

niche services, including: RCN (multiple-dwelling units),¹⁴ Intermedia (government end users),¹⁵ NEXTLINK (small and medium-sized businesses),¹⁶ WinStar (long distance and Internet access),¹⁷ Williams (video transport),¹⁸ Teligent (microwave access for small and medium-sized businesses),¹⁹ and Qwest (high-speed data services for other carriers).²⁰ In contrast to these others, the new SBC will inject broad and deep competition into all of the Top 50 markets. Carlton Aff. ¶¶ 8-9; Gilbert/Harris Aff. ¶ 26.

Not only will consumers benefit directly from the competition the new SBC will provide in its new markets, but this entry should stimulate competitive responses by other carriers. Kahan Aff. ¶ 86; Carlton Aff. ¶10; Gilbert/Harris Aff. ¶ 28. Encouraging Bell Companies and other ILECs to compete against each other is certain also to impel AT&T/TCG/TCI, MCI/WorldCom/MFS/Brooks/UUNet, and other CLECs to compete on similar terms for the same customers. Kahan Aff. ¶ 87. SBC's National-Local Strategy will put the company in direct competition with all major IXCs, incumbent

¹⁴ See RCN News Release, RCN-Pepco "Starpower" Joint Venture Launches Competitive Local Phone Service in District of Columbia (Apr. 2, 1998), available at <<http://www.rcn.com/investor/press/04-98/04-02-98.html>>.

¹⁵ See New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, Carrier Profile: Intermedia at 2 (9th ed. 1998).

¹⁶ See New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, Carrier Profile: NEXTLINK at 2 (9th ed. 1998).

¹⁷ See WinStar, The Business (visited July 16, 1998) <<http://www.winstar.com/index/The Buiss.htm>>.

¹⁸ See Williams Communications, Network Services (visited July 16, 1998) <<http://www.wilcom.com/2networkservices.html>>.

¹⁹ See Conversation: Teligent Inc.'s Alex J. Mandl, Wash. Post, Feb. 2, 1998, at F10.

²⁰ See Qwest, Qwest Vision (visited July 16, 1998) <<http://www.qwest.com/Vision.html>>.

LECs and other CLECs outside its region. This should also cause these competitors and others to compete within SBC's region, in order to maintain their large business customers, thereby further increasing local competition throughout the country. *Id.* ¶ 90; Carlton Aff. ¶ 10; Schmalensee/Taylor Aff. ¶ 16; Gilbert/Harris Aff. ¶ 28. Customers will buy packages of services if they can, and as soon as one provider begins offering fully bundled local and long distance service in any major market, other providers will have to follow. Kahan Aff. ¶ 86. They will have no choice but to match the competition if they wish both to protect their customer base and grow their business. *Id.* ¶ 86; Schmalensee/Taylor Aff. ¶ 7; Gilbert/Harris Aff. ¶ 28. Thus, consumers will be the direct beneficiaries of both SBC's entry and of other providers' responses to that entry.

C. The Merger Will Create a Major New U.S. Participant in the Global Telecommunications Marketplace

1. SBC and Ameritech Currently Hold Substantial Complementary Investments in International Telecommunications Markets

The combined resources of the new SBC will enable it to continue to expand SBC's and Ameritech's international operations, make improvements in its existing international telecommunication business, and actively compete in international telecommunications markets. Kahan Aff. ¶¶ 65-68. The Commission has recognized that "[a]n efficient and cost-effective global telecommunications marketplace is essential to an emerging information economy,"²¹ and both Ameritech and SBC are committed to playing a key role together in that market. This strategy is unparalleled because of its broad geographic scope, scale of operations and depth of services and customers.

²¹ See In re Rules and Policies on Foreign Participation in the U.S. Telecommunications Market, Order, 13 FCC Rcd. 6219, ¶ 1 (1997) ("Foreign Participation Order").

SBC and Ameritech each have already made substantial investments in foreign markets, have experienced personnel overseas and understand the requirements to operate successfully in these markets. See Table 15 at the “Tables” attachment; Kahan Aff. ¶ 66; Weller Aff. ¶ 16. Moreover, their investments represent a variety of complementary strategies – such as wireline and wireless, developed and developing countries, and controlling positions and portfolio investments.

In 1990, SBC and Ameritech were among the first U.S. companies to invest in foreign local exchange companies, buying into incumbent carriers in Mexico and New Zealand, respectively.²² SBC has invested \$3.1 billion in telecommunications companies in Mexico, Europe, Asia, Africa and South America. Kahan Aff. ¶ 66. Through its investments in Telmex and Telkom SA, SBC is the largest U.S. telecommunications investor in Mexico and South Africa, respectively. Ameritech has interests in Europe valued at approximately \$8 billion. Weller Aff. ¶ 16. Ameritech’s investments in European markets make it the largest U.S. telecommunications investor on that continent. Id.

2. The New SBC Will Expand Its International Presence

The merger of SBC and Ameritech includes a plan by the combined company to make further investments in Europe, Asia and South America in order to follow its customers to those areas, and to dramatically accelerate its level of international activity through competitive entry into new markets. Kahan Aff. ¶ 67. Specifically, the new

²² SBC holds a 9.6 percent interest in Telmex, the national telephone company operating in Mexico, and has held as much as an 11 percent interest in Telmex. In 1990, Ameritech and Bell Atlantic purchased a 100 percent share (Ameritech 50 percent; Bell Atlantic 50 percent) in Telecom Corporation of New Zealand (“TCNZ”) for \$2.5 billion dollars. TCNZ provides local, long distance and international telecommunications services as well as cellular and satellite television services.

