

TUNISIA BUSINESS REFORM AND COMPETITIVENESS PROJECT

Workshop sur le Service Universel L'Expérience Américaine

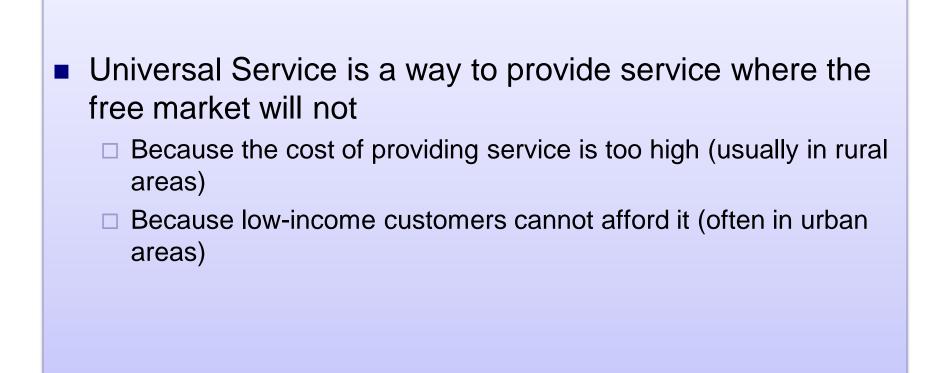
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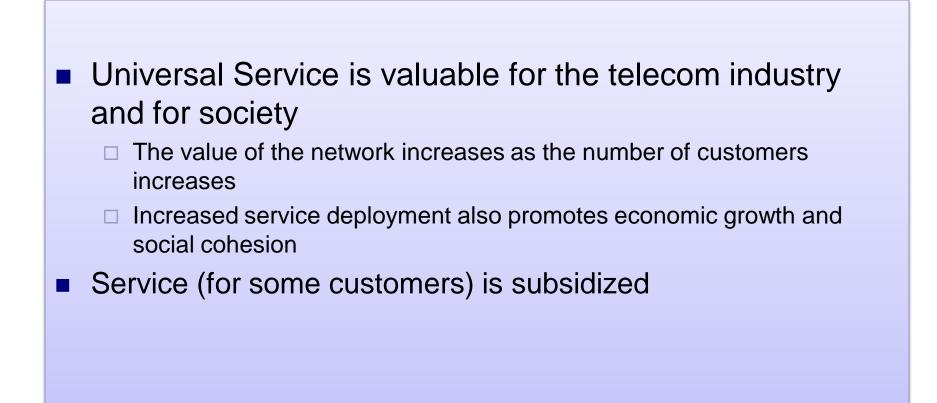


Main Points





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Main Questions

- What kind of service will be subsidized?
- Who will provide it?
- How will it be paid for?



Executive Summary

- Our story starts more than a century ago
- Short recommendation: do not do things the way we did
- US system mainly subsidizes service in "High Cost" areas
- Until recently, only supported fixed line voice service
- Traditionally gave money to incumbent monopolists
- Funding from rates deliberately set above cost



- US telephone industry has always been private
 - Virtually every other nation had state owned telephone system
- Like every other country, US telephone service was traditionally a monopoly
- AT&T provided local service to about 80% of the country and provided long distance
- Hundreds of smaller, independent companies served the remaining 20% of the country







- Over time, telephone penetration steadily increased
- AT&T and local phone companies had an economic incentive to increase the size of the network
- AT&T also had a legal incentive to expand
 - The US Government occasionally filed anti-trust suits against AT&T
 - AT&T extended concept of Universal Service to keep the Government happy



- Communications Act adopted in 1934, created FCC
- Purpose of Act is "to make available, so far as possible, to all the people of the United States a rapid, efficient, nationwide, and worldwide wire and radio communication service with adequate facilities at reasonable charges."
- Communications Act established a policy for Universal Service for the first time
 - □ But it didn't tell AT&T what to do or how to pay for it



- Eventually, Universal Service meant availability of local telephone service to all US households (<u>What</u>)
 - □ In 1920 approximately 35% of households had telephone service
 - □ By 1950 over 60% of households had telephone service
 - □ By 1980 over 90% of households had telephone service



How was Universal Service Financed?

