Freeing the Tiger:
How Open Competition Will Benefit Both Industry and Consumers

A presentation by
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I can’t think of a better place, and, in light of the announcements MCI made last week, a better time to address the issue of competition in local telecommunications than today at this Institute. You have been pioneers in seeing how loopholes and seemingly minor details can undermine the best strategies for free and fair markets. For example, you’ve shown that it’s not enough to agree on paper to open a market to free trade, while tolerating the subtle tactics that effectively can keep a market closed.

A treaty can be signed to bring down trade barriers, but that’s the beginning not the end of the effort. The paper has to be translated into the reality – or markets will remain walled off by a wide variety of other tactics, qualifiers and details – all designed to obstruct, delay, disrupt and discriminate.

This doesn’t just happen in international trade; it’s happening now in the vast and supposedly open national market for local telecommunications.

Despite the passage of the Telecommunications Act of 1996, and despite recent FCC decisions and despite decisions by state regulators, the local telephone monopolies are engaged in a wholesale campaign to perpetuate their hold on consumers by keeping competitors out. They have adopted new tactics in pursuit of the same goal – identified by Adam Smith long before the telephone was invented: "Monopolies… by never fully supplying the effectual demand [can] sell their commodities much above the natural price."

Today, I want to discuss that problem – and the urgent need for government action to remove barriers to entry – and to remove them finally, effectively and without equivocation.

It’s clearer with each passing day that the 1996 Telecom Act was the beginning and not the end of the struggle. But the Act does set the ideal, the goal, the nation’s policy – competition in local service is important to both customers and the national economy. Customers want choice because it gives them power in the market instead of making them involuntary consumers of unresponsive monopolies.

Telecommunications is the engine of technology growth and economic expansion. Competition is the key that starts that engine. Here’s how it works:

First -- New technologies create new capabilities -- which render existing methods of regulation obsolete and sweep away old ideas about "natural monopolies."

Next -- Competition is invited in -- and in-turn, invites new people with new ideas to start new
businesses -- to profit from customer demands, previously unmet by the monopoly.

Then -- The lower costs and new products expand the market -- and stimulate demand for additional communications services . . . which encourages more competition and the development of newer technologies.

And the cycle refuels itself -- in an upward spiral of better products at better prices.

None of this is happening in local telecommunications markets today.

If we want the jobs, growth and innovation.... we must finish the job and truly open up this country’s local market, which accounts for a remarkable 15% of all global telecommunications services.

That’s why MCI first made a fundamental commitment to local. We’re competitive by nature; we go where the opportunities are; we go where only the monopolies have been before. We’re fighting to have a local market that’s competitive in fact and not just in words. And certainly not with the anti-competitive merger like Bell Atlantic/NYNEX that reduces choice and reinforces monopoly. The right path the road best taken – is new entry, more competitors in local telecom and a marketplace where consumers can comparison shop for both quality and price.

That’s the road MCI has taken. We will have invested $2 billion in local by the end of this year. And we aren’t spending it trying to buy ourselves our own monopoly; we’ve invested it in being able to compete fully, fairly, and on a level playing field.

Let me explain the MCI strategy for the local market.

We are building local networks that will connect our customers to our global network – through Internet data, voice, intelligence, innovation and the power it delivers. We intend to become the nation’s premier facilities-based provider of local services.

We have over 65 of these local networks in place today in 23 cities. And we’ll have them in 31 cities before the end of 1997. And, given a fair chance to compete, we will grow our local network at the same pace or faster in 1998.
This takes time and a lot of money. Remember, it took the monopolies a century to build today’s local networks, with all their financing coming from the mandated monthly payments of a captive customer base.

We, on the other hand, have to finance this construction with earnings from our existing business, as you may have read. So, although it won’t take a hundred years, it may take more than one or two years for us to reach every American.

The record proves our resolve.

Prior to the break-up of the Bell Monopoly in the early ‘80s, MCI was called a cream skimmer by the monopolists who claimed we would only go after the best business customers – and that our LD service would never be offered to residential consumers.

Today if you can find anyone…friend, relative….. who hasn’t been offered MCI service for their home at least three times, we’ll submit the point.

It’s the same now for local – we will use every means at our disposal to bring competition to all local customers in the United States. It makes sense, once the facilities are in place, you want to fill them up with as much traffic as possible, daytime and nighttime, business and residential.