SBC plans to enter 14 major foreign local markets once the merger with Ameritech is completed.

SBC's plan with respect to these 14 cities calls for:

- one switch in each city by 2001, ultimately expanding to 27 switches;
- installation of 1,400 km of fiber within two years, expanding to more than 2,000 km of new fiber; and
- 3,500 new employees.

Kahan Aff. ¶ 67.

3. U.S. Businesses and Consumers Will Receive Significant and Increasing Benefits From International Activities of the Combined SBC/Ameritech

U.S.-based companies that do business overseas will be the direct beneficiaries of foreign investments by the new SBC as a result of its enhanced ability to provide additional services to large U.S. companies conducting business in foreign countries. The new SBC will also be able to provide cost-effective services to smaller businesses. Schmalensee/Taylor Aff. ¶ 23. This will allow these firms to limit their cost of doing business. Id.

Foreign investments by U.S. telecommunications companies make it easier for U.S. companies to reach their foreign facilities, as well as their customers and suppliers in these countries, with many if not all of the same features and functions that are available to these companies in the U.S. These investments also permit the U.S. telecommunications companies to expand the number of customers and suppliers they serve and increase the quality (e.g., reliability, availability of advanced services, technical and customer support, etc.) of the communications services that are delivered.

By way of example, in each of Hungary, Belgium and Mexico, the recent investments by Ameritech and SBC have served to increase both the availability of communications services and the quality of service provided to customers. Prior to Ameritech's 1993 investment in MATÁV, applicants waited an average of 15 years for a phone; today there is no backlog. Weller Aff. ¶ 18. Between 1996 and 1998, with assistance from Ameritech personnel, Belgacom – the largest telephone company in Belgium, in which Ameritech has a 17% investment – improved both customer care (e.g., an increase of over 60% in the number of customer calls answered, and customer satisfaction more than doubled) and operator service (e.g., speed of answer improved by 70%, customer handling time decreased 18% and calls handled per month increased by over 50%). *Id.* Since 1990, when SBC made its investment in Telmex, that company has invested \$12 billion in modernizing and expanding its local and long distance network. Telmex now has a 100% digital long distance network, and the local network is 90% digital. Trouble reports have fallen to 3.7 per 100 lines per month from 13.5 in 1990. Clearly, the reliability and availability of these networks has made it easier for U.S. companies to do business in these countries.

The Commission has recognized that “significant consumer and economic benefits” generally will result from opening foreign markets to competition.²³ One such direct benefit to “consumers and carriers in all countries, including businesses and others who rely on global telecommunications services” is lower international accounting

²³ See In re Rules and Policies on Foreign Participation in the U.S. Telecommunications Market, Report and Order and Order on Reconsideration, 1997 WL 735476, ¶ 12 (1997) (addressing global competition resulting from implementation of the WTO Basic Telecom Agreement).

rates.²⁴ In 1996, the U.S. settlement deficit totaled \$5.4 billion, double what it was in 1990.²⁵ Facilities-based competition of the kind the new SBC intends to provide on a global basis will, over time, push settlement rates down, as well as lower the cost of doing business in foreign countries.²⁶

Ameritech and SBC understand the need to position their international investments for the long term. This means driving down historical subsidies and repricing historically subsidized services. For U.S.-based companies, this means lower international termination rates and, therefore, lower overall telephone bills and reduced barriers to conducting export businesses. Weller Aff. ¶ 22. Two of three European companies in which Ameritech had invested today are already within the FCC's target pricing guidelines for international settlement rates, and the third – MATÁV – has among the lowest average rates of Central European telephone companies. *Id.*

The merger of SBC and Ameritech will also serve the public interest by facilitating international trade and improving U.S. competitiveness.²⁷ As countries

²⁴ See In re International Settlement Rates, Report and Order, 12 FCC Rcd. 19806, ¶ 7 (1997). See also *id.* at ¶ 10 (“At a minimum, the increased competition in the global IMTS market that will result from this [WTO] trade agreement will exert downward pressure on accounting rates in competitive markets as new entrants compete to terminate foreign traffic.”).

²⁵ *Id.* at ¶ 13.

²⁶ See In re Regulation of International Accounting Rates, Fourth Report and Order, 11 FCC Rcd. 20063, ¶ 16 (1996) (“The introduction of effective facilities-based competition in some foreign markets creates the option of an international carrier acquiring control of both the international transport circuit and the international gateway switching facility. That carrier could then terminate an international call at domestic interconnection rates, a potentially far more efficient arrangement than the current settlements process.”).

²⁷ President Clinton recently remarked that: “The test of all these mergers ought to be this: Does it allow them to become more globally competitive in ways that don’t unfairly raise prices or cut the quality of service to consumers in America?” Jackie Calmes, Administration to Study Business Concentration, Wall St. J., May 13, 1998, at A2

develop economically and socially, they become more stable, which in turn makes them attractive markets for international investments – not only in the telecommunications sector, but also in other lines of business as well.²⁸ In addition, as a country's economy grows, the demand for U.S. exports will grow, especially where U.S. businesses have established a presence.

