Communications Workers of America
AFL-CIO, CLC

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MAR 24 1999

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

March 24, 1999

Ms. Magalie Roman Salas, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

RE: Ex Parte Notice
CC Docket 98-184 (In the Matter of GTE Corporation, Transferor and Bell Atlantic Corporation, Transferee, for Consent to Transfer of Control)

Dear Ms. Salas:

On March 24, 1998, Morton Bahr, CWA President, sent the attached letter and CWA report, "Telecommunications Merger Policy: The Double Standard Hurts Workers and Consumers" to Chairman William Kennard, with a copy to each Commissioner. A copy of the letter and report was also mailed to the FCC staff listed below.

The report presents evidence to demonstrate that it is the globally integrated carriers--not the local telephone companies--that have the largest market capitalization and thus wield economic power in today's telecommunications environment.

The report notes that scale and scope are a primary condition for success in the emerging telecommunications marketplace. Absent merger approval, the report notes, Bell Atlantic-GTE and SBC-Ameritech will not be able to compete effectively with the integrated global carriers, with negative consequences for consumers, workers, and communities.

Sincerely,

Debbie Goldman

Debbie Goldman, Research Economist
Research and Development Department

Attachment

cc: Chairman William Kennard
Commissioner Susan Ness
Commissioner Michael Powell
Commissioner Gloria Tristani
Commissioner Harold Furchtgott-Roth

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Morton Bahr
President

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Federal Communications Commission
Office of Secretary

March 24, 1999

The Honorable William Kennard
Chairman
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Dear Chairman Kennard:

The enclosed report by the Communications Workers of America concludes that any concern among policymakers about proposed Bell company mergers is based on an outmoded view of the telecommunications industry. The report finds that it is the globally integrated carriers--not the local telephone companies--that have the largest market capitalization and thus wield economic power in today's telecommunications environment.

The report notes that scale and scope are a primary condition for success in the emerging telecommunications marketplace. Absent merger approval, Bell Atlantic-GTE and SBC-Ameritech will not be able to compete effectively with the integrated global carriers.

This will have negative consequences for consumers and communities. The incumbent telephone companies are the only carriers with the obligation to serve everybody. Absent the ability to grow, these carriers will have fewer resources to invest in the public network, which will reduce the quality and affordability of service to consumers and small businesses.

Further, SBC-Ameritech and Bell Atlantic-GTE have committed to invest billions of dollars outside their regions, which will lead to the growth of good jobs in dozens of communities.

Finally, the report notes that merger approval does not mean the end of regulation. Regulatory controls that are in place today will remain in effect after the merger to protect consumers.

In sum, CWA believes that regulators should move rapidly to approve the Bell Atlantic-GTE and SBC-Ameritech mergers.

Sincerely,

Morton Bahr
President

Enclosure

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

Telecommunications Merger Policy

The Double Standard Hurts Workers and Consumers

COMMUNICATIONS
WORKERS
OF
AMERICA

Regulators are Picking Winners and Losers Based on an Outdated View of the Telecommunications Industry

The framework which regards local telephone company mergers as anti-competitive and "bad" but mergers that result in integrated global carriers such as MCI WorldCom and AT&T-TCI as pro-competitive and "good" is based on an out-dated view of the telecommunications industry. This outmoded analytic framework fails to recognize the fundamental changes in the industry wrought by the Telecommunications Act of 1996 and by new technologies. Together, these two forces are breaking down the potential power local telephone companies can exercise through their control over the last mile.

Telecommunications companies which were formerly limited by regulation or technology to certain market segments are merging or acquiring other firms to jumpstart entry into new markets and to gain the efficiencies of scale and scope necessary to make the billions of dollars of investment in next-generation networks and services. As a result, the telecommunications industry is rapidly consolidating into five or six global carriers, capable of providing customers with a package of local, long distance, wireless, and data services.

Market forces and the rapid pace of merger announcements indicate that a primary condition to succeed in the new competitive world of telecommunications will be scope and size. As a result, the number and size of telecommunications mergers since the Telecommunications Act of 1996 was passed has been astonishing. In this three-year period, major telecommunications company mergers and acquisitions have totaled $400 billion. (See Appendix)

As the industry consolidates and globalizes, regulatory policy that prevents local exchange company mergers in fact prevents them from contending with their competitors on an equal footing. Hampering local exchange carriers from merging with one another will create losers in a game that can only be won by behemoths.