For those locations we can't connect to directly right away, the 1996 Telecommunications Act provided a remedy. To get started, we were to resell the service offered by the local monopolies, connecting and integrating it with our own products. Then, as in long distance, we would lease portions of the monopolies’ subsidized networks until we could build our own. This was embraced by the local monopolies with about the same amount of warmth Al Capone showed for his first Internal Revenue Service Audit.

But at MCI, we think this kind of competition – with the emphasis on building out our own networks – is what Congress and the President had in mind.

In the coming months, in the interests of MCI, this economy-driving industry, and in the interest of American consumers, we intend to be the people’s cops – to blow the whistle on monopolies – and to challenge regulators to get the job done.

We’re going to start by stating and fighting for the Fair Play Test – the basic principles which the monopolies should be asked to follow and that regulators should be ready to enforce.

Fair play comes down to one central idea: True competition will come to local
telecommunications markets when – and only when – products, prices and quality standards are determined by millions of consumers not by any one single company.

The Fair Play Test is needed to get us there – to a place where the incumbents and the new entrants can battle it out fairly, without artificial advantage.

Here are the five principles of the Fair Play Test:

"First Things First": As the law requires, local telephone markets must be competitive before the Baby Bells sell long distance to their monopoly controlled consumers.

"The Price is Right": Regulators must ensure that local lines will be resold and leased at permanent, pro-competitive prices, not at interim rates not with unjustified one time installation or other charges;

"Order Not Disorder": Operating Support Systems, which we need to send orders to the monopolies and to track our customer service levels have to be operated efficiently to help customers, not used as a bureaucratic tool to frustrate consumers, clog up the system and stifle competition.

"Do Unto Others...": Since MCI has to rely on the local companies to provide local facilities for resale or lease, monopolies must not be allowed to continue to discriminate in favor of themselves and against their competitors. This only hurts consumers. The test is clear and fundamental: In this area, the Bell monopolies must treat us the same way they treat themselves.

"Enforce, as a Matter of Course": Create simple, certain and swift mechanisms that ensure compliance with statutory and regulatory standards. Create strong, swift penalties for violations.

The Fair Play Test is the essential condition for competition in local markets. Last week MCI announced that, because of anti-competitive tactics by the Bells, our local market losses for the year could reach $800 million, now that’s more than
twice the original forecast. And, we may lose more in the local business next year.

The local monopolies claim that we aren’t really interested in local service. They claim we want to go slow in local in order to slow up their entry into long distance.

Let me say it straight. As I’ve said to our shareholders, our customers, our employees, our industry analysts and our public officials: Local is MCI’s number one priority and it’s our number one priority because it’s our number one opportunity. The local monopolies know that. They also know that most telephone customers want the freedom to choose their local provider. For MCI, I can tell you that our customers want local service from us as soon as we can provide it.

The nation has a choice: We can stop or we can go forward with local competition. MCI has made its choice: We intend to go forward.

We have the resources to enter local. Our commitment is to provide local service beginning with our 20 million existing long distance customers all across the United States. Ultimately, we hope to be able to reach every local customer. Today MCI stands out as the only company that has a publicly announced nationwide strategy to bring facilities-based competition to both residential and business customers alike. And we’ve put our money behind it; we’re betting on competition; we’re making the investments. But I have to tell you that they won’t pay off – and consumers will continue to pay too much for too little – until the path to local competition finally and truly gets cleared of the obstacles erected by the incumbent monopolies.

The local monopolies have put thick curtains of red tape across the road to competition; they have engaged in a strategy of intentional inefficiency – or what we call strategic incompetence and some are even outright defiant of the law. Their purpose is not to end monopoly, but to extend it.

MCI is used to fighting monopolies. That’s the way that we entered long distance – fighting the biggest monopoly in the world. So, we’ll do our job in providing competition for the local monopolies. All we ask is that the regulators do their job.

Let me be specific. It’s time for regulators to take immediate and specific steps. In the 1996 Act, we have a blueprint for competition; now it’s time – it’s past time – to put in place the bricks and mortar of a genuinely competitive marketplace.
The plain reality today is that most of the local telecom market is still under monopoly control. The local Bell monopolies are fighting a long, relentless, rearguard battle against change. They’re ready to compete all right – in the political arena, in court, in front of government agencies, anywhere but in the market place. They’re competing to prevent competition.