SBC's and Ameritech's investments and influence in foreign markets have opened, and will continue to open, these markets to other U.S. businesses, particularly those businesses supplying the many products and services that are required to develop a modern telecommunications infrastructure. Weller Aff. ¶ 23.²⁹ In Hungary, for example, U.S. vendors have sold such services as: data warehousing systems (HP), testing equipment (Teradyne), automated directory assistance platforms (IBM), network monitoring systems (Digital), wireless local loop technology (Motorola), workforce

(quoting an interview by Al Hunt of The Wall Street Journal and CNBC with President Bill Clinton in Washington, D.C. (May 4, 1998)). See also Prepared Statement of Kelly R. Welsh, Executive Vice President and General Counsel, Ameritech Corporation, To the House Committee on the Judiciary (June 24, 1998), available at 1998 WL 347389; Prepared Testimony of Edward E. Whitacre, Jr., Chairman and Chief Executive Officer SBC Communications Inc., Before the Antitrust, Business Rights and Competition Subcommittee, Senate Judiciary Committee (May 19, 1998), available at 1998 WL 257699. See also 1997 Trade Policy Agenda under 1996 Annual Report of the President of the United States on Trade Agreement Program, March 1997, at 1, 5 (“Trade is more important than ever to the U.S. economy . . . President Clinton has designed a fair trade policy that seeks to take advantage of the increasingly global economy” in a manner that benefits U.S. business and families.).

²⁸ Robert J. Saunders et al., Telecommunications & Economic Development 18, 199-251 (2d ed. 1994) (discussing results of various surveys conducted on telephone communications in developing countries).

²⁹ The Commission has recently initiated a rulemaking to, among other things, implement the Mutual Recognition Agreement (“MRA”) between the United States and the European Community (“EC”). When the MRA is fully implemented, it will be easier for U.S. manufacturers to market their products in Europe without obtaining additional equipment authorizations. See In re 1998 Biennial Review, Notice of Proposed Rulemaking, GEN Dkt. No. 98-68, FCC 98-92, 1998 WL 244623, ¶ 1 (May 14, 1998).

management software (Silicon Graphics) and fault tolerant computers (Tandem/Compaq). Sales by these companies have been estimated at over \$200 million over the life of the collective contracts. Id.

As the combined SBC/Ameritech expands its foreign operations into newly liberalized countries, in ways made possible through this merger, it will continue its past practice of using the best firms to supply goods and services, many of which are U.S.-based suppliers. This practice serves not only the interests of U.S. companies (small and large), but will contribute to the overriding U.S. goal of reducing the U.S. trade deficit. In addition, by exporting world-class purchasing economies, the new SBC will be able to reduce affiliates' costs of acquiring telecommunications equipment, thereby expanding the scope of investments and new infrastructure/capabilities available in these foreign countries. This investment, as discussed above, will drive improved cost structures and greater availability and quality of telecommunications services in these countries.

4. Significant Benefits Result from U.S. Investments in Foreign Telecommunications Markets

Significant social and economic benefits in the foreign country result from the types of international investments made by SBC and Ameritech. It is clearly in the public interest to support long term economic development in developing countries.³⁰ And, in all countries, universal access to high-quality telecommunications services facilitates social and economic development. The end result is a better quality of life for its citizens

³⁰ There is a rich literature demonstrating the linkage between telecommunications investments and economic development and how such investments benefit both the U.S. and international markets. See, e.g., Robert Z. Lawrence and Robert E. Litan, Brookings Policy Brief No. 24, Globalphobia: The Wrong Debate Over Trade Policy 6 <<http://www.brook.edu/es1policy/polbrf24.htm>>; Robert J. Saunders et al., Telecommunications & Economic Development 18, 199-251 (2d ed. 1994).

since, by improving its telecommunications infrastructure, the country is better able, among other things to: (i) unify its economy (by facilitating better communications and commerce in remote areas); (ii) participate in the global economy; (iii) increase efficiencies in economic production and distribution; and (iv) improve emergency and other services.

There are a number of other foreign-country economic benefits that flow from investments in telecommunications infrastructure. For example, as the telephone company becomes more operationally efficient and profitable, the government receives more revenues, as a shareholder, and more taxes – both directly from the telephone company itself and indirectly from the employees and businesses that supply goods and services to the telephone company. For example, when Ameritech held a substantial strategic investment in Telecom New Zealand, the company transitioned from being a subsidized government-owned company to the largest taxpayer in New Zealand.³¹ Moreover, the telephone company often provides liquidity and both reduces volatility and becomes the leading market-capitalized firm in the country's stock market, as in Brazil, Canada, Denmark, France, Greece, Hungary, Japan, New Zealand, Spain and Singapore.³² Since Ameritech invested in MATÁV, it has become the first central European telephony company to be listed on the New York Stock Exchange and it has the highest market capitalization of any Hungarian corporation.³³

³¹ Telecom New Zealand paid \$219 million in U.S. dollars in taxes in respect of the fiscal year ending March 31, 1998. See Telecom New Zealand 1998 Annual Report at 39.

³² Business Week, July 13, 1998, at 52-91; see also Forbes, July 27, 1998, at 120-154.

³³ Business Wire, Inc., Nov. 19, 1997, <<http://www.businesswire.com>>.

Ameritech and SBC have demonstrated their commitment to providing investment capital, personnel and expertise in foreign markets. They have helped build out the public networks in Hungary, Mexico and South Africa, which has resulted in improvement in the quality of life in those countries. For example, in South Africa, through its investment in Telkom SA, SBC has committed to an aggressive universal service and build-out obligation to increase the availability of telephone service to all of South Africa, with a particular emphasis on rural and other underdeveloped portions of that country. SBC is actively working to add 2.5 million access lines in South Africa within five years. In that country, where only 10 percent of the nonwhite households — which comprise 87 percent of the population — have telephone service, SBC's commitment to constructing 2.5 million access lines in five years offers tremendous opportunities. In addition, SBC is working to align the employee workforce more closely with South Africa's demographics. See Attachment G to Kahan Aff. In Hungary, where Ameritech has invested in MATÁV - Hungary's largest telephone company - 900,000 new lines have been added in the last 4-5 years, a 60 percent increase.

