



**STATE OF ISRAEL
MINISTRY OF COMMUNICATIONS**

Translation

of

Policy Paper:

**Licensing of Telephony Services Provided over
Broadband Access (VoB)**

**THIS IS A TRANSLATION OF A POLICY PAPER ORIGINALLY
PUBLISHED ON NOVEMBER 28, 2004.**

**THIS TRANSLATION IS UNOFFICIAL AND IS PROVIDED SOLELY FOR
INFORMATIONAL PURPOSES; IT MAY NOT BE RELIED UPON FOR ANY
OFFICIAL PURPOSE AND THE MINISTRY OF COMMUNICATIONS
CANNOT BE RESPONSIBLE FOR ANY INACCURACIES IN THE TEXT.
THE SOLE AUTHORITATIVE AND OFFICIAL VERSION OF THE PAPER
IS THE HEBREW VERSION, WHICH APPEARS ON THE MINISTRY
WEBSITE: <http://www.moc.gov.il>.**

General

1.

Until recently voice and data services were provided by separate and distinct networks with differing characteristics. While telephony services were provided by traditional circuit-switched networks (which themselves underwent significant technological change over time), data transmission services were provided mainly by specialized networks, on a technological basis of packet switching.

2.

In recent years the convergence between voice and data transmission has become possible, over the same packet-switched networks. Thus, IP technology, which uses packet-switching, and on which the Internet is based, allows for voice to be transmitted over the internet. The performance of such technology, which grows increasingly effective, and the high rate of penetration of broadband access, have led to an increase in the quality of service and to the availability of a wider range of services, collectively known as VoB services (Voice over Broadband). However, while the quality of VoB services approaches that of traditional switched telephone networks, VoB services are still considered technological newcomers and have only recently achieved significant volume. The success of such services, as opposed to traditional voice services offered over tested and well-established networks, is still unknown.

3.

Due to the increase in the use of broadband access worldwide and the increasing importance of VoB services, the Israel Ministry of Communications views with great importance the promotion of such services and their regulation in Israel as well. In this context it should be noted that in most Western countries, VoB services are offered while the regulators consider the regulatory environment that will eventually apply.

4.

On July 26, 2004, the Ministry of Communications issued a call for public comment on the issue at hand. After considering the public comments received, and while keeping in mind the regulatory process that is ongoing in the Western world, the regulatory principles outlined in this document were formed by the Ministry, with regard to the regulation of telephony services and value-added services provided over broadband access (VoB). As stated above, the regulatory framework was formed to allow VoB services to be offered while the regulatory environment is finalized, however it is certainly possible that the regulatory framework will be updated and modified and that new issues may arise, as developments and expertise in the field dictate, in Israel and abroad.

Definitions

5.

In this document-

The Law - The Communications Law (Telecommunications and Broadcasts) - 1982

ITP - An International Telephony Provider, who has received a license to provide international telephony services;

DTP - A Domestic Telephony Provider, who has received a license to provide wireline domestic telephony services, excepting an SDTP;

SDTP - A Specialized Domestic Telephony Provider, who has received a license according to the Specialized Domestic Telephony Regulations;

MTP - A Mobile Telephony Provider, who has received a license to provide radio-telephone communications;

SDTP regulations - Communications Regulations (Telecommunications and Broadcasts) (Procedures and Specifications for Receipt of Specialized General Licenses), 2004;

Interconnect Regulations - Communications Regulations (Telecommunications and Broadcasts)(Payments for Interconnection), 2000;

Words and phrases in this document which have not been defined in this clause, shall have the definition which they have in the Law, in the Regulations enacted on the basis thereof or in the Interpretation Law, 1981, unless the text or its context implies otherwise.

Regulatory Framework

6.

Models and Regulatory Principles

6.1

It is accepted practice to divide VoB services into 4 main models, as described below:

Model A - Where the user makes VoB calls over the internet using a program that has been installed for this purpose. The user may make calls from his personal computer to another computer user who has installed the same program (for this purpose, we shall consider an IP phone as a personal computer), while using the

Policy Paper: Licensing of Telephony Services Provided over Broadband Access
(VoB)

internet address (IP) of the called subscriber; in most cases, the program is provided free of charge; the calls are provided either free of charge or for a charge; in most cases, the supplier of the program does not provide technical support and service as is usual with a traditional telephony provider; in this model, the end user may not make calls to subscribers of public switched telephone networks, or to subscribers who make use of other programs.

Model B - Where VoB calls are made in the manner described in Model A, with the additional ability of the user to place calls to public switched telephone network service subscribers and to receive calls from them, via the interconnection of the provider to the public telephone network where the call is terminated or originated. In most cases under this model payment is required for the calls and inter-carrier compensation is carried out. As opposed to Model A, the provider offers subscribers service and support similar to that provided by a traditional telephony provider.

Model C - A specific case of Model B where the service provider is the internet service provider (ISP). Given that it operates and manages the network the ISP has more control over the quality of service that is provided to its customers. In this model, the service is usually offered in a bundle, which includes broadband access and voice calls.

Model D - An IP/VPN model wherein an enterprise network is managed using IP technology.

