



Frank S. Simone
Government Affairs Director

Suite 1000
1120 20th Street, NW
Washington, D.C. 20036
202-457-2321
832-213-0282 FAX
fsimone@att.com

October 17, 2005

VIA ELECTRONIC FILING

Ms. Marlene Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W., Room TWB-204
Washington, DC 20554

Re: Ex Parte Notice, SBC Communications Inc. and AT&T Corp. Transfer of
Control Applications, WC Docket No. 05-65

Dear Ms. Dortch:

Today, AT&T provided the attached letter to Chairman Martin and Commissioners Abernathy, Copps and Adelstein. This letter, from 14 prominent economists who have long participated in the policy debate over how best to promote a competitive telecommunications industry, explains why the AT&T-SBC merger should be approved.

Consistent with Section 1.1206 of the Commission's rules, I am filing one electronic copy of this notice and request that you place it in the record of the above-captioned proceeding.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "F. Simone".

ATTACHMENT

cc: D. Gonzales
M. Carey
R. Hanser
J. Rosenworcel
S. Bergmann
T. Navin
M. Maher

October 17, 2005

The Honorable Kevin J. Martin, Chairman
The Honorable Kathleen Q. Abernathy, Commissioner
The Honorable Michael J. Copps, Commissioner
The Honorable Jonathan S. Adelstein, Commissioner
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

Re: SBC Communications Inc. and AT&T Corp. Transfer of Control Applications,
WC Docket No. 05-65

The purpose of this letter is to explain why the SBC-AT&T merger is consistent with sound telecommunications and antitrust policy and should be approved.

We are economists who have long participated in the policy debate over how best to promote a more healthy and competitive telecommunications industry in the United States. In state and federal regulatory proceedings that followed the 1996 Telecommunications Act, we typically were on the side of the CLECs – explaining to regulators the need to enforce policies ensuring nondiscriminatory access to incumbent networks and protecting nascent entry during the transition to fully effective competition.

The transition to competition is ongoing, and the path that it follows has not always matched what we may have anticipated or argued for in the past. The competitive and policy environment today is substantially different than it was just a few years ago. Current policy favors less regulatory intrusion and intermodal competition has accelerated. While earlier debate centered on the viability and appropriateness of alternative forms of competition, including UNE-P, this debate is less relevant now in light of past policy decisions and how the market has evolved. Given the current state of the industry and public policy decisions, we believe that the AT&T-SBC merger is logical and efficient. At this stage, it is fully consistent with current goals for promoting competition in telecommunication services. In the balance of this letter, we explain the foundations for this conclusion.

Much has changed since the passage of the 1996 Telecommunications Act.

First, the telecommunication sector's meltdown in 2000 and related events (*e.g.*, the WorldCom fraud) have altered substantially the telecom landscape and especially the CLEC industry. Many firms in the industry went bankrupt, and those that are surviving generally have followed focused strategies (*e.g.*, concentrating on specific regions or commercial market segments). The most successful CLECs have emphasized facilities-based entry.

Second, the unbundling requirements imposed on the incumbent LECs have been relaxed, eliminating obligations to provide unbundled network element platform services (UNE-P) that were relied upon by many CLECs for providing local telephone service to their mass market customers.

Third, the Bells have been allowed to compete in long distance services, so that commercial separation of local from long distance markets (previously mandated by regulation) no longer exists. As a result, the telecommunications market has become an "all distance" market

in which the most successful competitors are ones that can offer a seamless bundle of local and long distance calling services.

Fourth, competition in all forms has continued to grow. As mobile carriers upgrade their networks to offer broadband 3G services, their services become closer competitive substitutes for the services offered by wireline carriers. Meanwhile, cable providers like Comcast and Time Warner have been aggressively deploying fiber and expanding their offerings of voice services. Thus, they are now able to supply their customers with a “triple play” of voice, video and data services. Other technologies also are beginning to appear on the competitive horizon. These include broadband fixed wireless networks (*e.g.*, WiMax, WiFi or free-space optics), satellite-based services and broadband delivered over power lines. The success and rapid growth of Voice-over-Internet-Protocol (VoIP) services in recent years demonstrates that broadband can be used effectively to deliver telephone services.

