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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

May 11, 1999

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

RE: Ex Parte Notice
CC 98-141 In the Matter of Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations from Ameritech Corporation, Transferor, to SBC Communications Inc., Transferee

Dear Ms. Salas:

On May 10, 1999, Debbie Goldman and George Kohl of the Communications Workers of America Research and Development Department met with Thomas Krattenmaker, Special Counsel, Office of Plans and Policy. We discussed public interest benefits of the proposed merger between SBC and Ameritech, including 1) the growth of good, new jobs in the telecommunications industry as a result of the merger-related National-Local Strategy; and 2) the more rapid deployment of xDSL and other advanced telecommunications services to residential and small business customers. Allowing these companies with carrier-of-last resort obligations to grow and compete for large business customers will pull technology to residential and small business customers.

In our discussion, we made reference to the connection between service quality and employment standards. To supplement the record on the legal and factual basis for consideration of employment-related issues in the context of this transfer of control proceeding, I submit the two attachments described below.

1. "Commission Precedent Establishes that the Public Interest Review Standard Includes the Impact of a Proposed Transfer of Control Upon Employees." CWA believes that the SBC-Ameritech merger will have a positive impact on employees of SBC and Ameritech, will lead to the growth of good jobs, and will contribute to the preservation of the high-skill, high-wage, productive workforce that is necessary to ensure service quality in the rapidly changing, competitive telecommunications industry.

2. "Prospects for Employment in Competitive Local Telephone Markets: A Labor Perspective." This CWA report discusses the impact of competition in long distance markets on employment standards and proposes public policy solutions to ensure that competition in the local telephone

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market is based on technological innovation and service quality, not on undercutting industry standards on labor costs.

Sincerely,

Debbie Goldman
Research Economist

cc: Thomas Krattenmaker

CWA Ex Parte Presentation
May 10, 1999

- There are affirmative public interest benefits in SBC-Ameritech and Bell Atlantic-GTE Mergers

- Future of telecommunications industry is large global firms
  - Market Cap data shows ATT, MCI, number of foreign carriers as the dominant firms
  - Efficient Market theory suggests that this represents today's best guess about what the future holds
  - We have several hundred thousand members in the Baby Bells who should be permitted to grow into the future (no real logic between 1 and 7 baby Bells at the divestiture)

- Affirmative benefit 1: RBOCs have duty to service all customers. Permitting them to grow and compete for large customers will pull technology to residential & small business customers
  - Rapid deployment of advanced services will be a race between cable modems and xDSL
  - Bell companies need size to spread development, marketing costs

- Affirmative benefit 2: Employment Standards
  - Employment standards and employment growth at stake
    - lower standards at MCI/WorldCom
    - layoffs versus job creation
  - FCC precedents

- Firms need access to global customers. There are the lucrative customers where there is competition. Without access to these customers, baby Bells will decline and potential to bring advanced technology shrinks

Commission Precedent Establishes that the Public Interest Review Standard Includes the Impact of a Proposed Transfer of Control Upon Employees

In its most recent merger reviews, the Commission has made clear that the impact of a proposed transfer of control upon employment, in general, and upon employees of the firms requesting transfer of control, in more specific terms, should be considered as part of its public interest review. In the *MCI-WorldCom Order, AT&T-TCI Order,* and *Puerto Rico Telephone Authority-GTE Order,* the Commission considered the impact of the proposed merger upon employment and upon employees of the applicants' firms.[1] In the *Puerto Rico Telephone Authority-GTE Order*, for example, the Commission noted that "we believe the public could benefit from GTE Holdings'...commitments to PRTC's employees."[2] In this instance, the Commission made clear that the impact of a merger upon the merging firms' employees is a matter of public benefit and is a legitimate consideration for analysis under the Commission's broad and flexible public interest standard.

In an earlier period of consolidation among Commission-regulated common carriers, the Commission actively intervened to protect the employment security and employment standards of employees working for the merging firms. While CWA acknowledges that the telecommunications industry and the role of the Commission has changed substantially since that period, the principles underlying those decisions are still relevant today, particularly as they

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[1] *Id.*, 213; *AT&T-TCI Order*, 140-141; *Puerto Rico Telephone Authority-GTE,* 58. We cite here the Commission's precedent for considering commitments to a telecommunications firm's employees as a legitimate issue to be raised in a public interest merger review, not whether or not CWA agrees with the specific conclusion reached by the Commission in each of these orders.