5. The Telecommunications Sector Is a Strategic Asset Requiring Experienced, Well-Capitalized U.S. Companies To Compete Effectively

Telecommunications has long been recognized as a strategic asset, essential to U.S. national and international interests. Few nations will produce even a single global, facilities-based carrier.³⁴

Other U.S. companies have entered these markets through means other than direct investments or facilities-based entry. Schmalensee/Taylor Aff. ¶ 22. For example,

³⁴ See In re the Merger of MCI Communications Corp. and British Telecomm. plc, Memorandum Opinion and Order, 12 FCC Rcd. 15351, ¶¶ 57, 91, 130 (1997).

AT&T and Sprint are both already members of global alliances – WorldPartners and Global One, respectively.³⁵ Global One teams Sprint up with incumbent monopoly carriers in more than 65 countries.³⁶ On the other hand, the combined WorldCom/MCI has facilities in 21 foreign cities and clearly plans to compete worldwide.³⁷ The new SBC will have the resources and commitment to project U.S. telecommunications services and marketing expertise throughout the world. Weller Aff. ¶ 12.

Around the globe, “liberalization and the introduction of facilities-based competition” is “accelerating a shift from single national champion carriers, whether government- or privately-owned, to multiple carriers and more diverse markets.”³⁸ By the year 2000, open telecommunications markets will be the norm in countries that

³⁵ One other global alliance (Unisource) unites incumbents in the Netherlands, Sweden, and Switzerland. A fourth “alliance,” Cable & Wireless, has ownership interests in over 25 foreign local incumbents and at least 10 other foreign long distance and wireless carriers. Virtually every major incumbent foreign carrier is now a member of one of these alliances. “Such alliances are truly global when they are aimed at the provision of global products (i.e., seamless provisioning of worldwide services) through single points of contact with global reach (i.e., multinational carrier groups) to global markets (i.e., international requirements of multinational customers).” See FCC International Bureau, Global Communications Alliances 2 (Feb. 1996), available at <<http://www.fcc.gov/ib>>.

³⁶ See Global One, Key Facts About Global One (visited July 15, 1998) <<http://www.globalone.net/en/press/facts.html>>.

³⁷ See WorldCom, Building the Right Networks (visited July 16, 1998) <http://www.wcom.com/investor_relations/annual_reports/1997/networks/europe.html>. WorldCom/MCI will have offices in 65 countries. See WorldCom Press Release, WorldCom and MCI Announce \$37 Billion Merger (Nov. 10, 1997), available at <http://www.wcom.com/about_worldcom/press_releases/archive/1997/111097.shtml>.

³⁸ FCC International Bureau, Global Communication Alliances 1 (Feb. 1996), available at <<http://www.fcc.gov/ib>>. See also K. Wallace, Lehman Brothers, Inc., Controlled Chaos Of Telecommunications - Industry Report, Investext Rpt. No. 3312108 at *1 (Dec. 22, 1997) (finding that “the deregulatory process is providing new, potentially advantageous investment opportunities.”).

account for over 80 percent of the world's population and economic activity.³⁹ See Table 20 in the "Tables" attachment.

Neither Ameritech nor SBC individually, however, can now effectively compete for large business customers with the larger European and Japanese telecommunications companies in their home countries. Weller Aff. ¶ 13; Kahan Aff. ¶ 68. Although Ameritech's estimated market value investment of approximately \$8 billion in European telecommunications investments exceeds that of any other U.S. telecommunications company, that investment, even when combined with SBC's international investments, still falls short when compared to the resources available to British Telecom, Deutsche Telekom, France Telecom and Nippon Telegraph & Telephone, either directly or through their partnerships.⁴⁰ Moreover, the capital required to compete for a significant facilities-based stake in the in-country service market in the U.K., Germany, France or Japan is considerable. Thus, it will require the combined resources (financial and personnel) of a merged SBC/Ameritech to compete most effectively in the global telecommunications market on par with such key foreign carriers and the various alliances. Weller Aff. ¶ 12.

These considerable investments are commensurate with the enormous scope of the competitive challenge. The global telecommunications market generated an

³⁹ On February 15, 1997, 69 countries, including the United States, concluded an agreement to open their markets for all basic telecommunications services to competition from foreign-owned companies. The agreement, negotiated under the auspices of the World Trade Organization ("WTO"), "covers 95% of the global market for basic telecommunications services." In re Rules and Policies on Foreign Participation in U.S. Telecommunications Market, Order and Notice of Proposed Rulemaking, 12 FCC Rcd. 7847, ¶ 1 (1997). See also WTO Press Release, Ruggiero Congratulates Governments on Landmark Telecommunications Agreement (Feb. 17, 1997), available at <<http://www.wto.org/wto/press/press67.htm>>.

⁴⁰ See subsection E, below.

estimated \$700 billion in revenues in 1996,⁴¹ and it has been growing 20 percent per year.⁴² International traffic has been growing faster still, at a rate of nearly 30 per cent in the past two years.⁴³ As the Commission's International Bureau has noted, multinational businesses alone accounted for "several billion dollars" in international traffic in 1996,⁴⁴ and other analysts see that segment growing to \$25 billion by the year 2000. Over three-quarters of the 1,000 largest multinational corporations are headquartered in the five countries – the U.S., Japan, France, Germany, and the U.K. – that generate over half of international voice traffic.