SBC has responded to these changes by aggressively expanding its networks to compete nationally as an end-to-end provider. SBC has committed to a significant investment program to build an in-region next-generation fiber-optic broadband platform. This investment will permit SBC to offer its own “triple play” of voice, data and video services, and to compete head-to-head with the cable carriers. SBC has also successfully entered long distance services and has expanded its mobile networks. SBC is now an “all distance” provider of wired services in-region and of wireless services nationally.

In contrast, AT&T has seen its competitive opportunities diminish significantly. Its efforts to penetrate local telephone markets as an “all service” provider using cable and wireless facilities ultimately were spun off (cable to Comcast, wireless to an IPO). In light of industry and regulatory changes, AT&T no longer actively markets local and long distance services to the mass market. AT&T’s focus is instead on enterprise and government customers. While AT&T remains one of the largest telecommunications carriers, its current services and assets are largely complementary to those of SBC.

In light of current public policies that emphasize facilities-based competition, stronger intermodal competition and relaxed regulatory frameworks, the merger of SBC and AT&T is a logical next step in today’s telecommunications market. With the acquisition of AT&T, SBC will realize its goal of becoming a national facilities-based provider of network services. The merger will allow SBC to expand its presence out-of-region to both commercial and mass market customers. SBC will be able to compete more directly and effectively with the other Bells, with intermodal cable carriers like Comcast, wireless providers like Verizon Wireless and Sprint/Nextel, and with the growing set of non-traditional providers like Vonage in the mass market and systems integrators such as IBM and EDS in business markets.

The merger will improve SBC-AT&T’s operating efficiencies.

The merger of SBC and AT&T will likely permit the combined firm to realize substantial economies of scale and scope that will make it a stronger competitor in the global telecommunications marketplace. AT&T’s and SBC’s assets are strongly complementary. AT&T brings an international business and nationwide mass market presence to SBC’s historically more regional market focus. By linking these complementary network assets and services, this merger will create an end-to-end facilities-based provider that will have lower costs and be in a stronger position to deploy new and enhanced services to both mass market and enterprise customers than would be possible from either of these firms individually.

The merger does not pose a threat to competition.

As noted earlier, we have advocated in the past that the government should protect nascent entrants competing against incumbents. While the Bell incumbents may still possess market power over certain local facilities, this argument misses the point. Regardless of whether SBC currently possesses such market power, we do not believe that this merger will materially increase whatever market power SBC might possess.

First, with respect to the mass market, the issue is moot because AT&T has ceased actively marketing to customers in this segment. Thus, in-region the merger's principal impact may be to lessen service disruptions to AT&T's current mass market customers. Out of region, SBC's acquisition of AT&T's facilities represents the start of the much anticipated Bell-on-Bell competition that the 1996 Telecom Act was expected to unleash.

Second, while some in-region enterprise and wholesale customers may face a reduction of facilities-based alternatives as a consequence of this merger, this impact will not be significant. AT&T's local facilities are limited. In most cases, the relatively small number of locations where AT&T has its own facilities are locations where it has been found economic for CLECs to build facilities – so competition remains viable. While there is an additional larger competitive issue of how best to ensure access to SBC's "special access" facilities, the need to address this issue exists regardless of the merger. We understand that the FCC is actively investigating whether its existing special access rules should be modified to ensure that they promote appropriate competition. This generic investigation, and not this merger inquiry, provides the appropriate forum for review of the special access issue.

