

## Telecom Association Works to Block VoIP Carrier From Ducking Out of Network Fees

In a recent letter to the five FCC Commissioners, over 200 member companies of the United States Telecom Association (USTA) urged them to deny a Level 3 petition that would allow the company to avoid paying what it legally owes for use of local communications networks. If allowed, the petition could severely impact the ability of rural telecom providers to deploy advanced services to millions of consumers.

“Level 3’s attempt to carve out its own sweetheart deal could jeopardize the communications infrastructure in rural areas and could derail efforts to comprehensively update the industry’s intercarrier compensation system,” explained USTA President and CEO Walter B. McCormick, Jr. “In today’s vibrant, competitive communications market, there is no need for regulators to give competitive advantages to one technology over another. The Commission should deny Level 3’s petition and make clear that all companies that use local communications networks should help maintain these networks to ensure that new communications advances reach rural Americans as quickly as possible.”

Specifically, Level 3 has asked for forbearance from interstate access charge rules to sharply reduce the company’s payments for VoIP calls completed over the public switched telephone network. If allowed, this petition would drastically reduce revenues to local service providers that invest in and maintain communications infrastructure in high-cost rural areas. The Commission must decide the petition by March 22, 2005.

The 234 USTA members state in the letter, “The Commission should not be in the position of picking winners or losers in this new competitive world by allowing one class of long distance carriers to pay a lower price than others for terminating calls on the PSTN. Level 3’s attempt to gain a lower price than its competitors is a misuse of the forbearance process; it is not seeking forbearance, but rather a cheaper price. USTA and its small and mid-sized member companies that are signatories to this letter urge the Commission to deny Level 3’s petition.”

## Do-Not-Call List Clarified By FCC

In a recent order, the Federal Communications Commission (FCC) has clarified that calls made for the purpose of debt collection are not required to identify the caller’s state-registered name in prerecorded messages if doing so would conflict with federal or state laws. The amended rules also clarify that bill messages satisfy the requirement on common carriers to provide an annual notice to subscribers of the opportunity to register with the national do-not-call list.

In 1992, the Commission adopted rules implementing the Telephone Consumer Protection Act (TCPA), including the requirement that entities making telephone solicitations institute procedures for maintaining do-not-call lists. On July 3, 2003, the Commission revised the TCPA rules and adopted new rules to provide consumers with several options for avoiding unwanted telephone solicitations. Specifically, the Commission established a national do-not-call registry that would be jointly implemented by the Federal Trade Commission (FTC) and this Commission. The national registry, which went into effect on October 1, 2003, supplements the long-standing company-specific do-not-call rules which require companies to maintain lists of consumers who ask not to be called by a particular company. To address the more prevalent use of predictive dialers, the Commission determined that a telemarketer may abandon no more than three percent of calls answered by a person and must deliver a prerecorded identification message when abandoning a call. The rules also require all companies engaged in telemarketing to transmit caller identification (caller ID) information, when available, and prohibit them from blocking such information.

## Telecom Equipment Suppliers Could Be Caught Up in Wage of Mergers

The New York Times reports the consolidation wave in the telecommunications industry is likely to hit the equipment makers that supply the big carriers.

Investors are increasingly talking about potential deals between Motorola, Lucent Technologies, Nortel Networks and possibly European manufacturers like Alcatel, a February 21 Times article stated. The rationale is simple: When carriers merge, they cut their capital spending budgets. To survive, their equipment suppliers have to merge to keep revenue growing and expand into new product areas.

"There are still too many suppliers out there," said Ari Bensinger, an industry analyst at Standard & Poor's. "Now that they are fighting over a smaller pie, something has to give."

Edward Snyder, an industry analyst at Charter Equity Research, and others point to the Cingular Wireless-AT&T Wireless merger, which was announced last February, to show how the changing relationship between carriers can affect suppliers. In the quarter after that deal was announced, Ericsson, the Swedish equipment maker that supplies Cingular and AT&T Wireless, said orders from North America plunged 48 percent compared with the previous quarter.

Equipment makers are likely to see slowing growth in orders this year, industry analysts say, because of deals between SBC Communications and AT&T and between Verizon Communications and MCI.