The combined SBC/Ameritech will be well positioned to follow large multinational customers through its new geographical reach. Serving customers like these is "the most important – and most difficult – challenge ahead for the U.S. national carriers."⁴⁵ Smaller businesses with fewer international needs, however, will also benefit

⁴¹ See International Telecommunication Union, World Telecommunication Development Report 1996/97 7 (1997). Telephone service revenue accounted for an estimated \$472 billion of this revenue; within this category, an estimated \$69 billion was generated by international telephone service. Mobile services generated an estimated \$118 billion. Other services, including leased circuits, data communications, telex, and telegraph, generated an estimated \$80 billion. *Id.*

⁴² E.M. Greenberg, et al., Morgan Stanley, Dean Witter, Global Telecommunications Monthly-Industry Report, Investext Rpt. No. 2640322, at *23 (December 2, 1997). See generally M. Weaver, et al., Duff & Phelps Credit Rating Co., AT&T Corp. – Company Report, Investext Rpt. No. 2577806, at *6 (Aug. 13, 1997) (asserting that "[t]he global market will grow rapidly as new markets open and worldwide business expands [and] [t]he demand for global telecommunications service is growing . . .").

⁴³ See Telegeography 1997/98 figure 1 (1997) (noting a nearly 30 percent growth rate based on projected figure for 1997).

⁴⁴ See FCC International Bureau, Global Communications Alliances 5 (Feb. 1996), available at <<http://www.fcc.gov/ib>>.

⁴⁵ See Mary Thyfault, Big Four Carriers Square Off, Information Week, May 5, 1997, at 45 (noting that the "Big Four" are AT&T, MCI, Sprint, and WorldCom and that "about 10 percent of U.S. companies switch carriers each year."). The key to serving these companies is the ability to offer substantially all services everywhere.

from the new SBC's international reach. As a facilities-based service provider in both the U.S. and in international markets, the new SBC will be in a position to provide an array of services to meet these smaller companies' needs.

In summary, this merger will allow the new SBC to take advantage of economies of scope and scale to compete effectively in the global telecommunications market, as a major, facilities-based, U.S. flagship carrier. That will provide significant benefits for U.S. companies, consumers and telecommunications suppliers. Weller Aff. ¶¶ 19-23. The merger occurs during a watershed period, as markets are opening and the information/telecommunications marketplace is fragmented. The same public interest and policy considerations underlying the Commission's initiatives to facilitate the entry of U.S. long distance carriers into the domestic local exchange market are present in the international market and should be applied here. Large U.S. telecommunications carriers should be encouraged to expand internationally. This merger will allow the Commission to achieve its "objective of promoting competition in the U.S. market, and of achieving a more competitive global market for all basic telecommunications."⁴⁶

D. The Merger Will Produce Substantial Efficiencies and Customer Benefits

The SBC/Ameritech merger will enable the combined company more effectively to serve its customers and will produce significant cost savings and enhanced revenues for the combined company, due to synergies in new product development and marketing, purchasing discounts and the elimination of duplication. These efficiencies, which are

⁴⁶ See In re Rules and Policies on Foreign Participation Order in the U.S. Telecommunications Market, Report and Order and Order on Reconsideration, IB Dkt. No. 97-142, FCC 97-398, 1997 WL 735476, ¶¶ 3, 5 (Nov. 26, 1997) (the Foreign Participation Order "represents the culmination of efforts taken by the Commission to promote competition in the global market for telecommunications services").

described in the accompanying Affidavits of Martin A. Kaplan of SBC and R. Jason Weller of Ameritech, as well as the accompanying Affidavits of economists Richard Gilbert, Robert Harris, Richard Schmalensee and William Taylor, will benefit existing and new residential and business customers both within and outside of the combined company's territory. The resulting increased cash flow will make the combined company a more effective competitor, enhance and expand services to existing customers, and help support the financial requirements for the new SBC's in-region, out-of-region and global plans. Kaplan Aff. ¶ 32. SBC estimates that, by 2003, the merger will enable it to realize annual expense savings of \$1.17 billion, reductions in capital costs of \$260 million and revenue increases from the sale of new and existing services totaling \$778 million. *Id.* ¶¶ 7, 17. An additional \$300 million is expected from reduced costs and enhanced revenues in the combined company's long distance operations after it is permitted to provide in-region long distance services. *Id.* ¶ 26.

This additional \$2.5 billion in expense savings and revenue increases will not only benefit the combined company's existing network and customer base, but also allow for investments in the new, competitive local facilities in the 30 cities targeted for entry in the U.S. and in other markets abroad. *Id.* ¶¶ 27-28. These ventures, as well as existing residential and business customers, will also benefit from the larger scope and scale that the new company will be able to achieve. *Id.* ¶¶ 27-31.

Procurement Savings. Although estimates of savings from increased volume discounts for equipment and services are by their nature inexact (depending as they do on outside vendors), these savings "are as desirable as any other economies" for purposes of

competitive analysis.⁴⁷ The Commission has noted that procurement savings tend to lower marginal costs and “thereby counteract the merged firm's incentive to elevate price.”⁴⁸ The Ameritech merger will generate such savings. Gilbert/Harris Aff. ¶ 54.

By unifying procurement for both their wireline and wireless operations, the companies will expand the scale of purchases and will gain increases in volume discounts from their suppliers. The companies estimate that, by combining their equipment purchases, they will realize future savings across all operations of approximately \$381 million. Kaplan Aff. ¶ 20(a); see also Gilbert/Harris Aff. ¶ 45.