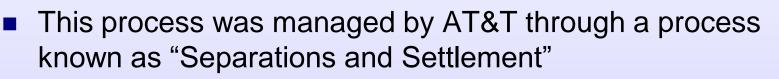
Cross-subsidy

- AT&T (and regulators) decided to keep prices low for local residential telephone service by making long distance customers pay the cost
- FCC and states agreed to increase allocation of costs of local network to long distance
- □ Most long distance calls were made by businesses
- State regulators also subsidized residential rates by setting higher rates for business customers



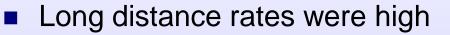
- How was Universal Service Financed?
- High long distance rates were used to keep basic local service affordable in High Cost areas
- It is very expensive to provide service where population density is low – example: Wyoming
 - □ Over 253,000 square km
 - □ Population 584,153
 - □ 5.85 people per square kilometer
 - Very mountainous, harsh winters





- AT&T divided revenues from long distance calls with local companies, both its own (Bell Companies) and others (Independent companies)
- □ Until early 1980s this process received little regulatory oversight





- 1950: 5 minute call from New York to Los Angeles cost \$3.70 (\$35.34, adjusted for inflation)
- Over time, rates came down as usage increased and long distance competition began, but they were still high in order to subsidize local service in high cost areas
- The economic cost of a long distance call is trivial
- The expensive parts of the network are local infrastructure whose costs don't increase with increased use



- Summary of Bell System Universal Service regime
- Local telephone service was subsidized by long distance rates that were far above cost
- Not very transparent
 - The FCC and public did not know exact amount of the subsidy because this was an internal matter between AT&T and local companies
- But this system helped to produce very high levels of residential telephone subscribership (over 90% of households)



- This system was not sustainable
- Long distance competition emerged in late 1970s
- "Divestiture" of Bell System on January 1, 1984
 - AT&T agreed to give up local phone companies to settle another antitrust case
 - □ AT&T became a long distance company only
- Long distance competitors did not pay to subsidize local service



The FCC created a new system for long distance companies to pay part of cost of local networks – Access Charges (<u>How</u>)

All long distance companies paid access charges (<u>Who</u>)

- Access charges were fees AT&T and its competitors paid to use the local telephone network for long distance calls
- □ Access charges were set to include Universal Service charges



- Universal Service under Access Charge system included two programs for residential (not business) customers
- High Cost Fund
 - To keep rates low in places like Wyoming
- Lifeline Fund
 - To allow phone companies to offer inexpensive, basic local telephone service to very low income customers
- (What)
- High Cost Fund far larger than Lifeline



- Congress adopted Telecommunications Act in 1996
- Most comprehensive revision of Communications Act since 1934
- Act opened local telephone market to competition and allowed Bell Companies to provide long distance if they opened markets to local competition



 Telecommunications Act also established new framework for Universal Service

Sec. 254 sets principles for Universal Service

- Quality services at affordable rates
- □ Access to advanced services in all areas of Nation
- High cost and low income customers have reasonably comparable access to services available in urban areas



Sec. 254 principles (continued)

- □ All telecom providers make equitable contributions to Universal Service
- Funding mechanisms should be adequate and predictable
- Schools, libraries, and health care facilities should have access to advanced services



 "Universal service is an evolving level of telecommunications services" to be defined by FCC periodically

Support services that are

- Essential to education, public health and safety
- Subscribed to by substantial majority of customers
- □ Being deployed in public networks by carriers



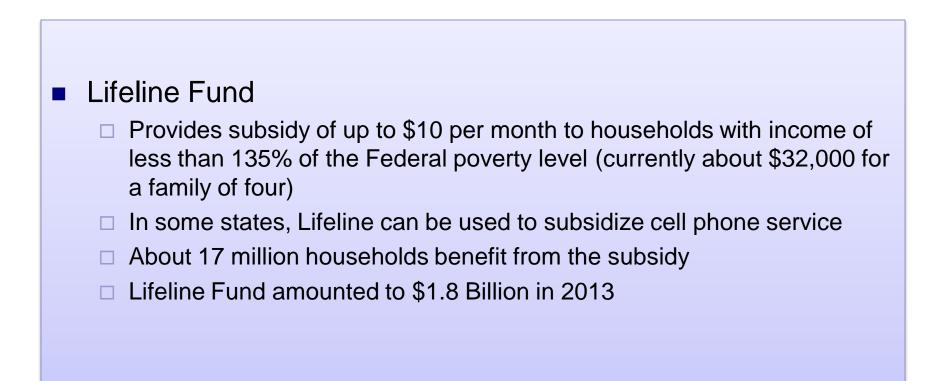
Four main programs (<u>What</u>)

