

REPORT: INTERNET PHONE CALLS' BRIGHT FUTURE FOR CONSUMERS, INDUSTRY WILL NEED "REGULATORY CERTAINTY"

WASHINGTON, D.C.//December 16, 2003//Consumers stand to benefit significantly from voice-over-Internet Protocol (VoIP) technologies – which could account for up to 40 percent of all U.S. phone calls by 2009 -- if clear regulatory directives are provided in the near future, according to the authors of a new report from the New Millennium Research Council (NMRC). The report finds that an unsettled regulatory picture could threaten emerging VoIP services with unresolved questions about whether and how to regulate VoIP services, as well as other critical issues surrounding this fast-growing technology.

VoIP is widely seen as having the potential to transform the telecom industry and bring tremendous benefits to the entire economy. The new NMRC report released today entitled, *"The Future of Internet Phone Call Technology: Regulatory Imperatives to Protect the Promise of VoIP for Industry and Consumers,"* outlines the views of six leading academic and industry experts about the challenges that face would-be regulators of VoIP services.

The Federal Communications Commission (FCC) recently began to examine, at a public hearing held December 1, 2003, the critical issues surrounding new VoIP services in order to provide clear regulatory direction. Major carriers and cable providers have also announced their intention to provide this new technology. Given that this issue is squarely before the FCC, the authors of the NMRC report call on the FCC to (1) develop a clear national VoIP framework; (2) subject VoIP applications that function like telecom services to certain telephony rules; (3) regulate all VoIP service providers equally; and (4) ensure that statutory social responsibilities are met.

The NMRC report concludes: "The authors find that to ensure VoIP's continued growth, VoIP service providers, regardless of the technology used, should adhere to certain rules of the telecommunications landscape, especially those that advance important public policy objectives such as universal access, access for law enforcement, and emergency services." At the same time, most of the authors find that VoIP providers should be exempted from the full weight of state and federal regulation. Full compliance with every federal, state, and local telecom regulation would most likely slow VoIP's entry into the consumer market.

The report notes that "VoIP occupies a 'middle ground' between traditional telephone service and newer data services to which some, but not all, practices and regulations should apply to expand the promise of VoIP without undermining the building blocks of the telecom industry. VoIP is a technology whose great promise should be realized without resorting to cumbersome regulation."

The NMRC report authors include Debbie Goldman, research economist for the Communications Workers of America; David P. McClure, president and chief executive officer of the U.S. Internet Industry Association; Lee McKnight, associate professor at Syracuse University and M.I.T. research affiliate, and Martha Garcia-Murillo, assistant professor, School of Information Studies, Syracuse University; Gregg C. Vanderheiden, professor of industrial engineering, University of Wisconsin-Madison; and Glenn Woroeh, adjunct professor of economics, University of California-Berkeley, and executive director, Center for Research on Telecommunications Policy.

Professors McKnight and Garcia-Murillo write, "Whether or not VoIP should be regulated at the national or state level has been discussed for a number of years...Although the division between federal and state regulation has worked in many instances, it is difficult to administer in the case of information and communications technologies (ICTs)...Trying to maintain a distinction between state and national communications will lead to the establishment of artificial and, in our opinion, arbitrary mechanisms to

determine whether or not a voice or data transmission was intra or inter-state. On the basis of this argument, a national policy should be considered not just for this technology but ideally in the long term for the regulation of all ICT related services.”

The CWA’s Goldman stresses that “new Internet voice services, regardless of the technology used, should be subject to some of the same rules as traditional telecommunications providers.” This approach, she says, is consistent with the FCC principle of “competitive neutrality.” VoIP-based service providers should be subject to the same rules, and most importantly, all voice service providers, regardless of the technology used, should meet important social obligations, she says.

USIIA President McClure counsels the path of regulatory restraint. “It is critical that regulators not attempt to simply transfer existing regulations for telephony-designed for a different technology in a different century-to advanced IP networks. No regulation should be adopted for VoIP unless it is first proven to be necessary-and in fact, proven to be the best and only solution to a specific and quantifiable problem. Even in this case, it should be required that the burden of proof lie with the proponents of any new regulation rather than the opponents.”

Professor Woroch wrote: “The portability of VoIP technology underscores the need for parity in treatment across services, platforms, and networks. ‘Regulatory parity’ has become a common refrain in today’s increasingly crowded telecommunications marketplace. It is especially critical in the case of VoIP, however, since its deployment is so elastic and the technology holds so much promise of long-run consumer benefits.” He finds that the new technologies can be an engine of reform of the policies that caused market distortions in the first place. “If allowed to do so, VoIP has the potential to improve domestic regulation of telecom markets.”

Professor Vanderheiden notes that the social responsibilities of current phone service providers should continue with VoIP. “When VoIP rolls into apartment houses, nursing homes, and elder care facilities it will be important that individuals with disabilities and people who are older will be able to access and use those phones. Profit driven companies are not bad...However, regulations are sometimes needed. Regulations are our way of putting societal factors into the profit equation - so that the natural market forces and the natural forces within companies - can come into play and cause access to appear in products.”

ABOUT NMRC

Established in 1999, the non-profit New Millennium Research Council (NMRC) is composed of a network of policy experts who seek to develop workable, real-world solutions to the issues and challenges confronting policymakers. Its work has focused primarily in the fields of telecommunications and technology. For more information on the NMRC please visit: <http://www.newmillenniumresearch.org>.

CONTACT: Ed Rovetto, (202) 263-2922 or edrovetto@newmillenniumresearch.org.

EDITOR’S NOTE: The full report is available at www.newmillenniumresearch.org. A streaming audio replay of a related news conference will be available on the Web as of 6 p.m. EST on December 16, 2003 at <http://www.newmillenniumresearch.org>.