Similar savings should be realized when the two companies combine their purchases of wholesale interexchange services. Id. ¶ 26. SBC and Ameritech presently offer long distance service to their out-of-region wireless customers. SBC also sells landline interexchange services to its out-of-region wireless customers. Neither company currently has any significant interexchange facilities outside its own region; both rely on existing interexchange carriers for the wholesale provision of long distance transport. This reliance on established interexchange carriers will continue for the foreseeable future. Kahan Aff. ¶ 39. The interexchange market is characterized by substantial economies of scale that are reflected in a continuum of volume discount levels for wholesale services. Kaplan Aff. ¶ 26. By combining wholesale purchases, the new company will receive deeper discounts from other vendors. Id.

⁴⁷ 5 Phillip E. Areeda & Donald F. Turner, Antitrust Law ¶ 1104a, at 11 (1980).

⁴⁸ BA/NYNEX at ¶ 169.

Adjusting for predicted growth, SBC projects that the merger will yield long distance savings and increased revenues of \$300 million annually. By reducing the costs of long distance carriage, the company will be able to offer lower priced long distance services, making it a more effective competitor in that market.

Consolidation Efficiencies. Additional expense savings to be realized by the consolidation of the two companies' operations include:

- **Marketing/New Product Development/Advertising:** The efficiencies expected to be achieved from combining the separate marketing, new product development and advertising efforts of the two companies are expected to result in \$85 million in savings by the year 2003. Kaplan Aff. ¶ 20(c).
- **Business Development and Strategic Planning:** As with research and development, there will be no need to duplicate present efforts in these areas. SBC and Ameritech expect to save \$20 million annually by 2003 through the combination of their efforts. Id. ¶ 24.
- **Real Estate:** By consolidating and eliminating duplication, the combined company will need less space and expects to save \$54 million from reduced real estate operations. Id. ¶ 20(d).

The projected savings, though estimates, are based on SBC's prior experience.

SBC will adopt the same strategy it used in its merger with Pacific Telesis Group ("Telesis") and draw on the experience it gained from its successful integration of those two companies. Id. ¶ 24; see also Gilbert/Harris Aff. ¶¶ 56-60.

Upon consummation of the Telesis merger, SBC formed a team to examine virtually every layer of the two companies' operations and identify areas where the combined company could reduce costs. Kaplan Aff. ¶ 6. The team examined, among other things: (i) duplicative support functions; (ii) areas where economies of scale could reduce costs; (iii) duplicative expenditures on new ventures; and (iv) ways in which the best management practices of each company could be adopted and extended across the

new company. Id. Having identified and quantified areas where savings could be attained, SBC incorporated the projected savings by reducing the budget of each affected department. Id. The process worked; the goals were met.

The merger of SBC and Telesis not only provided financial synergies by combining the best managers and best management techniques from the two companies, but also it has resulted in improved service, the introduction of new products, the improvement of networks and approximately 3,000 net new jobs in California since the merger closed. The increase in service was a result of merger-specific efficiencies – not higher prices. Local exchange service prices in California have not increased since the merger. Id. ¶ 93. For the second year in a row, Pacific Bell has been recognized as one of the top (ranked second) residential local telephone companies in customer satisfaction. Id. ¶ 96. Repair times at Pacific Bell have been reduced an average of 60 percent, from as much as four to seven days immediately following the merger to one to two days currently.⁴⁹ Id. ¶ 97. Repair and business office answering times have improved significantly.⁵⁰ Id. SBC has introduced a host of new services⁵¹ and has announced the

⁴⁹ Service installation times have been reduced by an average of 80 percent, down from as much as two-three weeks to about three-four days currently. Kahan Aff. ¶ 97. These improvements have occurred despite the disruption resulting from the extreme weather caused by El Nino and record demand for new telephone lines. Id.

⁵⁰ A California PUC goal required Pacific Bell to answer 80 percent of its repair and business office calls in 20 seconds or less. In 1996 (prior to the merger), Pacific Bell met this goal in its business office in only 1 of 12 months; in 1997, it met or exceeded the goal in 12 of the months. In 1996, Pacific Bell met the goal for repair service in 4 of the 12 months; in 1997 it reached it in 10 of 12 months. Pacific Bell now routinely exceeds CPUC-mandated response times for directory assistance and operator assisted calls. Kahan Aff. ¶ 97 and Attachments D-F.

⁵¹ Pacific Bell has already introduced to consumers such services as Caller ID with name delivery, on-demand features (like pay-per-use three-way calling), and enhanced Internet services with lower ISDN rates. Pacific Bell also has introduced Managed Frame Relay

broadest rollout of DSL service anywhere in the U.S.⁵² Id. ¶ 98.

Benefits to Employees and Communities. Jobs in California have increased and benefits to Telesis employees have improved since the Telesis merger. Id. ¶ 94. As of May 1998, Telesis and its affiliates created almost 3,000 net jobs or a 5.8 percent increase in jobs in California since the merger. Id. The employees' benefits have improved as well. Id. ¶ 95. For example, more than 15,000 California employees now receive stock options, up from a handful premerger. Id. The company also increased its matching contribution to the employee savings plan. Id.

Similarly, the merger of SBC and Ameritech will benefit local economies throughout the new SBC's service area. The strength and resources of the combined company will permit investment in an expanded range of new and enhanced services, which will result in increased local spending, the addition of new jobs and a resulting increase to the local tax base. Even though some duplicative positions will be eliminated, the merger will create new positions in the desirable communications services employment sector and will attract and retain highly skilled professional and technical personnel to the new SBC's service areas. But an overriding benefit to in-region ratepayers will be the ability of the new SBC to compete successfully to retain multi-location business customers, and thereby avoid losses of high volume business. Such losses can lead to disinvestment and/or rate increases in order to cover fixed costs.

