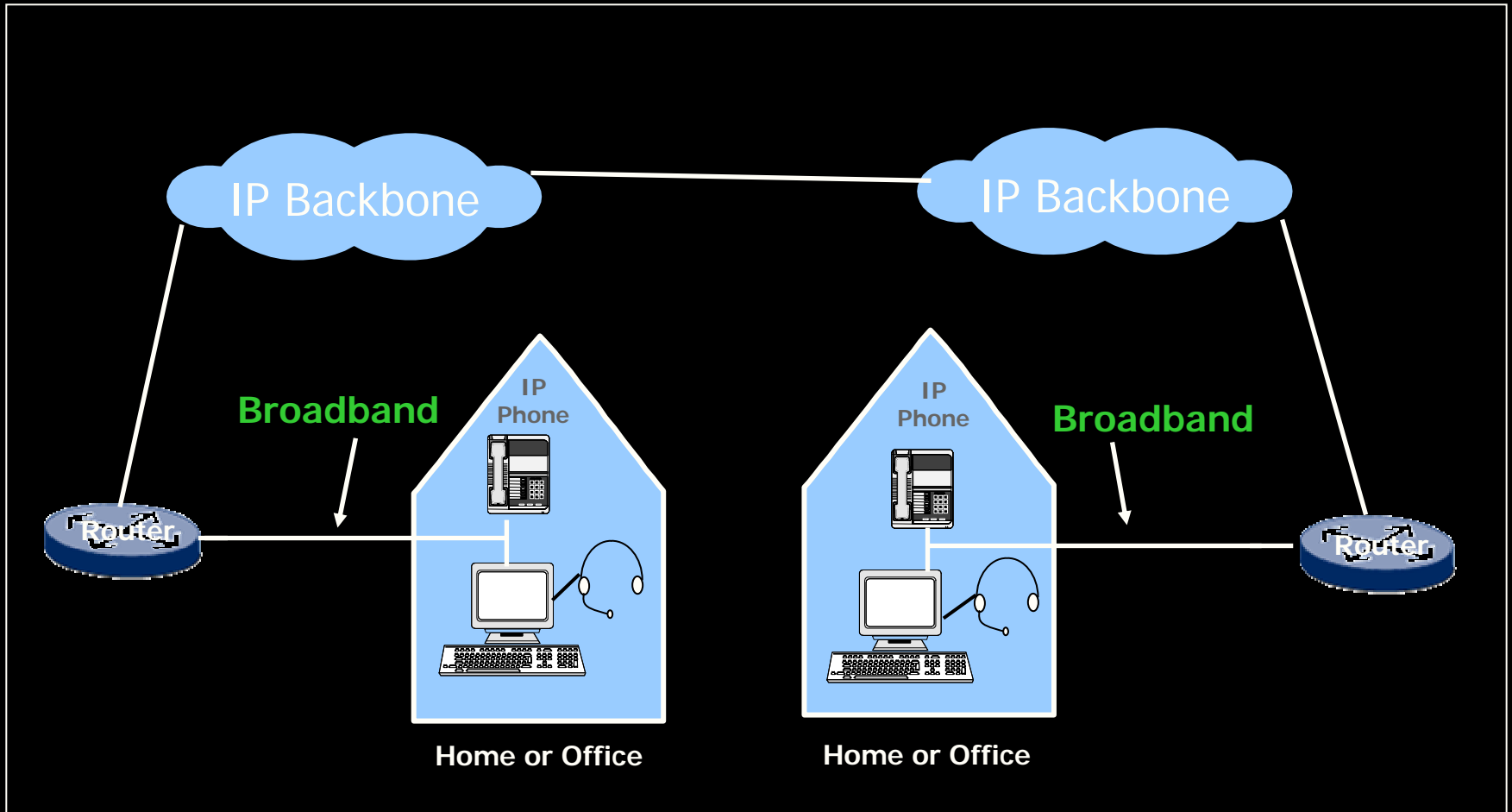
Question

Should VoIP be viewed as “phone” service?