[2] *Puerto Rico Telephone Authority-GTE,* 58.

relate to the Commission's responsibility to ensure that employees would not suffer a reduction in employment benefits as a result of a transfer of ownership.

The Commission noted in its *ITT-Press Wireless Order* that the "maintenance and stability of an adequate labor force in the communications industry" is a pertinent factor in resolving the public interest issues involved in the proposed merger.[3] Accordingly, the Commission noted, that "it is incumbent upon the Commission in evaluating the merits of the instant application for transfer of control, to ascertain whether the proposed treatment of the employees affected is consistent with the public interest." To ensure that employees were adequately protected after the merger, the Commission attached an Appendix to its Order that outlined 16 specific conditions protecting employee rights and living standards. [4]

In its *Western Union Order,* the Commission similarly concluded that "the interest of the employees of a common carrier is a factor to be considered in our evaluation of the public interest." Further, the Commission noted that "we have the right and indeed the duty to make adequate provisions for the protection of employees affected by the proposed divestment."[5] The

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[3] *In the Matter of ITT World Communications Inc. Application for Consent to Tsransfer of Control of Press Wireless, Inc., to ITT World Communications Inc.,* File No. 1488-C4-TC-(2)-65, Memorandum Opinion and Order (July 28, 1965) 26 (*"ITT-Press Order").*

[4] *Id.,* Appendix, 7. The exact language reads: "That the carrier to which control is transferred shall accord to every employee or former employee, or representative or beneficiary of an employee or former employee, of any carrier which is a party to the application the same pension, health, disability, sickness, accident, or death insurance benefits as were provided for prior to the date of approval thereof under the agreements or plans of any carrier which is a party to the application which benefits were applicable to such employee, former employee, representative, or beneficiary immediately prior to the date of such approval, in conformity with such agreements or plans."s

[5] *In the Matter of the Application for Merger of the Western Union Telegraph Co. And Postal Telegraph, Inc.,* Docket 6517, Decision (Feb. 27, 1961) 164 (*"Western Union Order").*

Commission explained that this duty derived from its responsibility to ensure that the new company was not only a viable entity, but also provided "service in the public interest." In that regard, the Commission had the responsibility to ensure that the new entity had "the ability to pay salaries commensurate with those paid by other international carriers and to meet the generally accepted standards with respect to pensions and other so-called fringe benefits."[6]

In summary, the Commission has made clear that its public interest review standard includes consideration of the impact of a proposed transfer of control upon employees.

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[6] *Id.*, 168.

Prospects for Employment In Competitive Local Telephone Markets

A Labor Perspective

Communications Workers of America

Issued March 1997

Introduction

The Telecommunications Act of 1996 promises a new world of information age services that will expand access to advanced telecommunications services through lower prices, encourage investment in new facilities and equipment, improve service quality, speed deployment of new telecommunications technologies, and create a vital environment for the growth of high-tech, high-wage employment. Competition is the driver through this vibrant economic scenario.

The Communications Workers of America (CWA) represents more than 500,000 workers in the telecommunications industry. CWA members work in long distance, in local exchange markets and in information services. CWA recognizes that, effectively implemented, competition has the potential to spur the growth of new services and expand the information and telecommunications infrastructure, creating opportunities for even more jobs. Clearly we have a vital interest in assuring that the promise of the Act becomes a reality.

Because of our diverse membership, CWA's positions on telecommunications policy must be neutral, advocating for neither long distance nor local exchange carriers nor information services companies. Rather, we must insist upon policy that assures a level playing field, so that no parties in the telecommunications market are disadvantaged, and so that all parties have an opportunity to compete fairly in order to advance the goals and promises of the Act. More important, in CWA's view, progress toward access, innovation and price reduction must be accompanied by growth in good jobs and rising living standards for workers in telecommunications.

The Communications Workers of America are concerned that without specific mechanisms in place to achieve each of the broad goals of the Telecommunications Act, or to measure progress toward the goals, one or all of them could be missed. In particular, we are concerned that, taken together, competition plus the FCC's orders implementing the Act could negatively impact employment promises and prospects.

Can Competition Create More and Better Jobs?

Much of the enthusiasm surrounding the enactment of the 1996 Telecommunications Act was generated by the promise that competition in the local telephone market would create more and better jobs. The theoretical model that proponents of competition advance is this: as local telephone markets are opened to competition, local telephone prices decline and access to more cost-efficient telecommunications services expands. These developments then lead to increased investment in telecommunications facilities and technology. In turn, expanded access and investment spur employment.