Gilbert/Harris Aff. ¶¶ 6-10.

and web hosting services for business and has announced a rollout of business-oriented ADSL services. Id. ¶ 98.

⁵² The company's plans call for initial DSL availability in some 200 California communities. Id. ¶ 98.

Benefits from Geographic Expansion. The expanded geographic scope of the new SBC will result in additional benefits for customers. For example, the new SBC will be able to link its customer service centers across the country and the globe in all time zones, providing more personnel to handle requests and resulting in shorter response times. Weller Aff. ¶ 28. Additionally, the added scale of these customer service centers will enhance the new SBC's ability to provide multilingual customer support. Id. ¶ 27. Features offered by each company will be offered across a unified system. Kahan Aff. ¶ 30. Consolidated mobile service support systems will reduce fraud without the need for "PIN" numbers and other unpopular security measures. Weller Aff. ¶ 29. Subscribers to the new SBC's Internet services will be able to avail themselves of local or toll-free access numbers in a wide area. Id.

Businesses will also be able to take advantage of the wider geographic scope of the post-merger company. For example, a company headquartered in one of the new SBC's states that has offices and plants in other states, and overseas, will be able to use a single point-of-contact for telecommunications services throughout its operations and receive consolidated billing. Weller Aff. ¶ 21. The new SBC, as a single-source telecommunications supplier for national and international businesses, will be able to provide managed services across widely separated locations, including effective advice and management of customer-premises equipment. A telecommunications consultant of the new SBC will be able to help business customers design national and international systems without the disadvantages of having to deal with independent vendors and multiple contacts for their various locations, including those in Europe, Asia, South America and South Africa.

Benefits from New Products and Services. The range of available consumer services and products will increase because of the economies of scale attainable by the new SBC. Weller Aff. ¶ 30; Schmalensee/Taylor Aff. ¶ 13; Gilbert/Harris Aff. ¶¶ 30, 50. Services that currently go undeveloped because of high start-up costs will roll out to customers because the larger number of potential users for such services will support higher research, development and up-front costs. Weller Aff. ¶ 30; Gilbert/Harris Aff. ¶¶ 30, 50; Schmalensee/Taylor Aff. ¶ 20. Furthermore, new services will move through research and development and into customers' homes much faster and more economically. Weller Aff. ¶ 30; Schmalensee/Taylor Aff. ¶ 19; Gilbert/Harris Aff. ¶¶ 29-38. The new services will expand the options available for obtaining packages of services by customers of the new SBC, who will enjoy the increased convenience of one-stop communications services shopping and integrated billing.⁵³ Weller Aff. ¶ 30.

The rollout of new services can be time-consuming and involve considerable up-front costs.⁵⁴ Before new services can be fully deployed, the hardware and software must be tested. The service itself is then tested with a small group of consumers. Lessons learned from these two trials are then incorporated into a full-scale rollout. These steps can take a great deal of time and money, and much of this effort is duplicated from firm to firm. Weller Aff. ¶ 30; Schmalensee/Taylor Aff. ¶ 19; Gilbert/Harris Aff. ¶¶ 30, 50.

⁵³ William J. Holstein et al., Bill Gates's Legal Problems Get Bundled, U.S. News & World Reports, Dec. 22, 1997, at 32 (quoting Asst. Atty. Gen. Joel Klein).

⁵⁴ See generally J. Grubman, Paine Webber, Reevaluation of the Local Telephone Industry - Industry Report, Investext Rpt. No. 944535, at *8-*9, *11 (Dec. 28, 1989). See also J.D. Gross et al., Donaldson, Lufkin & Jenrette Securities Corp., Cincinnati Bell - Company Report, Investext Rpt. No. 820997, at *5 (Aug. 26, 1988) ("Because much of the cost associated with providing [vertical] services is fixed, as volumes for all of these services increase, they will become even more profitable.").

Both SBC and Ameritech, for example, plan a widespread deployment of DSL technology. This requires a great deal of advance planning and testing. At the end of 1997, SBC had 200 employees dedicated to testing modems to be used in its trials.⁵⁵ SBC has a subsidiary, Technology Resources, Inc. ("TRI"), that provides technical consulting for all of SBC's domestic and international operations. Kaplan Aff. ¶ 20(c). TRI was instrumental in finding solutions to some of the technical problems that SBC encountered while testing its DSL product. *Id.* Ameritech has no subsidiary equivalent to TRI.

After equipment is tested, a new service like DSL is then typically offered to a small group of consumers. This trial is an absolutely essential part of troubleshooting problems and making sure they never become systemwide crises. SBC began testing its DSL service in Houston in mid-1996⁵⁶ and expanded its trial to include Austin and San Francisco in December 1997.⁵⁷ In the spring of 1998, nearly two years after its first market test, SBC began a statewide rollout in California.⁵⁸ Ameritech began testing its DSL service in October 1996. Ameritech launched its DSL service in Ann Arbor in late 1997, expanded the service to Wheaton, Illinois and Royal Oak, Michigan, and has stated broad expansion goals for the service (i.e., to pass 70 percent of homes). Weller Aff. ¶ 30. Here again, the two companies are currently learning the same costly lessons and

⁵⁵ See Tom Abate, 2 Fast-Modem Makers Decide To Get Married, S.F. Chron., Oct. 2, 1997, at D1.

⁵⁶ See Leslie Gornstein, Quick New TI Chip Possible Boon to the Internet, Fort Worth Star-Telegram, Feb. 4, 1997, at 1.

