

REGULATORS' CHALLENGE: FACILITATING THE TELECOMMUNICATIONS REVOLUTION

Remarks by
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Introduction

It is a pleasure for me to address this group today, along with my colleagues from North America. This event is an opportunity to take stock.

Technology continues to charge forward and “convergence” is evolving from marketing buzzword, to concrete business plan.

Next year, the clock speed of a chip will double, yet again. Optical technologies will become more advanced and cheaper. Wireless telephony will become even more prevalent. And, audio and video streaming undoubtedly will continue to grow in sophistication and promise.

As established businesses and entrepreneurs continue to develop plans for increasingly innovative services, regulators must respond with appropriate broadband, competition, spectrum management, and media policies. Indeed, consistent with your theme, this is a kind of “partnership” . . . business innovating, and regulators adopting and maintaining appropriate and flexible regulatory frameworks to ultimately benefit consumers.

But, the FCC is not alone in this task: regulators around the globe are grappling with the same set of policy issues. I am confident that this seminar will contribute to the policy dialogue.

In today's discussion, we will hear from my colleagues about their experiences and policies in promoting partnerships for deployment of telecommunications. I would like to make some comments about how we at the FCC are approaching critical broadband, competition, and spectrum policy issues.

The Telecommunications Revolution: Beyond Regulators' Mandates

In the United States and in many countries around the Pacific, broadband is the central communications policy issue of the day. Broadband has come to be the touchstone of discourse about the appropriate roles of the public and private sectors.

President Bush recently noted that the United States must be aggressive about the expansion of broadband and should promote the Internet as a tax-free environment to encourage use. Other world leaders are articulating visions of “World IT dominance” and “broadband access for all.”

Indeed, there is almost a universal belief that we are nearing an important inflection point, a point characterized by rapid and dramatic changes, where new technologies burst onto the scene, and companies that are slow to adapt quickly become obsolete. Technology will soon offer to consumers the tools and infrastructure to enable yet another explosion in innovation that will, in turn, bring high technology goods and services to the mass market.

However, in North America and around the Pacific, governments are struggling with the same question. They may pose it in different ways, but all are pondering how best to infuse the benefits of broadband infrastructure into the daily lives of their citizens. And what types of strategic partnerships and regulatory frameworks will yield those benefits, especially in a skeptical investor climate.

While the ultimate answer to broadband ubiquity remains elusive, I believe, first that policy makers need to look beyond the momentary state of investor confidence. The relentless advances that drive technological change are largely independent of the ebb and flow of business cycles.

Moreover, I believe the developments we witness today in communications technology represent a genuine revolution. Consumers and businesses are relying on communications services to an ever-increasing extent. At the Commission, we see the revolutionary impact of technology in every industry within our purview. Whether it is satellite radio, digital television, cable broadband, DSL, WiFi or Third Generation wireless, the impact of technological change reaches deep.

While this revolution raises issues and requires decisions that go far beyond the limited jurisdiction of a regulatory agency—indeed, far beyond the scope of a government's mandate—there is a role for government.

The Role of the FCC: Broadband Policy

Let us consider first the role of the FCC in broadband policy . . . the broadband revolution demands that the Commission itself lead change. Standing still is neither a wise course nor an option. But, how can a regulatory agency lead change? First, the

FCC is changing the way it thinks and reexamining longstanding assumptions and regulatory approaches.

Second, the FCC is looking inward at itself and revolutionizing the way it operates in order to respond effectively to the broadband revolution, in particular, and to convergence more generally. Of course, the FCC has been a “converged agency” since 1933. But, we have found that this does not make us ready to face convergence. So, we have realigned our internal structure along more functional lines, focused more effort on effective enforcement, and established core programs to expand our technical and economic expertise.

Third, the Commission is taking a concerted and comprehensive approach to bring regulatory clarity to broadband policy—which is, at best, a murky and confusing policy area. Our actions in this area will first and foremost be grounded in the U.S. Communications Act, taking into account the statutory objectives of competition, universal service, and consumer protection.