Although the proponents' enthusiasm reflects anticipation that the new jobs created will be good jobs — high-wage, high-tech jobs — no provisions to guarantee or encourage the development of this potential world-class workforce were included in the Act. Without specific rules and guidelines to assure the growth of good, high-wage jobs, it will be difficult for anticipated improvements in telecommunications employment to come to pass.

We can test the theory that competition in local exchange markets will give birth to more and better jobs by looking at employment developments in long distance. Prior to divestiture, employment in the long distance market was characterized by the wages and working conditions established through decades of collective bargaining between AT&T, the monopoly carrier, and CWA, the union representing the majority of workers in the industry. The union had achieved a middle class living standard for long distance workers; the collective bargaining process enabled workers to share fairly in the productivity gains of the industry. When competition was introduced to the long distance market in 1984, no legislative or regulatory provisions were made to ensure that employment would improve along with growth of consumer choice and reduction in prices. Currently, the workforce in the local exchange market is characterized by the same traits that marked the pre-divestiture long distance workforce. Therefore, a comparison with the long distance competition experience can be instructive.

Competition Has Expanded the Long Distance Market . . .

Competition did expand the long distance market. The number of switched access minutes has almost trebled, exploding from 39.6 billion in 1984 to 110.5 billion minutes in 1995.[1]

New entrants have made a place for themselves, and movement of new businesses into the market continues. The FCC reports that today about 500 companies buy access from local telephone companies to offer "1 Plus" long distance telephone service.[2] And recent FCC reports indicate that while today's dominant players were in place in 1984, new companies are continuing to enter the market, often as service resellers.[3]

Since 1984 long distance toll revenues have increased 87%, from $38.8 billion to $72.5 billion in 1995. Although AT&T remains dominant, its share of the market has shrunk from 90% of total long distance toll service revenues in 1984 to 53% in 1995. MCI's share of the market quadrupled from 4.5% of total long distance toll service revenues in 1984 to 17.8% in 1995. Sprint's market share grew similarly, from 2.7% in 1984 to 10% in 1995. All other competitors combined have expanded their share of the long distance toll service pie from 2.6% to about 19%.

. . . But Employment Growth Is Negligible And Wages Are Depressed

Although new long distance jobs were created, there was no employment explosion to accompany the boom in long distance market growth. In the thirteen years since divestiture, the number of long distance jobs has not materially increased even though there has been remarkable growth at many long distance companies. For example, by 1995 MCI's workforce grew by about 42,000 employees. Today MCI is almost six times larger than it was in 1984 in terms of employees.[4] Similarly, Sprint's long distance workforce grew by about 38,000 from its 1984 employment base of

[1] *Statistics of Communications Common Carriers, 1995-96*, Table 8-10.
[2] *Ibid*, p.vii.
[3] *Ibid*, Table 1.4.
[4] 1984 figures from MCI Investor Relations Office; 1995 figures from Statistics of Communications Common Carriers, 1995-96, Table 1.1

6,000 workers.[5] Three long distance providers — LDDS Worldcom, Frontier, and Cable & Wireless — added another 12,000 long distance workers during the period since divestiture.[6] Other long distance carriers account for 23,000 more jobs, according to a CWA estimate.[7] Since divestiture a total of 115,000 new jobs have been added to long distance employment. However, these new jobs were not sufficient to offset the jobs eliminated at AT&T, where employment dropped from 385,000 workers at the dawn of competition in 1984 to 261,000 workers in 1995, a loss of 124,000 jobs.[8]

The promised economic benefit of substantial employment growth did not emerge during more than a decade of long distance competition; moreover, the new jobs that were created are not high wage jobs. In fact, the new jobs pay significantly less than similar jobs that were lost after the introduction of competition. Union wages at AT&T range from a quarter to a third higher than wages at non-union Sprint Long Distance. For example, a service representative at Sprint Long Distance earned $18,500 in 1993 while a worker with the same job title earned $27,700 at AT&T, 33% more. A technician at AT&T earned $37,600 while a technician at Sprint Long Distance earned $34,100, a difference of 9%. These wage differences do not capture the full picture of the differences in living standards among these workers because Sprint Long Distance workers must also make a substantial contribution to the cost of their families' health benefits and retirement accounts. At AT&T these benefits are fully company paid under the terms of the CWA collective bargaining agreement.[9]

[5] 1984 figures are based on a GTE report, *1984 Financial Statistics: A Supplement to the 1984 Annual Report.* 1995 figures are based on a calculation which uses two sources. Sprint's total 1995 employment of 48,300 is from the Sprint 1995 10-K. That figure is reduced by 3,829 United Telephone workers, which is an estimate based on CWA's December 1995 Membership Report.

