

**TESTIMONY OF
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PRESIDENT AND CHIEF EXECUTIVE OFFICER
CTIA – THE WIRELESS ASSOCIATION™**

BEFORE THE

**CONGRESSIONAL RURAL CAUCUS
TASK FORCE ON TELECOMMUNICATIONS**

**“THE FUTURE OF TELECOMMUNICATIONS AND THE UNIVERSAL
SERVICE FUND IN RURAL AMERICA”**

FEBRUARY 2, 2005

Congressmen Gutknecht, Stupak, Peterson and Boyd, it is my pleasure to join you today at this forum to discuss the wireless industry’s views on “The Future of Telecommunications and the Universal Service Fund in Rural America.” I am pleased to be joined this afternoon by two of CTIA’s most valued members, Mr. Hu Meena, President and CEO of Cellular South and Mr. Dennis Miller, President and CEO of Midwest Wireless. Between the three of us, I think we can provide a comprehensive look at what the wireless industry is doing in rural America, and what you as policy-makers can do to accelerate the deployment of wireless voice and broadband services to our customers and your constituents.

In order to see where the wireless industry is going in the future, I thought it would be helpful to provide a brief overview of the industry’s growth over the last twenty years. The first cellular call was made in 1983. Fast forward eleven years to 1994, when I was first elected to Congress, there were approximately 24 million wireless customers who received voice service. Eleven years later, today in 2005, there are 174 million wireless subscribers who, in addition to voice, receive a

growing variety of wireless Internet applications and services. Such applications and services include: short text messaging, e-mail, web messaging, wireless Internet access, remote office systems access, tele-medicine, access to news, stock quotes, weather, and sports information. The wireless industry has also entered the entertainment business with polyphonic ring tones, single snapshots, short videos, MP3 downloads, interactive games and live broadcasts.

As evidenced by the presence of Hu and Dennis at today's forum, the wireless industry serves the entire United States, not just urban and suburban communities. There are more than 180 carriers providing wireless service across the United States – five national carriers, 12 regional carriers (serving more than 500,000 customers each), and more than 164 smaller carriers serving anywhere from 300 customers to just under 500,000 customers.

Last year, the Rural Cellular Association reported to the FCC the results of a survey that found that an average of 5.1 competitors provide service in any given rural area. In many markets, consumers can choose from up to 130 service plans allowing people to tailor their service to meeting their needs, by choosing among a host of features and different pricing options, from prepaid to big bucket plans. Smaller rural and regional carriers also offer regional and nationwide calling plans, extending well beyond their license area.

To provide the Caucus with some perspective on the growth of the wireless industry relative to rural America, total rural wireless penetration (based on the *FCC's 9th Competition Report* for areas with a population density of less than 100 per square mile) was 51.13% at the end of 2003 – only a fraction below the national

penetration rate of 53.9%. Not only was that true for the rural population as a whole, household penetration of wireless in rural areas in 2004 was also close to the urban household penetration rate: 50.5% for rural areas compared with 53.5% for urban areas. Additionally, the FCC found that wireless pricing is the same in rural markets as it is in urban markets.

What does the future hold for the wireless industry in rural America? I believe that CTIA's mission statement addresses that question – "Expanding the Wireless Frontier." I know from my tenure in Congress that you hear so many acronyms thrown around that it resembles alphabet soup, but let me throw out a few more: CDMA, TDMA, 1XRTT, GPRS, EV-DO, and GSM. What do these acronyms mean besides equaling a triple word score? They represent wireless digital and broadband technologies that allow your constituents to receive everything from high-speed Internet, in the case of EV-DO faster than DSL or cable speeds, to tele-medicine which Mr. Boyle can speak to in greater detail. As policy-makers you should also know that these wireless technologies represent a bridge to close the digital divide, and in turn, improve the quality of your constituents' lives.

The wireless industry is justifiably proud of the tremendous strides that we have made, and continue to make in rural America; however, the industry can make even greater strides with the assistance from policy-makers such as you. For example, siting cellular towers can prove to be a very time consuming and expensive proposition for carriers. Companies have to comply with local zoning restrictions, environmental impact requirements, depreciation costs and national historic preservation mandates to name a few. CTIA has organized a tower siting working

group among our member companies to address these challenges and we would welcome your assistance as we move forward.

And in spite of the positive impact wireless communications has on consumers, businesses, and public safety, some states are threatening the ability of the wireless industry to continue the extraordinary growth, innovation, and investment of the last two decades by imposing excessive and discriminatory taxes.

The wireless industry is willing to pay its fair share to support government; however, we take exception when the industry and its consumers are excessively burdened with higher taxes than other sectors of the economy. The effective rate of taxation on wireless service increased 9 times faster than the rate on other taxable goods and services between January 2003 and April 2004.

Moving to the Federal side of the tax equation, the wireless industry provides a textbook example of the shortcomings of the current Federal tax depreciation system for emerging high technology industries. Wireless telecommunications, like so many other high tech industries, is dependent upon computer-based technology to facilitate the digitization of voice, video, and data over its new digital networks. However, the commercial wireless industry was in its infancy in 1986 when the Internal Revenue Code depreciation rules were last revised. The wireless industry has continued to challenge the IRS's assertion that our cell site equipment should be treated the same as telephone poles and wires for depreciation purposes under the tax code. Unfortunately, the IRS's position results in an increased cost of deploying network infrastructure that adversely impacts rural communities where the economic costs of deployment already face numerous challenges.

Now let me turn to the question of the future of the Universal Service Fund. CTIA believes that pro-competitive, market-oriented policies best facilitate deployment to rural areas. Congress and the FCC are to be applauded for largely sticking to this formula over the last decade. By encouraging and rewarding wireless carriers that take risks and expand services, these market-oriented policies have been a huge success. They have spurred enormous investment in wireless facilities, which in turn have resulted in the build-out of advanced voice and data networks throughout the United States, introduced a variety of new service options and features, reduced rates, and increased consumer demand.

In spite of all these successes, there are still areas in the U.S. – particularly in the rural parts of the country that many of you represent – that continue to be underserved or in some cases unserved by wireless or wireline services. We know from experience that deploying wireless services in rural markets is more costly on a per-customer basis than serving a more densely populated area. As with wireline networks, factors such as lower population densities, topography, and geographic isolation, make the average cost of providing mobile wireless services in rural areas significantly higher than in urban areas.

The wireless industry nonetheless believes that wireless carriers can be a cost effective solution for consumers in these areas. In fact, there are numerous examples of wireless carriers bringing services to rural areas. For example, Western Wireless has brought service to residents of the Reese River Valley and Antelope Valley in rural Nevada who previously did not have access to *any* local telephone service. On the Pine Ridge Indian Reservation in South Dakota, Western Wireless's competitive

universal service offering has made telephone service available to many tribal members for the first time, resulting in telephone penetration rates increasing from approximately 25% to 75%.

Wireless is not the problem with respect to the future solvency of the USF program; rather it is a cost-efficient solution to meet the telecommunications needs of rural consumers.

In closing, I believe that the future for the wireless industry in rural America is extremely bright. As Congress moves forward with a possible telecom rewrite, CTIA welcomes the opportunity to work with members of the Rural Caucus on these issues of mutual interest. I look forward to your questions.