But, what principles will guide our actions in the broadband space?

- We will promote the ubiquitous availability of broadband-capable infrastructure to all Americans. This is the President’s vision, and it is shared by the Congress because the promise and potential of broadband are ones that every American (and world) citizen should be able to enjoy. But a word of caution as we strive to achieve this worthy goal. If history is any guide, infrastructure build-outs take time.

Consider, for example, that it took 12 years for color TV to reach a 10% adoption threshold, while VCRs took 10 years and cell phones took 8 years. By contrast, the U.S. has reached 10% adoption of high speed Internet service in 4 years.

- In addition, we will conceptualize broadband to include any technological platform that is capable of fusing communications power with computing power to provide bandwidth-intensive content to meet the needs and demands of consumers. That is, we recognize that broadband is not merely cable modem service or DSL. In fact, some of the most promising broadband solutions for rural and high cost areas are wireless (not wireline). We welcome any technology that will help close the gap of time and distance in acquiring information.
- The FCC also recognizes that at this early stage in the development of broadband, its broadband regulatory environment must serve to promote investment and innovation. Substantial risk investment is needed to either upgrade legacy networks or to develop new networks to support broadband capabilities and applications.

By one estimate, cable operators invested over \$14 billion in 2001 to upgrade and build out their networks.

- Finally, we believe that sound regulatory policy should, where appropriate, harmonize regulatory rights and obligations that are attached to the provision of similarly situated services across different technological platforms. This is the so-called regulatory parity issue. The convergence of industries demands that we rationalize our regulatory regime.

Having set out our guiding principles, the FCC has over the past six months initiated several major proceedings to clarify the regulatory environment for broadband services and lower the costs and risks associated with deployment of new infrastructure.

Specifically, the FCC is facing the issue of convergence head on, by posing the question of how to define a “dominant player” in a converged world. Could we (and should we) deregulate specific carriers or specific services depending on relative levels of competition and market power in the provision of broadband services?

The Role of the FCC: Competition Policy

And, now a few words on competition policy, another FCC priority.

The FCC has now had almost six years of real world experience with unbundling, interconnection and other competition policies. While we remain fully committed to our competition goals, we also recognize that all competition is not the same and that regulators need to reassess constantly the unique benefits and unintended consequences of their policies.

Ultimately, the FCC is focusing on creating incentives for businesses to invest in infrastructure. Redundant infrastructure decreases reliance on incumbent networks. It also allows new entrants to compete on innovation in services and on real cost differences based on superior service delivery.

We are also exploring how to balance the potentially conflicting goals of promoting facilities-based competition, on the one hand, while fostering universal service and the rapid introduction of competition to all markets, on the other.

For example, would national measurements and performance standards for unbundling decrease discrimination against new entrants by incumbents and promote competition overall? And, how should our unbundling policies account for regional differences?

In facing these issues, we’re being helped along by our courts, which have issued several key (if not seemingly, contradictory) decisions in the past few months. Most recently, the D.C. Circuit ruled that the FCC did not sufficiently justify its current line-sharing and unbundling rules, in light of alternatives to unbundled network elements available to competitors.

I should also emphasize that while the FCC has committed significant resources to initiating or completing various rulemakings, the legal and regulatory issues implicated here have yet to be resolved. All of us, whether in the United States or around the Pacific must resolve these issues if we are to facilitate local competition and the ubiquitous availability of broadband to our citizens.

The Role of the FCC: Spectrum Policy

Finally, I am sure that all of us recognize radio spectrum is a critically important resource. Our nations have become dependent on spectrum-based services, but there is a risk that the wireless industry will become a victim of its own success.

The simple truth is that, as our society grows increasingly dependent on wireless technology and services, spectrum demand is stressing the supply, and that has made spectrum management a difficult task for government. The overarching challenge of spectrum policy is to ensure the public interest is best served by balancing competing demands for scarce spectrum while striving to promote competition through the deployment of new technologies.