Wall Street's View: Local Telcos Rank Below Integrated Global Carriers

The telecommunications industry is undergoing massive restructuring. Telecommunications firms have assembled billions of dollars of capital to create corporations ready to compete in the global marketplace.

A look at the top telecommunications carriers as valued by investors is revealing. Wall Street's valuation of the local telephone companies recognizes that current regulatory policies and market structures leave the local telephone companies weaker than the integrated global carriers in the emerging competitive telecommunications environment. The investment community no longer significantly values the potential economic power of the local exchange carriers' control of the last mile copper wireline network.

TABLE 1.
MARKET CAPITALIZATION OF TELECOM FIRMS
in billions of dollars

	MARKET CAP
[illegible]	$193.5
[illegible]	$138.3
[illegible]	$130.9
[illegible]	$123.6
[illegible]	$114.1
[illegible]	$113.0
[illegible]	$102.7
[illegible]	$94.3
[illegible]	$91.9
[illegible]	$89.9
[illegible]	$75.2
[illegible]	$65.7
[illegible]	$64.5
[illegible]	$35.8
[illegible]	$31.5
[illegible]	$27.5
[illegible]	$20.8
[illegible]	$19.9

as of 1/21/99 (NTT as of 7/98)

The integrated global carriers have the largest market capitalization, reflecting Wall Street's expectation that these carriers have the greatest growth potential.[1] Only one Bell company (SBC) ranks among the top eight global telecommunications firms.

The market capitalization of AT&T-TCI of $193.5 billion is more than twice that of Bell Atlantic ($89.9 billion), Ameritech ($75.2 billion), or GTE ($64.5 billion), and more than 40 percent higher than that of SBC ($113 billion). These local telephone companies' market capitalization also trails that of the merged MCI WorldCom by 20 percent or more.

Five of the top ten telecommunications companies are foreign companies (NTT, Deutsche Telekom, Vodafone-AirTouch, British Telecom, and France Telecom). The market capitalization of the three largest foreign competitors—NTT ($130.9 billion), regulatory policies and market structures leave the local telephone companies weaker than the integrated global carriers in the emerging competitive telecommunications environment. The investment community no longer significantly values the potential economic power of the local exchange carriers' control of the last mile copper wireline network.

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APPENDIX
TELECOMMUNICATION MERGERS, 1996-1999
$500 MILLIONs

COMPANY	PURCHASE	YEAR	TERMS ($ BILLIONs)
[redacted]	[redacted]	Jan-99	1.7
[redacted]	[redacted]	Jan-99	54.0
[redacted]	[redacted]	Dec-98	15.0
[redacted]	[redacted]	Dec-98	5.0
[redacted]	[redacted]	Dec-98	4 .0
[redacted]	[redacted]	Nov-98	3.5
[redacted]	[redacted]	Oct-98	.8
[redacted]	[redacted]	Oct-98	7.7
[redacted]	[redacted]	Oct-98	4.2
[redacted]	[redacted]	Sep-98	37.0
[redacted]	[redacted]	Aug-98	1.0
[redacted]	[redacted]	Aug-98	2.0
[redacted]	[redacted]	Aug-98	.6
[redacted]	[redacted]	Jul-98	4.1
[redacted]	[redacted]	Jul-98	32.7
[redacted]	[redacted]	Jul-98	52.9
[redacted]	[redacted]	Jul-98	.6
[redacted]	[redacted]	Jul-98	2.3
[redacted]	[redacted]	Jun-98	1.8
[redacted]	[redacted]	May-98	62.0
[redacted]	[redacted]	Mar-98	1.4
[redacted]	[redacted]	Jan-98	11.3
[redacted]	[redacted]	Jan-98	2.4
[redacted]	[redacted]	Jan-98	1.2
[redacted]	[redacted]	Dec-97	2.2
[redacted]	[redacted]	Dec-97	14.0
[redacted]	[redacted]	Sep-97	.6
[redacted]	[redacted]	Aug-97	25.6
[redacted]	[redacted]	Aug-97	.6
[redacted]	[redacted]	Jul-97	1.8
[redacted]	[redacted]	Jun-97	1.2
[redacted]	[redacted]	May-97	.5
[redacted]	[redacted]	Apr-97	16.6
[redacted]	[redacted]	Apr-97	1.2
[redacted]	[redacted]	Apr-97	1.6
[redacted]	[redacted]	Dec-96	12.0
[redacted]	[redacted]	Nov-96	10.8
[redacted]	[redacted]	Aug-96	2.0

TOTAL **$400 BILLION**

Endnotes

1 Measuring market capitalization (shares of outstanding stock times share price) summarizes the investment community's view of how earnings will grow and which companies will succeed. The financial markets value companies based on their assessment of future earnings' growth. High expectations of growth of the Internet, for example, have driven AOL's market capitalization to $65.7 billion, about the same market cap as GTE's $64.5 billion, even though AOL's revenues today are only one-tenth those of GTE.