Though government regulators are expected to take a year to rule on the deals, the telecommunications companies will probably resist raising their capital spending plans until their mergers are approved and they have a better idea of what their combined companies will look like.

Once that happens, they are expected to ratchet back on spending. For instance, SBC, which will have greater bargaining power with suppliers by absorbing AT&T, expects to cut procurement costs by 5 percent after its deal is approved. The newly combined company also expects to reduce capital spending by up to \$200 million in 2007 and as much as \$300 million in both 2008 and 2009.

SBC and AT&T buy about 60 percent of their combined equipment from the same vendors. That is not good news for manufacturers like Lucent, which has been a big supplier to the Bell operating companies and to long-distance carriers like AT&T.

Last month, Lucent said it expected sales to grow 4 percent to 6 percent this fiscal year, which runs through the end of September. That's below the 6.8 percent increase in sales last year.

Lucent and Motorola have been at the center of most of the merger speculation recently. Motorola relies heavily on its mobile phone handset business, which has become increasingly commoditized as a result of pressure from rivals in South Korea and elsewhere. By acquiring Lucent, Motorola would expand its presence in the wireless equipment market to complement its strong position in the cable equipment market.

A combined Motorola-Lucent would hold 65 percent of the market for cellphones that use C.D.M.A. technology, the standard that Verizon Wireless, Sprint and others use. But only 30 percent of the world's cellphones use that technology, and the companies would not gain ground in Europe and Asia, where G.S.M. technology is more prevalent.

Motorola would also inherit Lucent's shrinking fixed-line business, which declined 18 percent in the quarter that ended in December, from the same period a year ago.

Spokesmen for Motorola and Lucent declined to comment on a potential deal between the companies.

But Tal Liani, a Merrill Lynch analyst, in a report issued this month, analyzed the implications of such a union. While noting he had no specific information about any deal, Mr. Liani said that revenue would grow 5 percent at a combined Motorola-Lucent and operating expenses could be cut by 3 percent, or \$300 million.

Some analysts say that a Motorola-Lucent deal, or perhaps one between Lucent and Cisco Systems, the largest maker of Internet networking equipment, would be easier to carry out than a deal between Lucent and a European or Asian company, like Alcatel or Huawei Technologies of China. In the first two cases, both companies are American and might be subject to less regulatory scrutiny.

Lucent canceled merger talks with Alcatel in 2001, reportedly because it was wary of ceding control to a French company. Lucent still runs Bell Labs and has many contracts with the United States government.

Analysts say that nationalism may also scuttle any attempt to take over Nortel, the Canadian giant that has suffered accounting problems and an executive shake-up during the past year. Though its sales have fallen by more than 60 percent since 2000, it remains one of the largest and most heavily traded companies on the Toronto Stock Exchange and its board is filled with well-known Canadian executives.

Regardless, the largest equipment makers will almost certainly have to change. Capital spending by the four Bell companies - Verizon, SBC, BellSouth and Qwest - has fallen 14 percent since 2002. Though they continue to invest in fiber optics, broadband services and software-driven network equipment, they spend far less on traditional circuit-switched phone equipment.

Spending on wireless equipment will continue to rise as carriers expand their coverage areas and try to improve service, said Daniel G. Bergstein, a lawyer at the firm of Paul, Hastings, Janofsky & Walker who specializes in telecommunications. But increased investments in that area, he said, may be offset by pressure on manufacturers to cut prices.

## Verizon Online Expands Broadband Access in Berks County

More consumers and businesses in Berks County can enjoy the benefits of high-speed Internet access now that Verizon Online has expanded its availability. As the result of the company's most recent expansion and upgrade of its local telecommunications network, Verizon Online DSL is now available on about 1,550 additional lines in the Shillington, Krumsville and St. Lawrence areas in Berks County.

Verizon has invested \$8.5 billion in its network over the last 10 years and will continue to invest aggressively under recently enacted state telecom legislation. The new law requires companies such as Verizon to deploy broadband service across their service areas - the most comprehensive broadband deployment requirement in the nation. Under this legislation, Verizon also must make broadband available to all students throughout the company's Pennsylvania service area.