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April 21, 2005

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Watchdogs to FCC: Telecom Mergers A Disaster for Competition, Consumers

Consumer Groups, State Utility Consumer Advocates Submit Comments Urging Commission to Block SBC-AT&T, Verizon-MCI Bids

WASHINGTON, DC – Leading national consumer advocates today condemned the pending telecommunications mergers between SBC-AT&T and Verizon-MCI currently before the Federal Communications Commission (FCC), because further consolidation threatens consumer prices, competition and access to the high-speed Internet.

The groups argued that the telecommunications marketplace today is already concentrated and lacks real competition. If approved, the two proposed mergers will unite the nation's two largest telecom firms with their two largest competitors in a monopolistic stranglehold on consumers and potential competitors.

“This would be the final nail in the coffin of the local competition experiment that Congress launched in the 1996 Telecommunications Act,” said Mark Cooper, Director of Research at the Consumer Federation of America (CFA). Echoing this position were representatives of the Consumers Union (CU), U.S. Public Interest Research Group (U.S. PIRG), and the National Association of State Utility Consumer Advocates (NASUCA), all of which will submit comments urging the FCC to reject the mergers.

CFA, CU and U.S. PIRG, the nation's largest consumer organizations, joined NASUCA -- a 42-state association of state advocates designated by law to represent the interests of utility consumers -- in emphasizing that the mergers seek to transform Baby Bells into regionally dominant “Behemoth Bells”, undoing the anti-monopoly goals of the 1984 breakup of the AT&T monopoly.

Should the mergers be approved, the newly formed telecommunications giants will attain about a 90 percent market share in residential local wireline, 70 percent in long distance, and 40-50 percent in wireless. As Behemoth Bells they will have the incentive and opportunity to discriminate through price squeezes against those competitors who require access to their networks. “Although these mergers might make good business sense for the merging companies, consumers would certainly lose out,” said Susanna Montezemolo, Policy Analyst at the Consumers Union. “Consumers could see higher prices and lower quality – which is particularly worrisome in an age where access to high-speed, high technology means of communication is increasingly critical to the average citizen,” she added.

Added Cooper: “Consumers’ choice of telecommunications providers is already anti-competitively restricted either to the local telephone or cable company. This ‘cozy duopoly,’ in the words of *Business*

Week, forces the average household to purchase unwanted bundled services at double or triple the price. The proposed mergers, if successful, would exacerbate matters, encouraging wanton, monopolistic price hikes and stifling the technological innovation that only fair competition can provide.”

The merger applications claim “intermodal competition” from cellular, cable voice services or Voice Over Internet Protocol (VoIP) as evidence that they do not dominate the market—a claim disputed by the facts. “New technologies have consistently failed to attain sufficient market share to have a serious competitive impact, added Ed Mierzewski, U.S. PIRG Consumer Program Director. “The Baby Bells own much of the cellular market; competing with oneself is not true competition. VoIP, which relies on a broadband connection to carry service, is hampered by America’s shocking broadband deficit. We’re sixteenth in the world in broadband penetration. Two monopolies – cable modem and Baby Bell DSL - control the high-speed market. That duopoly has been able to price most Americans out of the high-speed market and block competitors that could offer more affordable broadband, including a growing number of municipalities.”

“Incumbent local exchange carriers (ILECs) are playing a smoke and mirrors game when it comes to competition,” argued NASUCA President John R. Perkins. “Despite explicit promises to regulators that they would vigorously pursue out-of-region competition, both SBC’s and Verizon’s efforts at competing outside of their home regions have been feeble to nonexistent. In light of their track records, these Baby Bells’ merger bids are nothing but icing on the cake of regional dominance. We are witnessing no less than the end of competition.” NASUCA released a white paper that documents these mergers’ harm to consumers.

The groups noted that SBC and Verizon are already engaging in anti-competitive behavior. By bundling access to high speed lines with voice or other services, incumbents force consumers to pay a premium to access a competitor, driving competitive VoIP providers out of the market. CU, CFA and PIRG emphasized that SBC and Verizon are also national leaders in trying to block municipalities from building their own public wireless Internet networks. Numerous cities and towns from Philadelphia to Los Angeles are planning to or are currently offering their citizens high-speed Internet access for prices at least half as much as those charged by incumbent carriers, opening the information superhighway to underserved communities and fostering local economic development. ILECs are actively seeking legislation to prevent ubiquitous, low-cost broadband access contrary to the desires and needs of local elected officials and their constituents.

The groups are asking the FCC to more rigorously approach these mergers, as follows:

- Insist that the merging entities provide the Commission with substantive data on the impact of the mergers on regional competition. So far, according to the consumer groups, SBC and Verizon have provided the Commission mountains of paper, and a molehill of meaningful information.
- Weigh the two merger applications together, not separately. At issue is the potential for a merged SBC-AT&T and Verizon-MCI to effectively divide the country between themselves. Each deal impacts the other, and must be considered in tandem.
- At a minimum, order large-scale divestitures of long distance/backbone capacity.
- Impose nondiscrimination/fair access requirements as congressionally mandated in the 1996 Telecommunications Act. This would include access to unbundled or “naked” DSL.

The NASUCA white paper, *Confronting Telecom Industry Consolidation: A Regulatory Agenda for Dealing with the Implosion of Competition*, may be found at: www.nasuca.org.

Consumer organizations affiliated with the above groups have filed comments with the California Public Utility Commission raising objections to the SBC-AT&T mergers. These comments may be found at:

http://www.hearusnow.org/fileadmin/sitecontent/A0502027_TURNetal_PROTEST_SBCATT_Merger_FINAL_redacted_.pdf

Consumers Union and Consumer Federation of America presented testimony on the mergers before Congress this week. The testimony may be found at:

http://www.consumersunion.org/pub/core_telecom_and_utilities/002157.html - more

Since 1968, the CONSUMER FEDERATION OF AMERICA (CFA) has provided consumers a well-reasoned and articulate voice in decisions that affect their lives. Day in and out, CFA's professional staff gathers facts, analyzes issues, and disseminates information to the public, policymakers, and rest of the consumer movement. The size and diversity of its membership -- some 300 nonprofit organizations from throughout the nation with a combined membership exceeding 50 million people -- enables CFA to speak for virtually all consumers. In particular, CFA looks out for those who have the greatest needs, especially the least affluent.

NASUCA is an association of 44 consumer advocates in 42 states and the District of Columbia. NASUCA's members are designated by the laws of their respective jurisdictions to represent the interests of utility consumers before state and federal regulators and in the courts.

CONSUMERS UNION, publisher of Consumer Reports, is an independent, nonprofit testing and information organization serving only consumers. We are a comprehensive source for unbiased advice about products and services, personal finance, health and nutrition, and other consumer concerns. Since 1936, our mission has been to test products, inform the public, and protect consumers. Our income is derived solely from the sale of Consumer Reports and our other services, and from noncommercial contributions, grants, and fees. Consumers Union is governed by a board of 18 directors, who are elected by CU members and meet three times a year.

U.S. PIRG is an advocate for the public interest. When consumers are cheated, or our natural environment is threatened, or the voices of ordinary citizens are drowned out by special interest lobbyists, U.S. PIRG speaks up and takes action. We uncover threats to public health and well-being and fight to end them, using the time-tested tools of investigative research, media exposés, grassroots organizing, advocacy and litigation. U.S. PIRG's mission is to deliver persistent, result-oriented public interest activism that protects our environment, encourages a fair, sustainable economy, and fosters responsive, democratic government.

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