Third, the merger will not increase market power in long distance services. Long distance services are effectively competitive and intermodal competition for long distance among mobile, wired and VoIP services is robust. The merged entity's market share will not enable it to exert market power over long distance markets – which are structurally competitive. Indeed, there is a surfeit of wide-area transport capacity – a continuing legacy of the investment binge that preceded the 2000 telecom meltdown. Furthermore, it is relatively easy and inexpensive to construct wide-area facilities networks and a large number of facilities-based networks exist (*e.g.*, Sprint, MCI, Qwest, Global Crossing, Level(3), British Telecom, NTT, or Telefonica). Again, the facilities investments of SBC and AT&T are largely complementary and do not overlap substantially. Therefore this merger does not pose a credible threat to competition in long distance.

Finally, this merger poses no threat to competition in markets for broadband access and Internet backbone services. Since it divested its cable assets AT&T is no longer a mass-market broadband access provider; and SBC is not a Tier 1 Internet backbone provider. Furthermore, the market for Internet backbone services is highly competitive, and the same transport facilities that ensure the structural competitiveness of long distance services guarantee that this merger will not pose a risk for backbone competition. Indeed, market shares in backbone markets are both modest and have fluctuated substantially in the past, confirming our assessment that these markets are structurally competitive.

The merger will enhance prospects for competition.

Just as the investments by cable providers in advanced broadband networks have spurred incumbent telephone companies also to invest in more advanced facilities – and vice versa – so the out-of-region facilities-expansion by SBC via its merger with AT&T will spur competition between SBC and the other Bells and cable providers. This merger offers the best way to finally realize the Bell-on-Bell competition that was anticipated by the Act.

Furthermore, the conditions imposed on earlier Bell mergers were largely ineffective. This outcome demonstrates once again that the appropriate way to foster thriving telecommunications markets is to promote effective competition generically. Trying to craft a regulatory policy based on company-specific regulations imposed through merger conditions is neither an appropriate nor effective solution.

* * *

To summarize, we remain committed to promoting effective competition in telecommunications markets. In keeping with this goal, we believe the SBC-AT&T merger ought to be approved. This merger generally poses no risk of increased market power and is consistent with good antitrust principles. It offers substantial economic efficiencies and will increase the likelihood of more vigorous intermodal competition. While we believe that issues concerning access to the incumbent carriers' special access facilities should be addressed, this is done most appropriately through generic special access regulation. The need for such regulation is not affected by this merger.

Signed,

William J. Baumol
Professor of Economics
New York University
Professor of Economics, Emeritus
Princeton University

T. Randolph Beard
Professor of Economics
Auburn University

Michael A. Crew
Professor and CRRIS Scholar
Department of Finance and Economics
Rutgers University

George S. Ford
President
Applied Economic Studies, Inc.

Kevin A. Hassett
Director of Economic Policy Studies
American Enterprise Institute

R. Glenn Hubbard
Dean and Russell L. Carson Professor of
Economics and Finance, Graduate School
of Business and Professor of Economics
Columbia University
former Chairman, Council of Economic
Advisers

David Kaserman
Torchmark Professor of Economics
Auburn University

William H. Lehr
Research Associate
Center for Technology, Policy and Industrial
Development
Massachusetts Institute of Technology

Stephen B. Levinson
Economic Consultant

Robert E. Litan
Senior Fellow, Economic Studies
The Brookings Institution
former Deputy Assistant Attorney General
for Economics, Antitrust Division, U.S.
Department of Justice

John W. Mayo
Professor of Economics, Business and Public
Policy
McDonough School of Business
Georgetown University

Janusz A. Ordover
Professor of Economics
New York University
former Deputy Assistant Attorney General
for Economics, Antitrust Division, U.S.
Department of Justice

James E. Prieger
Assistant Professor of Economics
University of California-Davis

Robert D. Willig
Professor of Economics and Public Affairs
Princeton University
former Deputy Assistant Attorney General
for Economics, Antitrust Division, U.S.
Department of Justice

Affiliations listed for identification purposes only