



RBOCs are Spending Money **Find Out Where**

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Despite deregulatory efforts aimed at improving conditions for competition in telecom, deep-pocketed RBOCs continue to have the greatest influence over activities in Washington, DC. Because RBOCs have refused to comply with most aspects of de-regulation, and have instead worked to change regulation to favor their own ends, the United States continues to lag further and further behind nations in Europe and Asia in communications services and market advancement. RBOCs have had positive results, from their perspective, for their efforts and political contributions, as evidenced by regulatory changes such as the expiration of regulated wholesale rates and new proposals that threaten to burden VoIP services with access charges and other state-determined fees.

Contradictory VoIP Bill in Senate Raises Concerns

Just when it seemed safe to be optimistic regarding the future of VoIP regulation, several amendments to Senator John Sununu's (R-NH) proposed VoIP bill – known as the Regulatory Freedom Act of 2004 – were announced. Senator Byron Dorgan (D-ND) convinced the Senate Commerce Committee to pass an amendment that would give states a role in regulating new VoIP services. Dorgan's amendment would allow states to continue to require VoIP providers to contribute to state universal service fund (USF) programs, which help subsidize phone service in rural areas. It would also allow states to require VoIP providers to pay intrastate "access charges," which telephone service providers typically pay to each other for terminating calls on each others' networks.

"[The migration] from traditional phone services will have a dramatic impact on access fees that support smaller, regional telephone companies," Dorgan said in support of his amendment. This statement overlooks the fact that regulation is supposed to encourage technology development and lower costs for consumers, rather than to protect revenue streams for aging telcos whose network build-out costs have long since been recovered.

The second amendment to the Regulatory Freedom Act of 2004, from Senator Conrad Burns (R-MT), permits states to require VoIP firms to "pay appropriate compensation" for 911 services. VoIP lobbyists claim that such fees are already being paid directly or indirectly to incumbents. A white paper released last month by the VON (Voice on the Net) Coalition, which includes Net2Phone, Pulver.com, Microsoft and Intel, says "phone companies are already fully compensated for their costs when Internet phone calls are terminated on their networks" and that universal service charges are also covered.

The vote in the Senate Commerce Committee was close, passing the amendments by a narrow margin, 12-10. Sununu and Senator Ted Stevens (R-AK) did not refrain from expressing their displeasure. "The intention of the (original) bill is to prevent 50 states from regulating (VoIP), and this [amendment] gives back to the states the power to regulate as they choose," Sununu said. "This is not a local copper circuit-switched system. We need to get away from that thinking, and this certainly takes us 180 degrees in the opposite direction." Further, the Burns amendment, regarding E911 obligations, would impose more stringent rules on VoIP providers than those imposed on telephone companies, according to Senator Stevens, who is the incoming chair of the Senate Commerce Committee. The bill and its amendments remain on the Senate floor and are not likely to be voted upon until after the November elections.



RBOC Political Contributions Drive Regulation

Considering that 2004 is a significant election year, it is critical to note that multiple legislative acts have been passed or proposed that largely favor RBOC interests. The RBOC influence over telecom regulation and the committees that govern it on Capitol Hill is strong and likely the result of continuous investments in campaign contributions, political action committees (PACs) and lobbying efforts.

Overall, RBOCs and the USTA are on average spending more than 4.5 times as much on political contributions as the rest of the top 40 telecom industry contributors combined. Included in the 'rest of the top 40' are corporations such as AT&T, Motorola and Sprint. Consider that during the 1999-2000 election cycle, RBOCs gave more than \$11 million to Political Action Committees (PAC). The United States Telecom Association (USTA), the obvious lobbying voice of the RBOCs and other incumbent telephone companies, gave nearly \$300,000 in 1999-2000 to PACs. Combined, the RBOCs and USTA made up the five largest political contributors from the telecom industry.

During the same time period, the remaining 35 of the top 40 telecom contributors gave a combined \$21 million to PACs. In the 2001-2002 election cycle, the RBOCs gave only \$10 million to PACs, with USTA donating more than \$475,000. In contrast, the remaining 33 of the top 40 political contributors from the telecom industry gave a total of \$15.6 million. As of July 5, 2004, during the 2003-2004 election cycle the RBOCs gave nearly \$4.5 million to PACs, with the USTA chipping in more than \$160,000. The remaining 33 of the top 40 contributors gave a combined \$4.2 million.

How Much is That Candidate in the Window?

RBOCs have not simply given money to faceless PACs, but also to congressional and presidential candidates. PAC contributions to federal candidates from RBOCs reached almost \$3.5 million in the 2003-2004 cycle and more than \$4.5 million for the 2001-2002 cycle. SBC ranked ninth among all PAC Contributors to Federal Candidates (2003-2004) and Verizon ranked eighteenth among all PAC Contributors to Federal Candidates (1999-2000) across all industries.