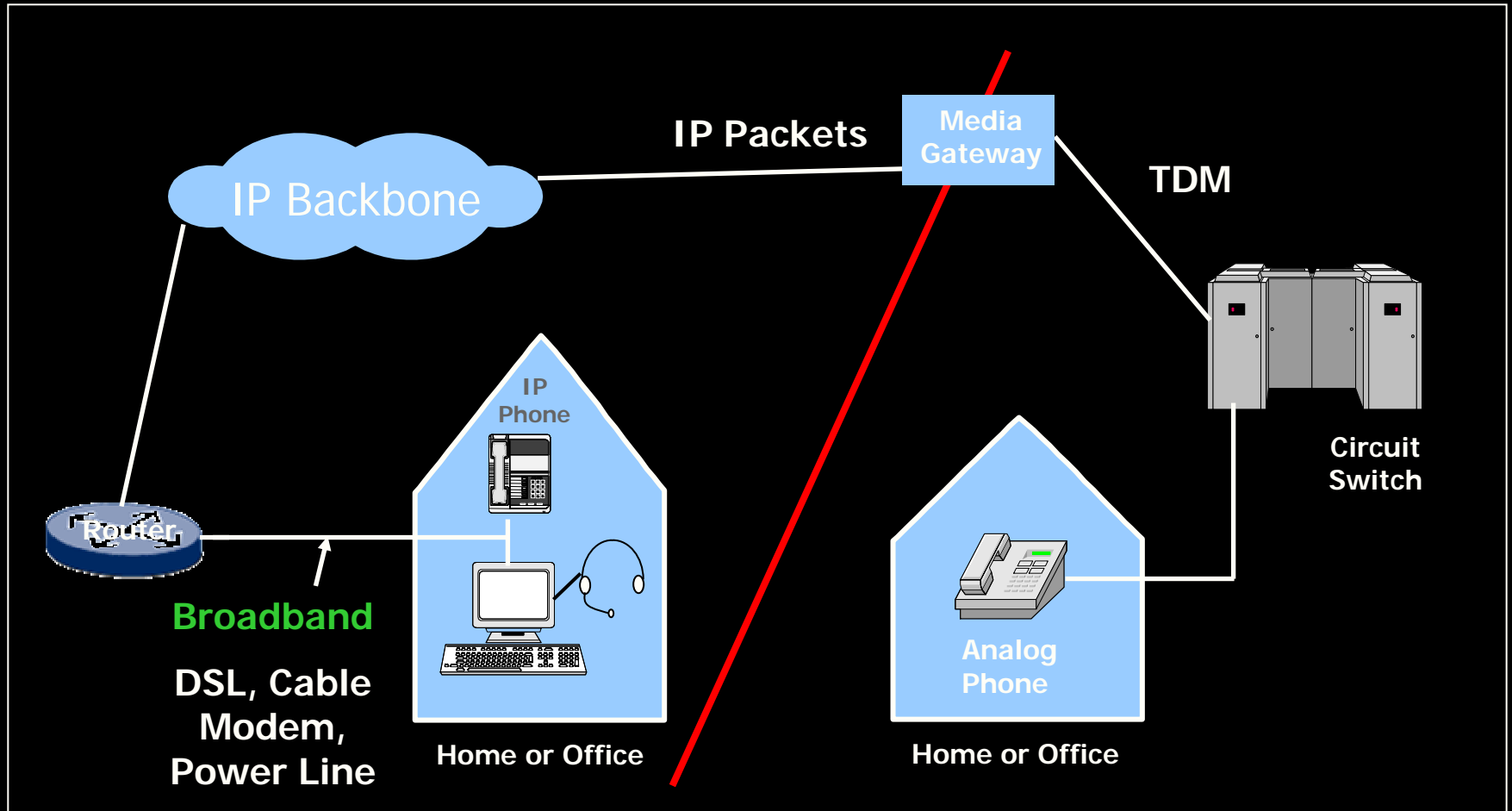
What is (and isn't) VoIP?

- VoIP is a broadband *application* that can be used to send or receive voice in Internet Protocol (IP).
- Examples include:
 - *Pulver's* Computer-to-Computer Free World Dialup,
 - *Vonage's* Computer-to-Phone DigitalVoice product; and
 - *SBC's* Enterprise IP-platform Hosted IP Communications Service (HIPCS).
- Classification of the services must be based on the features and functionality of the services offered, not merely the labels applied.

On-Net VoIP: VoIP Call to VoIP End User



On-Net to PSTN VoIP: VoIP Call to Circuit-Switched End User



False VoIP: IP-in-the-Middle (Access Avoidance)

Same as Traditional Long Distance