Spectrum policy is not static – it requires the difficult task of predicting spectrum needs not just for today but for the next generation. Twenty-five years ago, when the Commission first allocated spectrum for cellular telephone services, no one—neither the FCC nor the industry—realized how rapidly this sector would grow.

The FCC's recent experience has been to move to flexible, technologically neutral policies that allow the market to adjust without constant government intervention to promote innovation, competition, and efficiency in commercial wireless markets.

- Flexible spectrum use policy emphasizes a deregulatory environment, except to prevent interference. This includes allowing licensees to develop any technologically feasible services (e.g., fixed, mobile), that best accomplish their business plans. It also allows evolution within existing bands to more advanced services (e.g., 2G to 2.5/3G).
- Similarly, technology neutrality permits multiple, evolving standards and technologies while encouraging industry efforts to achieve interoperability and harmonization. (e.g. software-defined radio).
- Finally, the FCC is also encouraging efficient spectrum use through secondary markets . . . rules governing the transferability of spectrum licenses and usage rights that would allow licensees to buy and sell licenses, subject to competitive safeguards.

In the spectrum area, the FCC has been increasingly successful in promoting innovation and investment through flexible regulatory frameworks. But, our work is far from complete.

Therefore, we highly value the opportunity to consider the “best practices” and hard-won lessons of other communications policy leaders. This is why I believe meetings such as this one are so important. I am hopeful that over the next three days, there will be ample opportunity for discussion about how the partnership between government and industry and civil society can facilitate the telecommunications revolution.

Thank you.

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Facilitating the Telecommunications Revolution

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Partnership?

**Business . . .
INNOVATING
and INVESTING**



**FCC and other
regulators . . .
MAINTAINING
FLEXIBLE
REGULATORY
FRAMEWORK to
ultimately benefit
consumers**



FCC approaches to . . .

- **Broadband Policy**
- **Competition Policy**
- **Spectrum Policy**



The Broadband Revolution

- Broadband is a central policy issue in U.S. and many Pacific countries
 - U.S. ➔ President Bush “aggressive about broadband; promote Internet as tax-free environment”
 - Other countries ➔ “World IT dominance;” broadband access for all



The How and What of Broadband

- How can government infuse the benefits of broadband infrastructure into the daily lives of citizens?
- What types of strategic partnerships and regulatory frameworks should governments pursue?



The How and What of Broadband 2

- Look beyond momentary state of investor confidence
- Recognize broadband as a genuine revolution



Role of FCC: Broadband Policy

- FCC itself must lead change by
 - Reexamining longstanding assumptions and approaches
 - Realigning internal structure along functional lines
 - Expanding technical and economic expertise
 - Providing regulatory clarity



FCC's broadband principles

- Promote **ubiquitous availability** of broadband-capable infrastructure
- Welcome any/**all broadband technologies**
- Promote **investment and innovation**
- Harmonize regulatory rights and obligations (i.e., **regulatory parity**)



Adoption Time for New Consumer Technologies

	Years to reach 10% adoption	Total years to reach 50%	HH Penetration year end 2000
VCR	10	14	95%
CD player	4.5	10.5	74
Color TV	12	18	98
Cell phones	8	15	60
PC	4	18	58