During the 1999- 2000 election cycle alone, the 4 RBOCs combined to spend more than \$26 million on lobbying expenditures. 2004 data are incomplete, but in 2003 the RBOCs combined to expend more than \$33 million for lobbying alone at the Federal level. Consider that the definition of lobbying used under the lobbying disclosure act is narrow. The reported lobbying figures account only for money spent to contact Congresspersons and executive branch officials but do not include state-level lobbying, public relations work, legal work, or Congressional testimony. Further, were state lobbying totals included, the overall totals would be significantly greater.

Looking deeper, it's clear that the members of Congress supporting RBOC and ILEC interests most actively are those who receive the most benefits from RBOC-related contributions. For the 1999-2004 Senate election cycle, Telecom ranked third among industries supporting Senator Dorgan – author of the pro-ILEC VoIP amendment - trailing only Lawyers/Law Firms and Lobbyists. For the same time period, Telecom was the leading industry supporting Senator Burns – author of the stringent E911 VoIP amendment - with Lobbyists third and Lawyers/Law firms sixth. Furthermore, Leadership PACs were fifth on the list.

Numbers taken from PAC donations and individual contributions from 1997-2002 reveal that Senator Burns received the second highest level of contributions from telecom contributors among Senate candidates. Senator Dorgan was fourth. Senator John McCain (R-AZ) ranks first and Senator Hollings (D-SC) ranks third. In contrast, Senator Stevens – who opposes the



amendments that threaten VoIP - ranks near the bottom of the list of those receiving contributions from telecom operators. Despite Senator Stevens' position on the Senate Committee for Commerce, Science and Transportation, telecom ranked 17th among industries contributing to his fundraising from 1997-2002. For Senator Sununu, who introduced the pro-VoIP Regulatory Freedom Act of 2004, telecom does not rank among the top 20 contributors.

In the House, Representative Pickering (R-MS), and Representatives Stearns (R-FL) and Boucher (D-VA) also introduced IP-related bills. Pickering's bill (H.R.4129) differs from Sununu's in that it doesn't prohibit other carriers from collecting access fees from VoIP providers. Notably, telecom was the top industry supporting Pickering over the last election cycle. In contrast, the Stearns-Boucher bill limits FCC authority over VoIP services to E-911 issues, disability access, universal service funding and access fees when VoIP traffic intersects with the legacy telephone network. Telecom ranks fourth for Stearns and fifth for Boucher among industries supporting them during the last election cycle. The data suggest that the greater contributions from RBOCs, the more likely an elected official is to support laws and regulations that favor RBOC interests.

Recall the Tauzin-Dingell bill, which would have eliminated the restrictions preventing RBOCs from offering high speed data services in local phone markets until they proved they had opened those markets to competition. This bill passed the House but was defeated in the Senate. telecom was the fifth ranking industry supporting Representative Billy Tauzin (R-LA), in the election cycle preceding the bill's proposal. For Representative John D. Dingell (D-MI), telecom ranked third in contributions.

Resistance to Change

It is easy to get lost in this sea of numbers. What is important is to realize that the RBOCs are demonstrating a consistent willingness to spend tens of millions to influence Washington and pay fines for non-compliance (see May issue of Pipeline), rather than spend the hundreds of millions it would cost to comply with previously stringent competition regulations or to fund significant improvements to their networks and operations to remain profitable while delivering advanced, next generation services.

An anonymous source who spent 15 years with one of the RBOCs and now consults to them on a strategic level explains that there is no sense of urgency within RBOCs to greatly improve the ways in which they do business. "If you are a person who comes into a telco, you come in at eight and have a huge stack of paper on your desk. You do the best to get through it, but you leave at four regardless. When you retire, the stack is still on your desk."

Further, the source explains, RBOC external affairs groups are directed to influence regulations so that the RBOCs themselves don't have to make radical changes to their operations in order to comply. Of the lobbying numbers presented earlier, 60 to 75 percent of total expenditure went to the RBOCs' own lobbying groups. "They had a person for every city in the state, and they dealt at the city, regional, state level and up. This isn't new, this goes back to the first time a tariff was introduced," said Pipeline's source. The source further explains that he was "in external affairs in 1992. When (an RBOC) knows going into a year that there's a possibility of paying fines (for non-compliance with regulations), they immediately take money out, set it aside and say, 'this is our fine money.' They would rather pay the fines than [change]. If there is a regulatory issue out there and the pain to pay the fines is less than the cost to change, they pay the fines and they budget for it a year in advance," the source reports.



As the RBOCs use their financial power to influence regulations and protect aging revenue streams, they are not only making it more difficult for their competitors to remain solvent. They would also appear to be holding the United States back in terms of its ability to remain competitive in the global telecommunications industry. In the end, RBOC actions to influence Congress result in legislation that is aimed solely at protecting revenue streams that new technology and new market forces might otherwise drive into obsolescence. Unfortunately this means that the supposed purpose of regulation – to prevent market abuses while bringing quality services to consumers at fair prices – is lost in the exchange of dollars. As a result, aging networks and eroding services are sustained while those driving innovation – such as VoIP application providers – face arbitrary hurdles that threaten their ability to prosper and limit consumers' ability to benefit from their advancements.

Authors note: Figures presented in this article were gathered from the Center for Responsive Politics. and the United States Senate Office of Public Records.