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## AT&T TO OFFER CALLING VIA INTERNET; VOIP CHALLENGES CORE VOICE SERVICE

by Jon Van

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AT&T Corp. announced Thursday that it will offer consumers long-distance and local calling through the Internet -- a move that could further erode the business of traditional telephone companies.

AT&T's announcement came a few days after two other long-distance operators, MCI Corp. and Sprint Corp., announced a deal to offer voice over Internet protocol, or VoIP, via Time Warner's cable television systems.

"The timing of these announcements is interesting," said Joan Engebretson, editor of America's Network, a telecom trade publication. "Suddenly, no one wants to be left out of the Internet telephone game."

Bill Daley, SBC's president, said, "There's no question that we will offer a consumer VoIP product in the future; that's where the industry is headed. But we're not anxious to roll out something right away before several questions are answered about regulatory and technical issues."

By selling VoIP, AT&T puts major marketing muscle into further challenging the core voice service offered by SBC Communications Inc. and other Bell companies.

It also poses a new dilemma for regulators grappling with how, or if, VoIP should be regulated.

Federal policy is to let the Internet grow without regulation, but when voice calls are sent and received as data packets, just like electronic mail, they escape many taxes and fees levied on traditional phone calls.

"This is a regulatory loophole that allows companies to avoid paying their fair share to support the network," said Mark Cooper, a policy director for the Consumer Federation of America. "This is about free-riders."

Efforts by Minnesota state regulators to impose fees on Internet phone calls were thwarted this fall when a federal judge ruled that federal law precludes regulation of the Internet. Qwest Communications Inc., the dominant local phone company in that state, responded by announcing it would launch its own VoIP service to avoid regulation and fees.

**In order to use VoIP, a consumer has to have a broadband Internet connection, such as a cable modem or DSL line.**

**Fewer than 20 percent of U.S. households have them, but those that do are the customers that supply considerable revenue to telecom carriers, said Nancy Kaplan, a vice president of Adventis, a Boston-based consultancy.**

**"This is a good group to go after," she said. "I don't see a massive switch to VoIP, but rather a steady flow in that direction."**

**Earlier this month, the Federal Communications Commission held a forum to discuss whether VoIP should be regulated. Concerns included the inability of law agencies to tap Internet phone calls, loss of revenue to subsidize rural phone service, and difficulty locating the source of 911 calls.**

**VoIP's disruption of existing telecom rates and regulation is a good thing, said Lawrence Spiwak, president of the Phoenix Center for Advanced Legal & Economic Policy Studies, a Washington-based think tank.**

**"This makes regulators rethink policy down the line, and that's healthy," said Spiwak. "It's a long-term benefit to the consumer."**

**Internet telephone technology will eventually change the nature of phone calls, said Martin Dunsby, a vice president with InCode, a San Diego-based telecom consultancy.**

**"Ninety-nine percent of today's phone calls are one-to-one," said Dunsby. "VoIP makes group calling easier. Young people put on headsets and share conference calls [much like] teams playing Xbox games."**

**Consumers using VoIP can program their phones so that most calls will go to voice mail during meals, but exceptions can be made for family members or other callers. Voice-mail messages can be converted to e-mail, if desired.**

**Cathy Martine, senior vice president of AT&T's consumer division, said that AT&T's VoIP service will let customers keep their phone numbers for life.**

**"Once you get a number, you can take it anywhere in the country and that number will work for your phone," she said.**

**Also, if someone in Chicago wants a Los Angeles phone number for his VoIP phone, AT&T will accommodate their wish. That would enable people in Los Angeles to reach the Chicagoan by dialing a local number, avoiding long-distance tolls.**

**"This is all about consumer choice," she said.**