The problems have been big enough to force the cable companies to retrench; to persuade the RBOCs to leave each other alone, in an unspoken common conspiracy of separate monopolies; not to enter each other’s territories and to force AT&T into desperate merger talks with SBC – Southwestern Bell, which has already consumed its sister monopoly, PacBell. That would be twisted recreation of the past, with Ma Bell and Baby Bells back together, controlling entire regions, setting prices, stifling competition and stifling customers again?

The RBOCs have deployed an arsenal of anti-competitive practices designed to obstruct the Telecom Act, sabotage the FCC’s objectives, and punish companies like MCI for daring to build local networks on their exclusive turf. The local monopolies are moving on three fronts -- the tactic of delay, the tactic of disruption of service and the tactic of discriminatory treatment of new entrants.

Congress intended that the local monopolies sign interconnection agreements to get us started in local. These were to be completed by the end of 1996. But now, more than seventeen months after the passage of the Telecom Act, only a third of the agreements that should be in effect have been approved.

Even where we have agreements, as I reminded you earlier, there’s a big difference between agreements on paper and competition in practice. The local monopolies are inventing endless new ways to keep the market closed.

Just consider the actions of one of these companies, SBC – formerly Southwestern
Bell Corp. In the last three years, SBC has spent millions to lobby the State of Texas to enact the most anti-competitive state telecom law in the country; it’s spent millions more to lobby the Congress and the FCC; it then spent millions to resist the implementation of the 1996 law – and it has spent billions to acquire PacBell.

According to press reports, merger talks with AT&T foundered because, SBC was unwilling to agree to “an aggressive plan for opening up [its] local phone monopolies.” Now, the company is spending millions more in a hopeless challenge to the constitutionality of the Telecommunications Act and Congress’s power to break up monopolies. There’s no free lunch. Guess who’s pays for all the expensive litigation, lobbying and lawyers? Sooner or later, it’s the consumer.
And SBC isn’t even the worst case. GTE is rapidly becoming known not as a world-champion competitor, but as the world-champion litigator. After leading the charge against the FCC’s rules last summer – on the ground that responsibility should lie with the states – GTE, by our count, 25 separate lawsuits in 19 states challenging state arbitration orders.

Want other examples? When we first tried to enter local service in California, PacBell gave us two options for sending them orders – an inoperable electronic interface that was loaded with software bugs, or when it was clear that system was ridiculous, they suggested we fill out paper forms which changed on bi-weekly basis and fax them. This was extraordinary. Remember, these are two telecommunications companies. PacBell certainly knows how to send and receive electronic data. In fact, we exchange this type of data everyday with long distance.

Delay is amplified by disruption in processing MCI service orders. Recently, Bell Atlantic rejected an MCI order because, the local monopoly claimed, it was sent to the wrong address. It was in fact the address we had used for years. But the company, it turned out, had two entrances to the same building and suddenly decided that the other one was the only proper address for a service order. They didn’t tell us this; they just refused to order. We’ve also had requests rejected for using "Mr. T Jones" rather than "Mr. T. (period) Jones" or "st" rather than street or street rather than "st".

The RBOCs seem to have decided that their monopoly – like the devil – is in the details – and they’re determined to manipulate every single one of them.

Bell Companies have misused their monopoly of information about customers. When customers call their local company to say they’re considering switching to MCI and would like to review their calling profile -- instead of just doing what the customer wants, the monopolies argue with them. Some Bell companies actually use MCI changeover orders as lead lists for their salespeople. And Bell South is sending "retention letters" to MCI customers in an effort to keep them leaving before they are actually switched over to MCI service, an egregious practice only made possible by Bell South’s access to customer information and its monopoly market power.

NYNEX has rejected 14 applications to attach our equipment to theirs due to what they call "space limitation." Yet, they refuse to certify that claim with the New York State Public Service Commission – in flagrant defiance of the Telecom Law.

If consumers do succeed in finally switching all over the country, they’re punished for their persistence. They’re treated like indentured servants, they’re
forced to pay a high price for their freedom. Today, when you switch long
distance companies, there is a one time $5 fee, generally. But when customers
want to switch to MCI local service, they have to buy their freedom from the
local monopoly with installation fees of up to $187.