- □ High Cost Fund (Now called Connect America Fund)
- □ Lifeline
- □ Schools and Libraries
- Rural Health Care



High Cost Fund (HCF) Provides support for basic telephone service in traditional "high cost" rural and remote areas Total amount of HCF is now \$4.5 Billion per year







Schools and Libraries Fund

- Provides subsidy of 20% to 90% of cost of telecom and Internet service for schools and libraries
- □ Amount of subsidy is based on need
- □ Fund amounted to \$2.2 Billion in 2013
- Since 1998, total spending of Schools and Libraries Fund has been over \$26 Billion



Rural Health Care

- Subsidizes telemedicine services by paying for video-conferencing services and high-speed Internet access for doctors and hospitals
 - Internet access subsidy allows rural hospitals to pay same rates as urban hospitals
- □ \$417 Million spent on telemedicine networks in 42 states
- □ In 2013, subsidies were \$159 Million



- Who can receive USF support?
- "Eligible Telecommunications Carriers" (ETC)
 - A "common carrier" (basically a phone company) can be designated to be an ETC by the telecom regulator in the state where the service is to be provided
 - The FCC can, on request, designate a common carrier that is not regulated by the state commission to be an ETC (this means wireless carriers)



- ETCs are required to provide services supported by the Universal Service Fund throughout the state
- Must advertise availability of services throughout the state



- Universal Service Fund is managed by the Universal Service Administrative Company (USAC)
 - USAC projects revenues for interstate and international revenues for telephone and VOIP providers
 - These companies, both fixed and wireless, contribute a percentage of their interstate and international revenues to the USF
 - USAC then disburses money to ETCs to pay for the subsidies provided by HCF, Lifeline, Schools and Libraries and Rural Health Care
- Combined, these programs cost more than \$8.5 Billion last year



USF Reform

- In 2011 the FCC adopted a major order to reform USF
- "The universal service challenge of our time is to ensure that all Americans are served by networks that support high-speed Internet access"
- Despite hundreds of billions of dollars in investment, about 5% of households lack access to terrestrial broadband



USF Reform

- Reform intended to make Universal Service support more efficient and effective
- High Cost Fund renamed Connect America Fund to support broadband deployment in unserved areas
- Imposed \$4.5 Billion cap on CAF
- Created a new Mobility Fund to support deployment of wireless broadband networks in unserved areas with up to \$500 Million per year



USF Reform

- In 2011, the FCC required that carriers that receive funding to support broadband deployment must provide download speeds of at least 4 mbps
- In December 2014 the FCC increased this to 10 mbps



Additional Broadband Support

- In 2009, Congress adopted the American Reinvestment and Recovery Act (Fiscal Stimulus)
- To help get out of recession, Congress spent over \$800 Billion on infrastructure projects over 2 years
- This included over \$4 Billion for more than 200 projects to deploy broadband infrastructure
- These projects are estimated to have generated increased economic activity of up to \$21 Billion annually and created more than 22,000 long term jobs



- The US Universal Service system is too complicated
- Historically it was based on hidden subsidies
- Most Universal Service support has been used to subsidize Plain Old Telephone Service in high cost, rural areas
- Money is still mainly used to subsidize traditional phone companies
 - □ Other providers might operate more efficiently



- But the system has been effective at promoting residential telephone service (well over 90% penetration)
- Gradually, Universal Service has come to mean more
 - Schools and Libraries
 - Rural Health Care
 - Broadband!



- Tunisia has a chance to design a more economically efficient system
- Focus on broadband deployment to promote economic growth and competitiveness
- Find ways to control costs of universal service
 Encourage competition in provision of Universal Service
 Promote access at public institutions (schools, libraries, etc.)



WTO Reference Paper

"Any Member has the right to define the kind of universal service obligation it wishes to maintain. Such obligations will not be regarded as anti-competitive per se, provided they are administered in a <u>transparent</u>, <u>non-discriminatory</u> and <u>competitively neutral</u> manner and are not more burdensome than necessary for the kind of universal service defined by the Member."



Questions

