



**Competition, Innovation and Choice  
The Future of Canadian Telecommunications**

**by**

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*Check against delivery*

Thank you \*\*\*

And thanks to all those involved in VON Canada for again organizing such an outstanding conference. The sessions are topical, the speakers first rate and the program impressive. So congratulations to all of you!

When I asked the organizers how long they thought I should speak this afternoon, I was told that if I spoke for 30 minutes, you would be pleased; if I spoke for 20 minutes, you'd be thrilled; and if I kept it under five minutes, you'd be ecstatic! Well, I don't know about five minutes, but I do intend to be brief!

This conference could hardly have come at a more opportune time! The federal government has just recently named the Panel which will conduct a review of Canada's Telecommunications Policy - a review that Bell, along with the Canadian Chamber of Commerce, ITAC, a coalition of business users, and others - have been urging for some time.

Technology is changing dramatically and we need to ensure that we have policies that not only *keep* pace but *set* the pace - spurring competition, driving innovation and expanding choice for consumers.

This telecommunications policy review is a golden opportunity to do just that, through its examination of such key issues as the impact of the adoption of information and communications technology, regulatory reform and broadband access and applications.

Moreover, because the telecommunications industry is such an important enabler for so many parts of our economy - from agriculture to education, manufacturing to medicine - it is imperative that we get this review right. As the President of the Treasury Board, Reg Alcock, said in outlining the Government's policy on smart regulation, "we must have *all* the regulation we need, but *only* the regulation we need."

And so we welcome the Government's initiative and look forward to participating in this important review of telecom policy.

This conference is timely for another reason as well. As I hope you all know by now, Bell has just started to offer our first VoIP service, which we are calling Bell Digital Voice.

This new service offers new capabilities that you can't get with a regular wireline telephone service, including, among others, online service and customization, the choice of area codes, voice mail to email, and enhanced call forwarding.

And because this service is non-exclusionary you don't have to subscribe to our high-speed service in order to use Bell Digital Voice.

We're excited about this product. Proud of its technology. Enthused about its features. And delighted to offer customers the next generation of Internet services.

This Conference affords us the opportunity to consider VoIP writ large - to step back and see the bigger picture. And I thought I would do so by spending just a few moments looking at what's happening with VoIP internationally to see if there are some lessons that might be useful to us here in Canada.

As you know, many nations around the world have been considering whether and how to regulate VoIP.

Across the Atlantic, the European Commission - which establishes the framework for regulators in each member country - conducted extensive consultations on VoIP in 2004. Its conclusion? That VoIP should be allowed to develop throughout the EU without regulatory hurdles.

Specifically, the Commission advised the National Regulatory Authorities (or NRAs) that a "light touch" approach should be taken with respect to VoIP.

The Commission made no distinction between VoIP services supplied by incumbents and entrants - a position consistent with the practices in Australia, Belgium, Denmark, Finland, Germany, Italy, Korea, Sweden and many other countries.

In the United Kingdom, the Chief Executive of Ofcom, Stephen Carter, summed up the British position with respect to VoIP this way. He said, "Broadband voice services are a new and emerging market. Our first task as regulator is to keep out of the way."

And that's exactly what they've done. VoIP services currently offered by BT, Britain's largest telephone company, are not subject to the same retail price regulation that its switched PSTN services are.

To our knowledge, every major industrialized nation other than Singapore has decided that VoIP should not be price regulated, even when offered by the incumbent. That's true of all of the European and Asian countries we have studied, including the world's largest VoIP market, Japan.

Closer to home, we see the same approach applied in the United States. In fact, in the U.S., neither federal nor state regulatory authorities have imposed any rate regulation on VoIP services, whether offered by ILECs or their affiliates.

Indeed, the Federal Communications Commission - the FCC - has specifically concluded that state public utility commissions are *precluded* from regulating VoIP - and several U.S. federal district courts have said the same.

What's more, the FCC has made it clear that it has no intention of regulating the retail rates of VoIP services, whether provided by ILECs or other parties.

