

**STATEMENT OF
COMMISSIONER BRENDAN CARR**

Re: *Updating the Inter-carrier Compensation Regime to Eliminate Access Arbitrage*, WC Docket No. 18-155.

In the classic 1993 sci-fi film *Jurassic Park*, Jeff Goldblum's character Dr. Ian Malcolm famously remarks that "life finds a way." Despite complex systems in place, the fictional dinosaurs bypassed the checks and expanded their population. In telecom, it's arbitrage that finds a way. And there's no clearer example of that than the case before us today.

The FCC has a complex set of rules that we refer to as the inter-carrier compensation regime. We designed the system in the 1980s to ensure that families living in rural America had access to affordable telephone service. And we accomplished this goal through a series of implicit subsidies. Generally speaking, the system required a carrier, known as an interexchange carrier or IXC, to pay high rates whenever they delivered a call to a local carrier serving a rural community. While we have largely replaced implicit subsidies for rural areas with explicit ones (in the form of our universal service program), vestiges of the old inter-carrier compensation regime remain. Thus enters the modern day Velociraptor. These are carriers that abuse the inter-carrier compensation system for their own profit and leave ordinary Americans footing the bill.

One way they do that is through access stimulation. They set up schemes to drive an extreme volume of calls to a carrier that charges high terminating rates. In 2011, the FCC took targeted action to address this abuse, and it made a significant difference. Before the FCC's decision, access arbitrage schemes cost American ratepayers between \$330 million and \$440 million each year.

But arbitrage finds a way. And some simply adjusted their schemes. The record identifies one case in which a carrier found 33 cell phones at a single cell site in Florida that were each placing calls lasting more than 16 hours per day to a known access arbitrager. Another found that a carrier was delivering more traffic to a small town in rural South Dakota than through all of a major carrier's facilities in New York City. So while the problem has declined in the years since the FCC's 2011 decision, abuse still costs American ratepayers about \$60-80 million per year.

Today's order gets to the heart of the problem by correcting the incentives. If a carrier engages in access stimulation, they will not be able to foist those costs onto ratepayers and profit at our expense. While this might not put a final nail in the coffin in all efforts to abuse the system, it is a significant step towards protecting ratepayers from costly arbitrage schemes.

I want to thank the Wireline Competition Bureau and the Office of Economics and Analytics for their work on this item. It has my support.