[6] LDDS Worldcom 1995 10-K; for Frontier, *1995 Directory of Corporate Affiliations*; for Cable & Wireless, quote per C&W Public Affairs Dept.

[7] CWA's estimate for 1995 long distance employment for non-"Big Three" carriers (AT&T, MCI and Sprint) is 35,000 workers. Total long distance employment including the Big Three is an estimated 280,000 workers.

[8] 984 AT&T Divestiture Prospectus; and, 1995 AT&T Annual Report. 1995 figure excludes 38,000 NCR employees.

[9] Communications Workers of America, "Preserving High Wage Employment in Telecommunications," May 1994.

Thus, an industry that had come to epitomize secure, middle class employment is now characterized by job instability and declining wages as the employment base shrinks and lower-wage competitors attempt to set new and lower industry labor standards.

Anti-Union Animus in Competitive Market Thwarts Employment Goals

When workers employed by these new long distance competitors attempt to exercise their right to form a union in order to improve their wages and working conditions and to create employment security, the new market players have fought hard and tough, and even illegally. In 1987, for example, 500 MCI workers in Detroit attempted to organize a union. Just a week before the scheduled National Labor Relations Board (NLRB) vote, MCI fired the workers, shut down the facility and moved the work out of state. The message was clear from then on: MCI management would eliminate hundreds of jobs rather than deal with organized workers.

Sprint Long Distance adopted similar tactics in 1994 when 175 employees at a Sprint-owned telemarketing center, La Conexion Familiar (LCF), in San Francisco tried to organize a union. The workers complained of low wages and terrible working conditions. The predominantly female and Hispanic workforce earned about $7 an hour, compared with an average hourly wage of about $15.83 for telephone service workers in 1994.[10] Working conditions were reprehensible. Among other things, company policy discouraged workers from drinking water in order to cut down on the need for bathroom breaks, even though the job required workers to talk on the phone all day.

To gain a voice in decisions about wages and working conditions, the LCF-Sprint workers filed a petition for union recognition with the support of 70% of the workforce. Less than a week before the election was scheduled, on July 14, 1994, Sprint fired the LCF workers, shut down the office and transferred the work to another location. Following an investigation, the NLRB filed a complaint against Sprint, charging the company with more than 50 labor law violations. Sprint admitted to many of the charges, and a Sprint vice president was fired for fabricating evidence submitted to the NLRB.

[10] Bureau of Labor Statistics, *Employment and Earnings*, Sept. 1994.

An administrative law judge found the company guilty of most of the charges. The main charge, that Sprint illegally shut down the LCF office in order to thwart the union organizing campaign, was appealed. In December 1996, two and a half years after the fact, the NLRB found Sprint guilty of that final charge and ordered the company to rehire the workers and to provide full back pay. The ability of the employer to operate with impunity during that passage of time had a chilling effect on the efforts of other Sprint workers to organize and sent a message that telecommunications employers will do anything — including breaking the law — to keep workers from organizing.

In response to competitive pressures and in spite of its 50-year bargaining history with CWA, AT&T has also resorted to "low road" tactics that cut labor costs rather than enhance employment. In particular, AT&T has taken to replacing bargaining unit jobs with temporary, part-time or agency workers and to contracting out work that historically has been performed by company employees and bargaining unit members. With these tactics, the company evades its obligation to pay the wages and provide the health benefits, pensions, sick time, vacations and holidays that have been negotiated in the union labor agreement.

AT&T demonstrated its labor-cutting, anti-union tactics at American Transtech, its telemarketing center subsidiary in Jacksonville, Florida. In 1995 about 5,000 people worked at Transtech's Jacksonville operation. Of those workers, 1,200 were management employees; 800 were "regular" Transtech employees performing telemarketing and customer service functions; 3,000 were temporary workers under contract to an employment agency who also performed telemarketing and customer service functions. CWA organizers discovered that most of the temporary workers in Jacksonville had been working 40 hours a week at Transtech for 3 to 5 years. Though much of the Transtech work had previously been performed by CWA members in AT&T bargaining units throughout the country, hourly wages paid to Transtech workers ranged from roughly $6.00 for telemarketers to about $12 for the most complex service jobs — a fraction of the union negotiated rates for the same jobs.