There are other examples of discrimination. The local monopolies often install
their own customers, often saying within three days but make MCI customers
wait weeks – and the same is true for disconnections for moving from one place
to another.

With all their sluggishness and noncompliance with the law, the local
monopolies are remarkably energetic when applying for permission to sell long
distance to their monopoly customers. Ameritech has filed two applications to
sell long distance service to their captive customers in Michigan. The first was
withdrawn as fatally flawed. As to the second, the Michigan commission and the
Department of Justice have already said it doesn’t meet the requirements of the
Act and it too should be rejected.

The obstructions, the delays, the disruptions, the red tape, the details – they cost
MCI money; they cost consumers more for less; they’re calculated machinations
of cozy monopolists. This is nothing new to MCI. We’ve faced this before; we’ve
fought back before – and we’ve won before, and so did the American public as
prices in long distance came down by seventy percent. We’ll do it again with the
local monopolies; we’ll fight as hard as we have to and as long as we have to.
We will make local profitable for us by making it competitive for customers.

This isn’t our fight alone, or that of other potential competitors to the local
monopoly. But the longer it goes on, the more Americans will be overcharged
and under-served. In this case competition delayed is competition denied;
because RBOCs will seek to move in and form mega-monopolies that will gobble
up local and long distance. And once they’re entrenched there is no way to get
them out.

It’s time for the FCC, state regulators and anti-trust officials to use the power
they have to break through the morass. It’s time for the FCC to set results-
oriented, date-certain standards for opening local market to true competition.
That’s the only way to make the Fair Play principles real – those five principles I
outlined earlier that are needed to give new entrants a fair break, and consumers
a free choice. The local monopolies should know that they will not be permitted
to offer long distance until they cease all monopolistic practices at any and every
level. That’s the essence of fair play. In fact, once their monopolies are ended, we
invite the RBOCs to join us and our seven hundred other competitors in the long
distance to sell long distance anywhere, wherever they like. But don’t expect
monopolies to change while their unlawful and anti-competitive tactics continue to be aided and abetted by regulatory delay.

Look at the record:

Deadline for Operating Support Systems – six months late and still not delivered;

Arbitration results – seven months overdue and two thirds not in effect;

Permanent pricing in only a few states;

Access charge reduction of $1.7 billion out of the $14 billion in overcharges finally ordered by the FCC, but the RBOCs refuse to pay it all and still owe consumers $200 million. And the FCC hasn’t made them pay up; and

And while we’re installing switches, some state regulators seemed to have been asleep at the switch. In fact, some of the same state commissions that successfully blocked full implementation of the FCC’s Interconnection Order, then lacked the resources or the will to get final arbitrations done, to put them into effect, and to enforce them honestly and fully. The most egregious example may be the Oklahoma Commission’s support of SBC’s application to sell long-distance in its monopoly base, even though the Justice Department, the FCC and everybody else who reviewed the application said it was a joke. Oklahoma didn’t have a single residential customer served by a competing local network. There is not one company that is a competitor to the local monopoly in Oklahoma.

With that type of record it’s wonder the monopolies think they can get away with anything.

We’re pleased – very pleased – that today’s USA Today newspaper carried an article reporting that Reed Hundt called for "stronger, more effective enforcement by the FCC, the state public utility commissions and the Justice Department." We applaud his call for a special task force to investigate anti-competitive Bell tactics.
But let’s not wait to act. Let’s enforce the rules that are already in place and enforce the deadlines that are already past due.

Telecommunications promises to be the great growth engine of the 21st century. In an information age, electronic commerce is increasingly important and a robust, competitive communications network is the new way to bring goods to market replacing roads and bridges of the past.

The local telecommunications market in the U.S. has almost boundless prospects in terms of new business, new products, new jobs and new prosperity. We are at a decisive turning point. As I said earlier, we made the decision as a nation to open up the local market. We must make the firm decisions that will finish that job – not later, but now; not partially, but completely. There can be no compromise with monopoly.

Let me re-iterate that MCI has made its own decision – to look beyond the short term to the long term -- to become in local what we were in long distance – the cutting edge of competition.

All we seek – and the minimum all of us should demand -- is fair play, so companies will compete for customers and not for unfair regulatory advantage. And when that happens, the real winner will not just be MCI, but the American economy and the American consumer.