⁵⁷ See SBC Unveils Two New DSL Test Markets, ISDN News, Dec. 2, 1997, available at 1997 WL 9052883.

⁵⁸ See SBC Communications Announces Broad ADSL Deployment Across California, Business Wire, May 27, 1998, at 14:14:00 (available on Westlaw).

solving very similar problems, at duplicative expense. Combining such efforts will spread development costs and risks across a broader base, sharply reducing unit costs and accelerating the delivery of new services to market. Gilbert/Harris Aff. ¶¶ 35-38.

Implementing “Best Practices”. This merger, and SBC’s merger with SNET, will permit the new SBC to take advantage of the best ideas and practices developed through years of experience by the telephone and wireless subsidiaries of four different companies – SBC, Ameritech, Telesis and SNET – in addition to ideas developed through working with numerous foreign carriers. Kaplan Aff. ¶ 6; Weller Aff. ¶ 25; Schmalensee/Taylor Aff. ¶ 13; Gilbert/Harris Aff. ¶ 27. Ameritech has already learned that this selection of “best practices” techniques can result in strong advantages. Weller Aff. ¶ 14; Rivers Aff. ¶ 18. For example, several years ago Ameritech centralized the management of many carrier operations that previously had been operated on a state-by-state basis. Weller Aff. ¶ 25; Rivers Aff. ¶ 19. The shared ideas and systems resulted in an improvement in customer service response time, enhanced network reliability. Weller Aff. ¶ 25. This effect will be magnified through the merger. The resulting cost savings can be reinvested in the development of new products and services. Weller Aff. ¶ 24; Gilbert/Harris Aff. ¶ 41.

Although carriers generally try to guard their operating practices, the ability to compare such practices and evaluate the benefits and trade-offs as a result of consolidation is of great value to the combination of Ameritech and SBC. Rivers Aff. ¶ 25; Schmalensee/Taylor Aff. ¶ 13. The new SBC can unlock benefits for other segments of the carrier’s businesses beyond the local exchange. For example, in addition to the benefits gained by the over 50 million local exchange customers, the new SBC’s

millions of wireless subscribers, one million directory advertisers, 30 million customers and three million businesses that receive directories all stand to benefit from the sharing of these best practices.⁵⁹ Gilbert/Harris Aff. ¶¶ 41, 47.

SBC, for example, has been very effective in developing and marketing new vertical services.⁶⁰ Kaplan Aff. ¶¶ 8-9; Gilbert/Harris Aff. ¶ 53. For example, SBC provides, on average, some 2.45 vertical services per access line, nearly double Ameritech's rate. Kaplan Aff. ¶ 8. SBC's penetration rate for Caller ID (absent Pacific Bell) was 47 percent compared to Ameritech's 25 percent in 1997. According to a recent analyst report, SBC leads Ameritech 14 percent to 9 percent in voice mail penetration rates, 49 percent to 43 percent in call waiting penetration rates, and 23 percent to 17 percent in second residential line penetration rates.⁶¹

Ameritech's customers will benefit from SBC's expertise in these vertical services, just as SBC's customers will profit from the lessons Ameritech derived from its centralization process. Rivers Aff. ¶ 19. SBC's customers will also benefit from Ameritech's efficiency in the provision of local service. Ameritech, for example, currently has fewer employees per access line than does SBC. Rivers Aff. ¶ 22.

⁵⁹ See SBC Investor Briefing (No. 200), SBC Communications and Ameritech to Merge (SBC May 11, 1998).

⁶⁰ See R.B. Wilkes, Brown Brothers Harriman & Co., Telecommunications Services – Industry Report, Investext Rpt. No. 2640386, at *43 (Nov. 28, 1997) (stating that “SBC has had considerable success in offering vertical services to its customer base.”); see also D. Reingold et al., Merrill Lynch Capital Markets, SBC Communications, Inc. – Company Report, Investext Rpt. No. 2617904, at *2 (Jan. 6, 1998) (“SBC's expertise in vertical services should help create [SBC/SNET] revenue synergies.”).

⁶¹ See D. Reingold et al., Merrill Lynch Capital Markets, RBOC's & GTE: Telecom Services – Industry Report, Investext Rpt. No. 3309420, at Table 10 (Nov. 17, 1997).

The companies have already demonstrated one example of the advantages of best practices selection. Because of its national reach, AT&T has the opportunity to compare the services provided by all major telephone companies. AT&T preferred the methods used by SBC in provisioning high-capacity service to those used by Ameritech. At AT&T's suggestion, Ameritech has adopted SBC's methods for provisioning high-capacity telecommunications circuits used for data, video and voice services. Business customers, universities, CLECs and wireless carriers have benefited from these improved practices, which have reduced cycle time and improved quality service. Rivers Aff. ¶ 21. In similar fashion, following the merger, the new SBC will be able to select best products and services from across the four companies, providing residential customers with the same kinds of advantages currently available only to the largest of national customers. The reciprocal adoption of best practices is far more effective within a company than between independent companies. Schmalensee/Taylor Aff. ¶ 13.

As another example, Ameritech plans to provide its field technicians with hand-held computers that are expected to improve their productivity by 5-10 percent. Rivers Aff. ¶ 10. SBC, on the other hand, uses a global positioning service to route field personnel most efficiently to locations where they are needed. The convergence of these two technologies will provide a 21st century response to the continuing problems of maintaining and expanding communications networks, thus even further decreasing response time and improving customer satisfaction.

Customer service strategies that have proved successful in one operating company will quickly be implemented across the entire country. Furthermore, the scale of the combined companies justifies the investments that will be required to implement the