2 The recently announced Vodafone-AirTouch merger is the most recent in a series of consolidations taking place in the telecommunications industry. Policymakers have been markedly silent on this merger, despite the fact that in this instance a foreign company gains 100 percent ownership of a U.S. firm. As a result of the merger, Vodafone will become the sixth largest telecommunications carrier in the world. This thundering silence among policymakers stands in contrast to the negative reaction of some in the policy community to the pending mergers of local telephone companies (Bell Atlantic-GTE and SBC-Ameritech).

3 U.S. Council of Economic Advisors, *Progress Report: Growth and Competition in U.S. Telecommunications, 1993-1998*, Feb. 8, 1999.

4 *In the Matter of Inquiry Concerning the Deployment of Advanced Telecommunications Capability to All Americans in a Reasonable and Timely Fashion, and Possible Steps to Accelerate Such Deployment Pursuant to Section 706 of the Telecommunications Act of 1996*, CC No. 98-146, Feb. 2, 1999 (rel), 48.

5 "Sidgmore Wants 'Unfettered Access' to ILEC, CATV High-Speed Wires," *Telecommunications Reports Daily*, Jan 29, 1999. John Sidgmore is vice chairman of MCI WorldCom, Inc.

6 U.S. Department of Commerce, *U.S. Industry and Trade Outlook '99.*

7 "CLECs Surpass Bells in Net Business Line Additions for First Time," Salomon Smith Barney, May 6, 1998.

8 "A Cell Phone in Every Pocket?," *Business Week*, Jan. 18, 1999, 38-39.

9 *Progress Report: Growth and Competition in U.S. Telecommunications*, 1993-1998.

10 Policymakers should recall that at the time of AT&T diverstiture, the Department of Justice (DOJ) did not mandate the number of Regional Bell Operating Companies (RBOCs) to survive after the break-up. The DOJ's concern was to sever AT&T's power to use the local bottleneck to control long distance and equipment downstream markets. The DOJ left the decision as to the number of surviving Bell companies to AT&T. AT&T chose seven RBOCs. If the DOJ did not care in 1984 how many Bell operating companies survived the break-up, there is even less economic justification today.

11 CWA Membership Reports.

12 Applicants' Description of the Transaction, Public Interest Showing and Related Demonstrations, In the Matter of Application for Consent to the Transfer of Control of Licenses and Section 214 Authorizations from Ameritech Corporation, Transferor, to SBC Communications Inc., Transferee, July 24, 1998; Applicants' Public Interest Statement, In the Matter of GTE Corporation, Transferor and Bell Atlantic Corporations, Transferee, for Consent to Transfer of Control, Oct., 2, 1998.

Deutsche Telekom ($123.6 billion), and Vodafone-AirTouch ($114.1 billion)—exceeds that of Bell Atlantic, Ameritech, or GTE by 20 to 50 percent and that of SBC by more than 10 percent.

The leading U.S. and foreign telecommunications companies have amassed hundreds of billions of dollars to build new networks and to provide new services to U.S. businesses and consumers. U.S. policymakers should permit the Bell companies to participate in this global marketplace by allowing the Bell companies to achieve the size and scope necessary to compete effectively with the integrated global carriers.[2]

The Local Exchange Carriers Should Not be Barred From the New Emerging Markets

These communications giants are competing for giant new markets. Consumer demand for Internet services is driving billions of dollars of investment in new communications networks and services. According to the U.S. Department of Commerce, investment in information technology and services reached $800 billion in 1998, more than doubling in size since 1993. Telecommunications services and equipment companies' revenues increased from $250 billion in 1993 to $408 billion in 1998, increasing their share of GDP by more than 20 percent. The number of public telecommunications companies has surged from under 100 in 1984 to over 200 in 1993 to just under 400 in 1997.[3]

The leading U.S. and foreign telecommunications companies have amassed hundreds of billions of dollars to build new networks and to provide new services to U.S. businesses and consumers. U.S. policymakers should permit the Bell companies to participate in this global marketplace by allowing the Bell companies to achieve the size and scope necessary to compete effectively with the integrated global carriers.

