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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

December 14, 1998

The Honorable William Kennard
Chairman
Federal Communications Commission
1919 M Street N.W.
Washington, D.C. 20554

CC Dkt. Nos. 98-141, 98-184
CS 98-178

Dear Chairman Kennard:

Today, the Commission holds hearings on three proposed telecommunications mergers: SBC and Ameritech, Bell Atlantic and GTE, and AT&T and TCI. Together, CWA represents more than 250,000 employees at these companies. This includes 78,000 employees at SBC, 30,000 at Ameritech, 72,000 at Bell Atlantic, 25,000 at GTE, and 50,000 at AT&T.

Since some Commission officials have expressed concerns about Bell company mergers, in this letter I focus specifically on the proposed SBC-Ameritech and Bell Atlantic-GTE mergers.

CWA strongly believes that the proposed SBC-Ameritech and Bell Atlantic-GTE mergers are necessary to ensure that these carriers can continue to grow and thrive in the emerging competitive global telecommunications environment. CWA strongly believes that if the FCC were to block either of these mergers, both workers and consumers would be harmed.

CWA has a simple three-point test which we use to evaluate whether a proposed telecommunications merger is in the public interest. We ask:

1. Will the proposed merger promote the growth of high-wage, high-skill jobs in the telecommunications industry?

2. Will the proposed merger enhance competition in <u>all</u> telecommunications markets, including the local residential and small business market?

3. Will the proposed merger protect and advance affordable, quality telecommunications services to <u>all</u> Americans?

CWA believes that in the case of both the proposed SBC-Ameritech merger and the proposed Bell Atlantic-GTE merger the answer to all three questions is yes.

1. The SBC-Ameritech and Bell Atlantic-GTE mergers will promote the growth of high-wage, high-skill jobs in the telecommunications industry.

As news of MCI-WorldCom's 2,000-3,500 merger-related layoffs becomes public, it is important to note that not all telecommunications mergers are about job-cutting. In fact, in the 18 months since the SBC-Pactel merger closed, SBC created more than 3,600 non-management jobs in California and Nevada. Similarly, Bell Atlantic has created new, permanent jobs in the former NYNEX footprint.

In contrast to the MCI-WorldCom merger, CWA is confident that the SBC-Ameritech and Bell Atlantic-GTE mergers will lead to the growth of good union jobs in the industry. SBC-Ameritech plans an additional $2 billion capital investment and $23.5 billion in operating expenditures over the next 10 years. This will result in the creation of an estimated 8,000 new jobs. Based on our experience after the SBC-Pactel merger, we have every reason to believe this projection.

Furthermore, the jobs that these mergers create will be good jobs. The acquiring companies--SBC and Bell Atlantic--recognize the value of a stable, high quality workforce and good labor-management relations. SBC and Bell Atlantic have recognized the value that the Union adds to corporate performance, and have negotiated pathbreaking agreements with CWA to ensure that the new jobs in the industry will be high-wage, high-skill Union jobs.

CWA believes strongly that the impact of a merger upon employment is an important component of the Commission's public interest standard. The telecommunications industry that grew out of the Bell System and the GTE companies has a 50-year history of worker representation. As a result of 50 years of collective bargaining, workers at AT&T, the Bell companies, and GTE have achieved

middle income living standards and stable, productive labor-management relations.

This is in sharp contrast to the employment standards at competitive carriers such as MCI-WorldCom and Sprint long distance. Competitive carriers such as MCI-WorldCom and Sprint long distance have aggressively blocked the legal right of their employees to organize. As a result, most employees at the non-union telecommunications competitors and cable companies lack representation, and earn 25-33 percent less than comparable union-represented employees in the industry.

In determining which mergers to approve, and therefore, which carriers can grow, thrive, and even survive, the Commission may well determine the future of employment standards for workers in this industry. Should the Commission block the proposed SBC-Ameritech and Bell Atlantic-GTE mergers, the Commission may well set the conditions for a continuing erosion of living standards for telecommunications workers. Competition based on suppressing labor costs rather than on providing superior services and technologies is contrary to the promise of the 1996 Act to create good jobs in the telecommunications industry.

