Happy Birthday?
The Telecom Act Hits the Terrible Twos

Prepared remarks of
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at the Economic Strategy Institute
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Thank you. I’m delighted to be at the Economic Strategy Institute to speak on the Telecom Act of 1996.

This is a subject that’s had a good deal of discussion and analysis during this anniversary week.

People in the industry and people in government are understandably focused on federal court decisions, congressional intent and the nuances of telecom policy.

But the people with the biggest stake in the Telecom Act are America’s consumers. And most of them aren’t talking about "UNE-P" or "TSRs." To them "Section 271" sounds like a seat assignment at a football game.

They’re interested in the Telecom Act all right. But their interest is practical. They want to know when they’re going to see the benefits they were led to expect two years ago.

They want the tangible benefits of a competitive market in local phone service. I believe the Telecom Act can deliver those benefits.

I come before you as a true believer, even if a somewhat recent convert.

Frankly, the Telecom Act was not living legislation that dominated my daily life until 3 months ago, so my prejudices are short-lived. Thus, I hope to offer a factual assessment on five fundamental questions that, today, need objective understanding.

#1 - Why does America need a Telecom Act?

#2 - How is the Telecom Act supposed to enable local competition?

#3 What has happened since it was passed?

#4 What is needed for the Telecom Act to succeed?

And, #5, what will Americans miss if the Telecom Act isn’t made to work?

First, why does America need a Telecom Act?

The answer is simply to benefit consumers by opening the regional Bell operating company (RBOC) monopolies to competition. The Bell operating companies have had a protected market for the better part of
this century; they have the only telephone wire that connects to the consumer; and they had, and still have, 98 percent of the consumer local exchange market.

The purpose of the Act is to enable local competition, attract investment in new local service facilities, and give consumers better local value.

At least in the short term, this will only happen if new competitors are given a fair chance to re-use or compete for the only wire that connects customers to the telephone systems.

In contrast, the Act was not primarily designed to let the Bell operating companies into long distance. Long distance in America is already competitive with over 500 companies. This long distance competition has attracted new investment, new technology, new companies, and new jobs. Plus, it has driven long distance prices down by 55 percent since the break-up of the old Bell System monopoly in 1984.

The Act holds RBOC entry into long distance as a "carrot" for opening their local markets to competition. The regional Bell operating companies’ entry into long distance is to be a consequence of opening their markets. The RBOCs have been protected from market forces for close to 100 years. For market competition to work, they must allow competitors to use their facilities on an economically viable.

And that’s exactly what the Telecom Act requires.

Second, how is the Act to enable local competition?

The most important principle to recognize is that the regional Bell companies own the only connection to the consumer. There is only one wire to the home. It is a ubiquitous wire that was paid for by America through the protection of the monopoly Bell operating companies.

So the only short-term means for local competition is an economically viable re-sale of the only consumer connection available. Initially this was to involve what the industry calls "Total Service Re-sale," or "TSR."

This means that a new competitor buys the existing local company’s whole service package at a discount off retail prices and resells it. No modifications. No differentiation.

TSR was to be followed quickly by the Unbundled Network Elements Platform, known fondly as "UNE-P." It’s much more attractive. It lets the
new competitors lease just the relevant facilities they need from the
local company, at cost plus a reasonable profit.

Competitors can lease all elements needed for local service, or combine
the elements they lease with capacity of their own and thus make a
differentiated offer.

But it defies logic, history and common sense to say that competition
will happen without economically sound re-sale of the wire.

It was the economically viable re-sale of the long distance
wires that took America from long distance monopoly to
competitive long distance markets.

It is the economically viable re-sale of power that will lead to
competition in the electric industry.

And it is the economically viable re-sale of local exchange
facilities that will result in local service competition.

But local re-sale at an average 22 percent discount means no one can
afford to go into the local exchange business. And a 22 percent average
discount is the current and only Bell company offer. With a discount like
that, no one would be competing in the long distance market, either.
Today, long distance competitors, including the RBOCs, buy service at
discounts between 50 and 60 percent from AT&T. That’s around what it
takes to cover the costs of competing in the telephony resale business.

The assertion that the Bell company markets are open but no one is
showing up flies in the face of market principles and the experience of
the long distance business. When the local communications market
opens, investment and competition will happen. And the Telecom Act
requires appropriate market opening that will attract investment and
result in competition.

As to the third question, what has happened since the Act was passed?

Let’s look at AT&T’s experience.