By using a separate subsidiary, AT&T is able to avoid paying union-negotiated wage rates. By using a temporary agency, the subsidiary, Transtech, is able to avoid paying wages and benefits earned by its regular employees. These management strategies effectively undermine workers' efforts to improve their living standard.

When Transtech workers attempted to organize a union, management waged an all-out assault. Transtech management defied a corporate policy to maintain a respectful relationship with the union and to remain neutral in union organizing drives. Instead, the company ordered workers to attend meetings in which the workers were pressured to oppose the union. Transtech also required managers to distribute anti-union materials and to speak out against the union. Using a very damaging and highly illegal tactic, the company implemented, for the first time in years, a 4% wage increase; it awarded bonuses totaling thousands of dollars; it budgeted long-awaited monies for training and employee development. All of these were key employee issues identified during the organizing drive. The NLRB considers such management tactics unfair labor practices since they could be considered inducements to vote against the union and could thwart the democratic voting process.

The Long Distance Example Illustrates the Need for Employment Policy

In spite of the successful transition of the long distance telecommunications market from a monopoly to a competitive market as measured by new entrants and revenue growth, employment in long distance has suffered. First, competition did not create good jobs — jobs lost after the introduction of competition were good-paying union jobs while newly created jobs are at anti-union employers and are non-union, lower-paying jobs. Second, lower-wage competitors pressure the entire industry to reduce wages and benefits. As a result, a new employment strategy has emerged in the telecommunications industry. Permanent and full-time employees are being replaced with contingent workers. These developments do not promote stable, middle class employment opportunities. Instead, they ratchet down living standards in the industry rather than raise the floor.

The MCI and Sprint Long Distance examples above indicate the ease with which telecommunications employers can enforce threats to move work since the technology is relatively easy to transport or to replace. As a result, the technology at the heart of the telecommunications and information revolution also serves as a stick to keep workers in line through fear and intimidation. In contrast, as the Sprint Long Distance example illustrates, the wheels of justice revolve slowly, making legal restraints ineffective against overzealous employers. And the value of legal remedies is diminished if the remedy is long in coming.

Telecommunications policy makers and rule makers must recognize these characteristics of employment in the industry. They must take care that the goal of an expanding high-wage workforce is not undercut by some employers that would prevent workers from exercising their rights to form a union and to bargain collectively to improve wages and conditions of work.

The long distance example of introducing competition into a previously monopoly environment teaches that competition in and of itself does not create good, high-wage jobs, even in a high-tech industry. If the goal of high-wage jobs is to be achieved in a competitive market, workers must be allowed to organize and to bargain collectively. Unless public policy overtly requires telecommunications companies to obey all labor laws and to honor workers' rights to organize, then competitors in the local telephone market will be free to follow the lead set by MCI, Sprint Long Distance and AT&T in the long distance market. Competitors will engage in a race to the bottom — a race to determine who can pay the lowest wages, who can cut labor costs the most.

Competitive Local Markets Threaten Employment and Service Quality

As competition is transplanted into the local telephone field, we can expect to see dynamics similar to those that occurred in the long distance market. Major elements of the situation are very similar. As was the case in the long distance market, local exchange markets have been dominated by monopoly carriers with union-represented workforces. In both situations jobs are well paid, and workers are protected by extensive benefit packages as a result of a 50-year collective bargaining history. Competition is expected to shrink market share for incumbent local exchange carriers, just as happened to AT&T in the competitive long distance market.

The current effort to transform the local exchange to a competitive market is further complicated by issues arising from the mandate to provide universal service and by the debate over development of a fair pricing scheme for resale of network services and elements, for universal service subsidies, and for access charges. Accurate and fair pricing will have significant implications not only for the quantity of jobs and the quality of employment, but also for the quality of telecommunications service available in the new competitive marketplace.

If the pricing methodologies adopted by the FCC or utilized by state commissions are not accurate and fair, then investment, the key to both job growth and quality improvement, will founder. Pricing rules which allow competitors to obtain access to network facilities and services at prices set below the actual cost will motivate competitors to resell services and network elements of the incumbent carriers rather than to build their own networks, thus thwarting the goals of new jobs and the advancement of telecommunications services. Moreover, if pricing methodology fails to capture true labor costs, then incumbents will have an incentive to reduce labor costs through downsizing and concession bargaining. A destabilized workforce will contribute to the disruption and decline of service quality to the ultimate detriment of consumers and the economy.