In one of its rulings, the FCC held, "that traditional economic regulation designed for the legacy network should not apply outside the context of PSTN, and therefore will be inapplicable in the case of most IP-enabled services."

It is also instructive that the FCC rejected the notion that VoIP should be treated like legacy services just because it might be considered to be functionally similar to legacy telephone services. The FCC said, "...we would find [VoIP] far more similar to Commercial Mobile Radio Services, commonly known as cellular services..."

That is why Verizon, the largest US ILEC, launched its VoIP service, VoiceWing, nationwide without first asking any regulator for approval.

What is perhaps most interesting about the U.S. experience, however, is the response of consumer groups, cable companies and CLECs.

None of them - none of them - is calling for retail price regulation of VoIP, whether provided by incumbents or any body else.

So it seems clear that there is a strong consensus in the U.S. that VoIP services should not be subjected to retail economic regulation.

Even The National Cable and Telecommunications Association urged the FCC to apply a deregulatory framework, quote, "equitably to all VoIP providers...whether or not they own network facilities. Imposing greater regulatory burdens on providers that invest in networks could undermine the goal of promoting facilities-based competition." End quote.

Remember, this is the cable companies talking!

Here in Canada, however, the cable companies are calling for ILECs to be regulated with respect to all aspects of VoIP as they are for local wireline telephone service.

At Bell, we don't think that makes much sense. Not from a business perspective. Not from a competitive perspective. And, most important of all, not from a consumer perspective.

In fact, the cable companies' position is based primarily on perpetuating myths.

And myths set us down the wrong road because they discourage pursuit of the right answers to the right questions.

Let me just touch on two myths promulgated by cable with respect to VoIP here in Canada.

The first myth is that VoIP is essentially the same as regular wireline phone service and, as such, ILECs should be regulated, while others, such as cable companies, should not.

Needless to say, the cable companies like this myth a lot! And they have advanced a rather convenient argument in support of it.

They suggest that because VoIP involves voice, it should fall under the same regulatory framework developed for traditional local wireline voice services.

Now, not only does this stand in direct contradiction to the FCC's views, and that of other regulators around the world, it also flies in the face of common sense.

Saying that VoIP should be regulated like existing wireline telephone service is a bit like saying that cable television is equivalent to rabbit ears or roof top antennae!

And the cable companies argue, conveniently, that their reasons for VoIP regulation should not be applied to wireless services.

People intuitively understand the difference between telephone lines and the Internet. It's not rocket science. It's a different medium. Different technology. Different processes. Different functionality.

And just because you might use a phone number to get access to VoIP, doesn't make it a regular phone call any more than starting an email with the words, "Dear sir", makes it a letter requiring the application of appropriate postage stamps to your computer screen!

The fact is that email is not regular mail. And VoIP is not regular phone service. It's just different. And the crucial difference - the obvious difference - is that it's based on Internet technology.

A techie would call Bell's Digital Voice, and the services of Vonage, babyTEL - and others - new Internet *applications*. Most people would call them new *uses* for the Internet. But no one would be confused that we're talking about the Internet.

So that's myth number one: that VoIP is equivalent to regular wireline phone service and should be regulated accordingly.

And if VoIP *is* an Internet application, then that *should* bring us to a situation where all providers can compete on a level playing field. After all, it has been longstanding policy in this country that the retail Internet should not be regulated - that it should be open to competition - so that consumers can reap the benefits competition brings.

We think that the CRTC's decision to leave the retail Internet unregulated was a good one. The right one. A decision that improved competition, expanded choice and drove innovation.

It meant consumers could compare what ILECs like Bell have to offer with what others are offering. Compare features. Price. And then decide what's best for them, for their families and their businesses.

And that's just what happened - with tremendous success. There's been world-class high-speed Internet penetration in this country, with some of the lowest prices for broadband service anywhere in the world.

The cable companies argue that when the Internet is used to carry music, text, images, streaming video, email, instant messages or games, it should be unregulated. But when it carries voice, it somehow turns into a local telephone service and should be regulated.