High Speed Internet: $\cong 10\%$ in 4 years

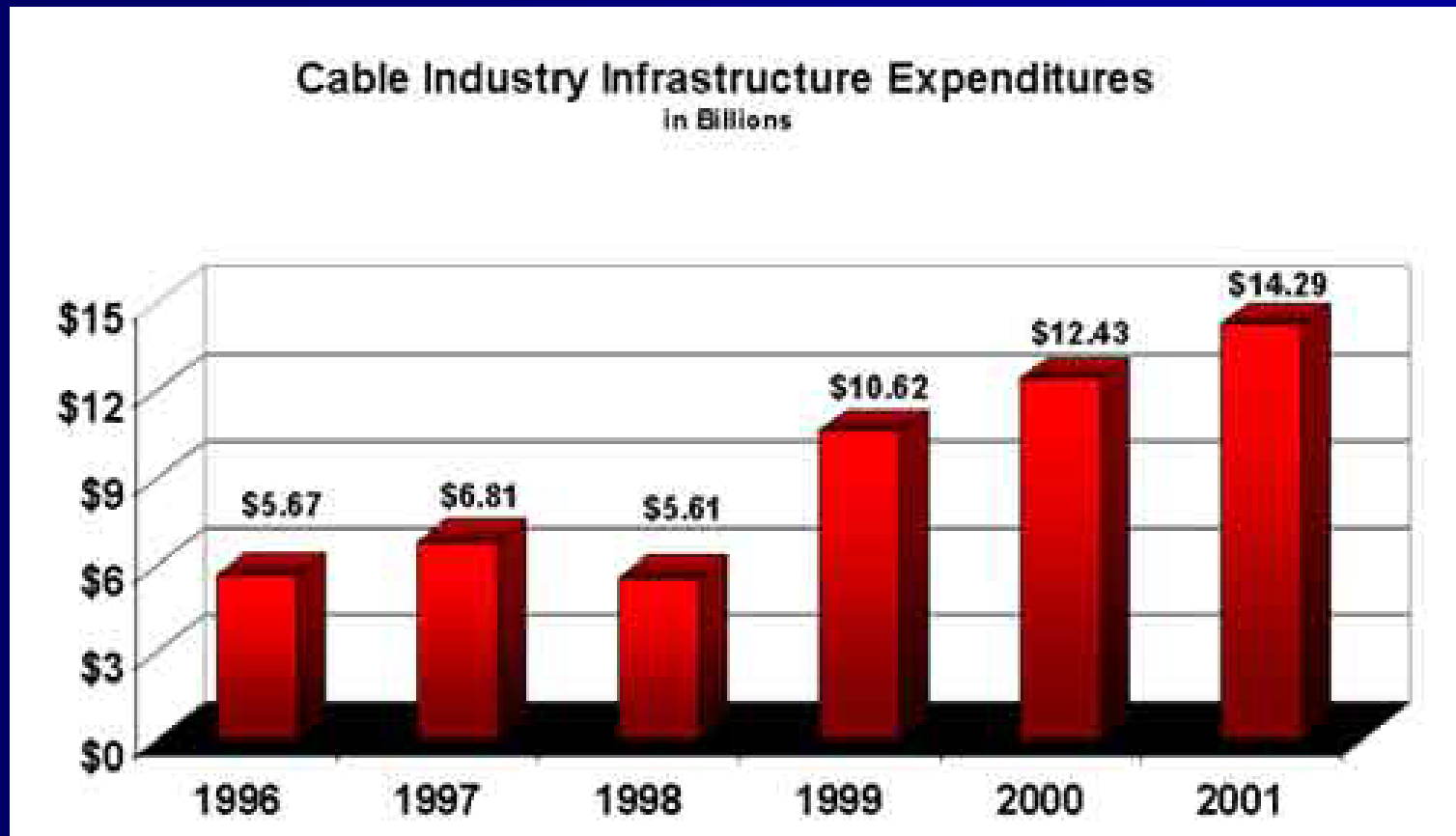


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Cable infrastructure investment, 2001



Source: Kagan World Media, a Central/Primedia Company



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Role of FCC: Competition Policy

■ Lessons Learned:

- All competition is not the same; regulators must constantly reassess costs and benefits
- Focus on creating incentives for infrastructure investment
 - To decrease reliance on incumbent networks
 - To allow new entrants to compete on innovation and superior service delivery
- Tricky balance between promoting facilities-based competition while fostering universal service and rapid introduction of competition to all markets



Role of FCC: Spectrum Policy

- To balance competing demands for scarce spectrum while promoting competition through deployment of new technologies
 - Difficult to predict spectrum needs
 - “Command and control” approach problematic
 - Focus on flexible and technologically neutral spectrum use policies



Thank You

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