Furthermore, if pricing rules fail to allow incumbent carriers to recover amounts they have already invested in order to build the monopoly network with universal service responsibilities, then there is no incentive for incumbent carriers to invest in new facilities or even to maintain current facilities. The failure to reinvest in the network will lead to a decline in service quality as equipment and facilities age and deteriorate. Already in several regions of the country operating companies have been charged with poor quality which resulted from delayed network maintenance as a result of insufficient workforce support. This experience could happen on a broad scope in the competitive local exchange market if financial incentives do not support employment and quality service.

Policy Remedies Needed to Achieve Employment Promise

CWA's long distance experience provides ample evidence that competition, without explicit public policy support, will not assure employment opportunities, will not guarantee improved living standards and will not protect the legal rights of workers. Absent specific mechanisms designed to attain employment goals, CWA fears that employment experience in the local telephone market will closely follow that of the long distance market. With no clear direction toward the growth of good jobs, the evolution of telecommunications could take a wrong turn. New jobs could be high tech, but low wage. Workers could be dislocated when established carriers retrench for the onslaught of competition. Established carriers might cut labor costs as the chief strategy of competing with the new market entrants. Workers at the new com-

petitors who attempt to organize a union to improve wages and working conditions could be met with stiff resistance, intimidation and job loss. The dislocation, disruption and even ejection of skilled, experienced workers from the industry will hinder companies' ability to compete on the basis of quality service.

To prevent such adverse developments, public policy should require telecommunications competitors to operate in ways that advance the nationwide system and enhance employment opportunities. Public policy should promote quality, universal service, encourage network investment, assure competitive neutrality and provide for the growth of good union jobs. To accomplish these goals, telecommunications policy must enforce the notion that success in the new telecommunications marketplace is built upon superior technology and service, not on depressed labor costs or neglect of service quality. Rules and regulations supporting telecommunications policy must conform with the following principles:

■ **Competition in telecommunications must be based on superior technology and service quality, not on low wages or abuse of labor law.** The FCC and state regulators can demonstrate support for federal labor law and provide a platform upon which the promise of high-wage employment in telecommunications can find some footing by crafting rules for the universal service fund that prohibit distribution of funds to labor law violators. A violator would be defined as an employer who is found in an NLRB hearing to have violated one or more labor laws.

■ **Competition must promote quality, universal service.** Universal service must be preserved and advanced. Within a competitive framework, this requires a universal service fund that is sufficiently large to replace current subsidies permitted to assure access in rural and high cost areas. The universal service fund must also be financed adequately to meet the Act's promise of providing advanced services to schools, libraries and rural health care providers at discounted rates. Quality standards must be included in guarantees of universal service. The FCC and state commissions should require all carriers that receive universal service support to meet quality service standards. Failure to meet standards would disqualify a carrier from receiving universal service funds and a penalty could be imposed. Federal and state commissions should also require all telecommunications carriers to report data in order to monitor compliance with standards and to create a level playing field.

■ **Competition must encourage network investment.**
In order to achieve this goal, pricing methodology must be based on actual costs. Such design will assure that the cost of labor as determined in the collective bargaining process is not undercut and will fairly compensate incumbent local exchange carriers for network investment made prior to the advent of competition. In addition, competition must reinforce the goals of increased network investment and job growth by permitting only facilities-based carriers to receive distributions from the universal service fund. Service resellers do not create jobs nor do they invest in network infrastructure; therefore, they should not be eligible to receive subsidies designed to support universal service.

■ **Competition must take place on a level playing field.** Rules and regulations implementing competition must not disadvantage any carrier or service provider. Therefore, incumbent local exchange carriers must be allowed a transition period during which they can recoup their investment made in the existing network and according to previous public policy directives. If local exchange carriers are not permitted to recover embedded costs, the result could lead to disruption of universal service, deteriorating service quality and employment de-stabilization. Also, in order to compete on an equal basis with unregulated carriers for high-revenue customers, pricing flexibility should be permitted for regulated incumbent local exchange carriers. Lastly, to assure that the universal service fund is financed equitably, a broad-based mechanism for contributions must apply to all providers.

NOTES:

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