We applied for certification to provide local service in all 50 states
within 30 days after the Act was signed. That was the easy part.

In the two years since then, we entered into 78 negotiations with
regional monopolies for TSR terms in different sections of the country.
Exactly one of those negotiations resulted in a voluntary agreement.
That was in Alaska. The other 77 negotiations all went to arbitration.

We made 41 interconnection agreements to connect with local company networks. Every single one of them is under appeal.

Keep in mind, this is all about TSR. The only, but uneconomical way, into the local market. Nobody’s yet seen a UNE-P agreement. And now the regional companies have filed a federal suit that would cripple UNE-P altogether.

We remain committed to local service. We’ve spent $3.5 billion on it over the last two years. I think we’ve more than demonstrated a good faith effort to invest in local service. We signed up more than 300,000 consumers, more than any other new competitor. And thanks to the uneconomical discounts of TSR and the lack of UNE-P, we’re losing $3 a month on each customer.

AT&T is not going to spend money on this fool’s errand, and that’s what TSR is today.

So we’ve had to temporarily stop actively marketing consumer local service. MCI and Sprint have done the same thing, and no RBOCs have shown up to compete anywhere for local service.

However, AT&T will provide consumers with local service anywhere that we can get UNE-P at economically viable rates. Which is just what the Telecom Act requires.

The fourth question is what is needed now for the Telecom Act to succeed?

Just give it a chance to succeed! The Telecom Act defines how to economically share the local wire to get local competition started. It opens a path from simple resale to UNE-P to other forms of competition.

But the Act is in court. It has never been in the market.

The regional Bell companies have sued, challenging the constitutionality of the Telecom Act they helped fashion and publicly supported; and they have sued, challenging the right of the Act to require economically viable facility resale nationally. These challenges will be heard and the will of the Congress confirmed or redefined.

Yet these same challenges refocus us on the Telecom Act as a product of our Congress to achieve local competition. It is a product that was
shaped by industry agreement, by regulatory agreement and by overwhelming legislative agreement.

Like all new products, it needs to be tested in the market to be properly judged. We should surely not judge it by the protests of the local monopolies resisting competition. And we should surely not try to fix it until we know what doesn’t work.

I’m not denying the right of the RBOCs to use our legal system to resist the Act.

We have to live with that. We have little choice but to honor due process, even though it usually delays things. It’s part of what’s right about America. But submitting the Telecom Act to due process doesn’t now make the Act wrong, in either purpose or implementation.

This Act was written for consumers and competition. We should not let its benefits to consumers and competition slip away simply because we got tired of removing the obstacles created by the opponents of competition. If we want the benefits of local competition, we need the patience and perseverance to put the Act to work in local markets.

And finally, what will Americans miss if the Telecom Act isn’t made to work?

First, of course, if there is no economic opportunity to re-use the Bell company facilities, then by definition, there will be no local competition for years to come.

Second, consumers will miss the market benefits of local market competition, such as:

- better service
- new investment
- more functions and services
- one stop shopping
- greater value

And third, consumers will miss one of the most powerful drivers of the market system and a democratic society --- choice.

Consumers deserve that. If it’s denied to them, it won’t be denial by the market. It will be a denial of the many, engineered by the self-interest of a few.
I really don’t think that will happen. The communications industry has a vision for the future that revolves around the benefits of real competition. It’s a vision worth sustaining. And that vision will be advanced by the Telecom Act of 1996.

In closing, let me say that the power of this industry profoundly affected my last industry – defense.

I believe that it was the power of communications more than anything else that ended the Cold War. It was the power of communications that flew over the wall.

Thanks to modern communications, people from Budapest to Beijing could see and hear for themselves what democratic capitalism was all about.

An industry that can open the hearts and minds of almost 2 billion people can certainly open up its last bastion of monopoly to competition.

Thank you all very much.

C. Michael Armstrong was elected chairman of the board and CEO of AT&T, effective November 1, 1997. He came to AT&T from Hughes Electronics, where he had been chairman and CEO for six years. Prior to Hughes, Armstrong spent more than three decades with IBM, rising to become senior vice president and chairman of the board of IBM World Trade Corporation. Chairman of the President’s Export Council, Armstrong earned a B.S. degree in business and economics from Miami University of Ohio in 1961 and completed the advance management curriculum at Dartmouth Institute in 1976. He was awarded an honorary Doctor of Laws degree by Pepperdine University in 1997.