It should be noted that another model exists, which is not referenced in this document, in which a DTP moves traffic on its own public communications network using IP technology (for example, the cable companies who are building a telephony network based on IP).

6.2

The regulatory framework in regards to the aforementioned models is as follows:

Model A - Following accepted practice in many countries worldwide, the Ministry policy is not to regulate such activity with licenses according to the Law. Various programs which allow, among other things, voice communications by end users, have existed for some years, and the Ministry does not consider it proper to regulate and to police these configurations under a regulatory framework of licenses for the provision of telecommunications services.

Models B and C - In the Ministry's view, despite technological differences, the services offered are telephony both in quality and substance, and therefore should be regulated by licensing. At the present time and because of the present market configuration, the Ministry believes that the distinction between domestic and

Policy Paper: Licensing of Telephony Services Provided over Broadband Access
(VoB)

international services should be preserved. Specific details of the licensing program and regulation of the activity are provided in paragraphs 7 and 8 below.

Model D - The regulation of providing private enterprise networks with IP technology for the purposes of voice communications shall be carried out in a similar fashion to the regulation of consumer premise equipment.

7.

Regulation of Activity in the DTP Sphere:

7.1

Licensing: Domestic VoB services for wireline communications will be regulated by SDTP licenses, which will be granted pursuant to the SDTP regulations. Under the ~~the~~ license, it will be permitted to provide telephony services by means of VoIP technology, using the broadband access service provided by a DTP (at the present time, Bezeq or HOT Telecom).

7.2

License Granting Date: Licenses for VoB services shall be granted in 2005 after the Ministry completes its preparation to grant licenses and to regulate the activity, such that commencement of activity on the basis of the licenses shall be possible beginning on May 1, 2005.

7.3

Interconnection: In the SDTP licenses, provision will be made for interconnection to other public telephony networks, namely DTP networks (including SDTP), MTP networks, and ITP networks, and in this framework interconnection between two VoB service providers via the use of the Internet will be considered.

Payment for Interconnection:

In regards to interconnection to a public telecommunications network (of a DTP, a SDTP who is not a VoB provider, or a MTP) - the VoB provider shall pay the fee as stated in the Interconnect regulations.

In regards to interconnection to the network of a VoB service provider - the Ministry intends to examine this subject in order to determine the proper arrangement, considering, among other things, the costs of the network components of a VoB provider. It should be noted that the interconnection fee determined shall not be higher than that stated in the Interconnect regulations.

7.4

Usage: VoB services are classified as an application that is provided by means of the broadband access of a DTP, similar to the access provided by the DTP to Internet Service Providers. In light of the above, and in accordance with accepted practice in

Policy Paper: Licensing of Telephony Services Provided over Broadband Access
(VoB)

many countries worldwide, the Ministry believes that at this time there is no place for a usage fee above and beyond the fee the end user pays to the DTP for broadband access. . The Ministry of Communications will monitor this issue as developments in the VoB field- warrant.

7.5

Universal Service: As part of the examination of VoB services and their influence on the telecommunications sector as a whole, the Ministry will weigh the option of requiring holders of SDTP licenses who provide VoB services to participate in the financing of universal service, by means of a Universal Service Fund.

7.6

Bezeq: "Bezeq", The Israel Communications Company, Ltd., shall be permitted to supply VoB services on May 1, 2007 or after its market share of domestic wireline telephony among a particular group of customers (business or residential) shall be lower than 85%, whichever shall occur first. A hearing for the relevant participants will be held in the coming weeks and they shall be given the opportunity to present their positions. In this context it should be noted that a "Bezeq" subsidiary shall be permitted to offer VoB services, pursuant to the limitations stated in the SDTP regulations.

7.7

Numbering: Generally, VoB providers shall be provided with countrywide telephone numbering in accordance with the dialing code policy for domestic wireline communications.

8.

Regulation of Activity in the ITP Sphere:

8.1

Licensing: International VoB service (outgoing), using broadband access ("ITP VoB service") shall be regulated in the framework of ITP licenses. To clarify, ITP VoB service will be given only by holders of ITP licenses who provide the entire range of ITP services, including ITP services provided to subscribers of DTP and SDTP license holders.

It should be noted that an Israeli entity who enters into agreements with customers in Israel and provides them with telephony services and consumer premise equipment, and other services (such as the provision of a domestic or foreign telephone number, support, customer service, etc.), including by use of telephony equipment operated outside of Israel, shall be considered to be providing communications services in Israel, and subject to all that that implies. The test for classifying commercial operations shall be a substantive one based on the existence of Israeli characteristics.

8.2

Policy Paper: Licensing of Telephony Services Provided over Broadband Access
(VoB)

License Granting Date: Licenses for ITP VoB services shall be granted in the coming weeks, following the publication of this regulatory document.

8.3

Interconnection: An ITP license holder shall not be required to pay for interconnection for ITP VoB service.

9.

Additional Issues:

The Ministry's policy regarding VoB service over broadband access provided by MTP license holders will be completed shortly.

10.

Trial Period:

The Ministry of Communications will follow any changes that occur in the sector following the operation of VoB services and will examine the regulatory policy framework from time to time, and not later than two years after the date of this document.

Ehud Olmert
Minister of Communications

16 Kislev 5765
November 28, 2004