2. The SBC-Ameritech and Bell Atlantic-GTE mergers will benefit consumers with enhanced competition in <u>all</u> telecommunications market segments.

As a result of the SBC-Ameritech and Bell Atlantic-GTE mergers, residential and small business consumers will see real facilities-based competition in the local exchange. Until now, competitive carriers have targeted the more lucrative urban business market. The proposed SBC-Ameritech and Bell Atlantic-GTE mergers will provide both of the merged carriers with the scale and scope necessary to invest out-of-region in facilities that will serve all consumer segments.

Indeed, SBC-Ameritech's National-Local Strategy targets 30 new out-of-region markets, including a commitment to deploy 80 switches specifically to serve residential and small business customers, beginning one year after the merger. Similarly, Bell Atlantic and GTE have announced that they will enter and compete in 21 new markets within 18 months of merger closure.

In addition, SBC-Ameritech and Bell Atlantic-GTE will enter these new markets with the capabilities and commitment to compete for all consumer segments. Unlike other new entrants that have shown a disregard for building facilities and providing services to the mass market, a merged SBC-Ameritech and a merged Bell Atlantic-GTE will have the experience, expertise, skilled workers, and name brand necessary to compete successfully for all classes of consumers in out-of-region markets. Thus, these mergers will promote the goal of the 1996 Telecommunications Act to open up the local market with facilities-based competition for residential and small business customers.

As you are well aware, investment in next-generation broadband networks serving all market segments will cost billions of dollars. The Commission acknowledged the scale and scope economies necessary for even large telecommunications carriers to make significant out-of-region investment in local markets when it approved the MCI-WorldCom merger. It would be inconsistent to reverse course, and apply a different standard to incumbent local exchange carriers when they seek to merge in order to achieve necessary scale and scope to compete with other global telecommunications carriers.

3. The SBC-Ameritech and Bell Atlantic-GTE mergers will protect and advance affordable, quality telecommunications services to all Americans.

SBC-Ameritech and Bell Atlantic-GTE candidly acknowledge that a driving force behind their respective mergers is the need to grow to compete effectively for large business customers, which generate a disproportionate share of their revenues. Absent a merger, SBC, Ameritech, Bell Atlantic, and GTE will experience continuous erosion in revenues as large business customers migrate to competitive carriers that do not have costly carrier-of-last resort obligations, tariffed and geographically averaged rates, and other regulatory restrictions barring access to service or geographic markets.

The significant erosion in revenues that would result from the loss of these large business customers would undermine the ability of SBC, Ameritech, Bell Atlantic, and GTE to invest in the public switched network serving residential and small business customers. The impact would be pressure to raise local

rates, reduced investment in the current voice network, and reduced capital available to upgrade networks with broadband capabilities.

It may seem a paradox to argue that incumbent carriers must be able to compete for large business customers in order to promote the 1996 Telecommunication Act's goal to provide and to advance affordable, quality telecommunications services to all Americans. But in this transitional period from regulated to competitive markets, this is indeed the case. During this transitional period, competition is driving investment in networks that serve large business customers. To ensure that residential and small business customers also reap the benefits of this investment, it is necessary to ensure that the carriers that serve the mass market can effectively compete on a level playing field for large business customers. Otherwise, the companies that are required to serve all customers will suffer, with the result being a steady deterioration in the quality and affordability of service on the public switched network serving residential and small business customers.

The Commission has the opportunity, in the context of these merger reviews, to ensure that SBC, Ameritech, Bell Atlantic, and GTE are able to compete with other competitive carriers for large business customers so that they can continue to maintain and to upgrade their networks serving all market segments, including residential and small business customers.

In sum, CWA believes that the proposed SBC-Ameritech and Bell Atlantic-GTE mergers are very much in the public interest. They will create good jobs in the industry. They will stimulate competition in the local residential and small business market, and they will advance the 1996 Act's goal to protect and advance affordable, quality telecommunications services to all Americans.

Sincerely,

Morton Bahr
President

cc: Commissioner Susan Ness
Commissioner Gloria Tristani
Commissioner Harold W. Furchtgott-Roth
Commissioner Michael K. Powell