Moreover, a recent report by the Federal Communications Commission (FCC) on deployment of advanced data networks confirms that the transformation from voice to data communications is attracting hundreds of new entrants that together are investing tens of billions of dollars in wireline and wireless broadband technologies. As a result, the FCC notes, "the preconditions for monopoly (in the last mile of the broadband consumer market) are absent."[4]

This trend will only accelerate as data replaces voice as the dominant means of communications. According to most industry leaders, by the year 2004, 99 percent of bandwidth will be for Internet-related applications. Voice will effectively become a niche market.[5] Data traffic also will dominate wireless networks and comprise 70 percent of wireless traffic by 2005.[6]

The effects of competition in these markets can already be seen. Facilities-based wireline networks in the urban centers have created a robust competitive market for business customers. Competitive carriers now surpass incumbent carriers in the number of new access lines sold to business customers.[7]

New developments in wireless and two-way cable technology are creating real facilities-based alternatives to the copper wire network for consumers. Ten cents a minute local/long distance wireless calling plans make wireless an affordable alternative for high-end customers. As the price of wireless calls continues to decline, analysts predict that wireless traffic will represent 18 percent of all telecommunications traffic four years from now.[8]

AT&T's planned multi-billion dollar investment in TCI's and Time Warner's cable plant holds the promise of making cable-based telephony and Internet access a choice for many consumers in the near future. (Cable modems now hold the lead over the telephone companies' xDSL service for high-speed Internet access.)[9] AT&T's merger with TCI and its joint venture with Time Warner will provide AT&T with cable access to 50 million U.S. households.

Finally, MCI WorldCom's recent announcement that it is re-entering the residential market in New York City indicates that at least in high-density urban areas, competitive carriers may begin marketing to some residential consumers.

As a result of these technological and regulatory changes, the old telecommunications market structure of distinct local monopoly markets no longer exists. In its place, a new market structure is emerging dominated by integrated global carriers capable of providing customers with a single package of voice and data communications services with a national, indeed international, footprint.

As a result of these technological and regulatory changes, the old telecommunications market structure of distinct local monopoly markets no longer exists. In its place, a new market structure is emerging dominated by integrated global carriers capable of providing customers with a single package of voice and data communications services with a national, indeed international, footprint.

Regulatory Policies Create Unfair Handicaps for Local Telephone Companies

Absent changes in regulatory policies, the local telephone companies—the most heavily unionized firms in the telecommunications industry and the only carriers with the obligation to serve all consumers—will not be able to grow, or even survive.

Already, the current regulatory regime has created an unlevel playing field upon which the local telephone companies must compete.

- **Regulatory Barriers to Bundled Services.** While long distance carriers and new entrants are competing for business customers with a bundled package of local, long distance, data, and wireless services, the Bell companies continue to face regulatory barriers to entering the long distance market for either voice or data traffic.

- **Regulatory Disincentives to Broadband Investment.** AT&T's CEO Michael Armstrong articulated the problem facing the Bells in his reaction to unbundling

Mergers between Local Telephone Companies Create High Quality Jobs

Since the merger of MCI and WorldCom in the fall of 1998, MCI WorldCom has announced 2,000-3,500 merger-related layoffs. Yet, 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.[11]

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 ten years. This will result in the creation of an estimated 8,000 new jobs. Based on CWA's experience after the SBC-Pactel merger, we have every reason to believe this projection.[12]

Furthermore, the jobs that these mergers create will be good jobs. The acquiring companies—SBC and Bell Atlantic—recognize the value of a high-skill, high quality, productive 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.

Conclusion

Telecommunications market structures have changed substantially since 1984. Wall Street recognizes this new market structure which favors the integrated global carriers over the local telephone companies. Yet, many policymakers remain wedded to the old framework.

The local telephone companies must have a level playing field in order to compete with the integrated global carriers. Absent the ability to grow, the local telephone companies—the only telecommunications carriers who must serve all consumers—will lose market share and substantial revenue in lucrative markets, limiting their ability to provide and advance universal service. Similarly, the loss of market share in the most heavily organized segment of the telecommunications industry will lead not only to job loss for union workers, but a steady erosion of employment standards throughout the industry.