That just doesn't make much sense. A truck that carries logs is still a truck when it carries lawnmowers. And an Internet that carries music is still an Internet when it carries voice.

That's why VoIP should be treated the same way as any other Internet application - as part of an unregulated, competitive Internet environment.

Well, the cable companies would say "hold on a minute." ILECs like Bell are well established. They're big. They have deep pockets. They can move into VoIP, lose money for as long as it takes, and drive competition away.

And this leads us to myth number two - that ILECs have market power with respect to VoIP.

To understand why this is a myth, we need to remember why the regulatory regime in telecommunications developed the way it did - and what it was designed to do.

The regulations were designed to protect consumers from a concentration of market power in the hands of companies that owned wire lines and switches in distinct geographic areas.

As technology changed, these rules evolved. In order to foster competitive markets, the regulator has forbore from regulating where the incumbent does not have market power. Wireless services, long distance and - significantly - retail Internet access - are all examples.

Now why was there forbearance with respect to retail Internet access? Because it was recognized that no one was holding market power - that there were two technologies capable of delivering high speed Internet services - cable and telephone. That both were equal in terms of their ability to enter and operate in that market. And because consumers win when there's fair and healthy competition.

That's why there is simply no need to give Rogers, Shaw, Videotron, Primus, Vonage - or any other company offering VoIP - a head start in this area. We're all starting from the same position - or at least we should be.

For our part, Bell has worked hard to promote greater competition - and greater consumer choice.

For example, we are contributing to the development of a strong wholesale market. More than 110 ISPs resell our DSL to their customers.

By contrast, we are aware of only three ISPs that resell cable high speed Internet service. If cable companies are truly offering their high speed service at a competitive wholesale rate, then why so few?

Moreover, their CRTC-approved wholesale Internet service does not allow an ISP to provide voice services.

That's not fostering competition. That's not expanding choices for customers.

Recently, Bell has taken steps to enhance competition and consumer choice even more. With CRTC approval, and following negotiations with ISPs, we have lowered our wholesale DSL rates.

We have also made it possible for both ISPs and our retail customers to access to our high speed Internet service without also having to be a regular wireline phone customer.

In other words, we are making "dry loops" available in the market.

Unfortunately, the cable companies already in market with VoIP services are making it harder, not easier, for consumers to exercise real choice.

That's because these companies are splicing their cable into the existing phone wiring inside the home. As a result, if a customer ever wanted to switch from the cable VoIP service to another voice provider, a technician would have to come right into their home on a service call.

This would require making special arrangements to be home when the technician arrives and then paying a service charge for the privilege!

Not very appealing. Not very easy. Not very consumer friendly. And, I would add, not necessary when a consumer switches from one regular wireline phone service provider to another.

By contrast, as I said at the outset, Bell's Digital Voice works on any high speed Internet and customers can self-install it in their own homes by simply plugging their phones into a small device. If they ever decide to switch to another voice provider, they unplug the device and they're back to where they started.

Simple to do - and no need for a technician to visit.

So in many areas and on many fronts, Bell has encouraged competition and consumer choice, while the cable companies have done exactly the opposite.

Now, they're trying to do so again, with respect to VoIP. Contrary to the interests of consumers. Contrary to the promotion of fair and healthy competition. And contrary to the approach adopted around the world.

Bell's position is clear. It is pro competition. Pro consumer. And fully consistent with the approach of virtually every other major country on the face of the globe.

An approach that says that in the absence of any market power, where no entity holds a dominant position and where the barriers to the entry are minimal, there is no case to be made for economic regulation in the public interest.

That is the position we hope will prevail with respect to VoIP in this country. To do otherwise would be to favour one type of competitor over another, to restrict competition, and to limit consumer choice.

Yes, myths are funny things. Some of the most persistent are, upon examination, found to be the least plausible.

But myths disproved by facts should become myths we discard for good.

It is our hope that the CRTC will become myth-busters in their consideration of VoIP.

Canadians demand no more. They deserve no less.