Mergers Raise Concerns Over Internet Access

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On the surface, the frenzy of telecommunications mergers in the past few weeks raises relatively clear-cut questions for lawmakers and regulators who will be weighing the deals: Will consumers and businesses be harmed if long-distance choices disappear when AT&T and MCI are swallowed by telephone giants SBC and Verizon?

In many parts of the country, the mergers would mean that two of the top three providers of long-distance telephone service are combining, leaving one overwhelmingly dominant player. Ordinarily, such corporate marriages have trouble getting approved.

But several experts said they expect as many questions to be raised about whether the phone giants would gain too much power over access to the Internet, especially for large businesses.

Worried representatives of large businesses and consumer groups said they will begin sounding the alarm, at the Federal Communications Commission, the Justice Department and on Capitol Hill.

So far, there is no organized group calling for the rejection of Verizon Communications Inc.'s buyout of MCI Inc. or SBC Communications Inc.'s purchase of AT&T Corp. Instead, in a process that could last a year or more, several organizations said they will press regulators to place conditions on the mergers to help ensure robust Internet competition.

State public-utility officials also intend to play a role.

The focus on Internet services, as well as on long-distance calling, is testimony to the breathtaking changes in the communications landscape over the past several years.

For many consumers, wireless service is a substitute for traditional local and long-distance phone service. Under the administration of outgoing FCC Chairman Michael K. Powell, phone line discounts were eliminated, making it difficult for companies such as MCI, AT&T and smaller players to offer local service over local phone company lines.

Meanwhile, the local phone giants were allowed to enter the long-distance market. Together, these government moves caused the MCIs and AT&Ts of the world to begin withdrawing from serving residential customers. As a result, experts said, regulators would be hard-pressed to reject mergers that eliminated local phone service competitors that already had decided to leave the market because of government policies.

But MCI and AT&T are major providers of "Internet backbone," the large pipes that carry data around the world in the same way that interstate highways are the arteries for long-distance car traffic.

In the Internet world, local or regional networks allow businesses, institutions and consumers to get to the
main Internet pipes. These networks often are owned by the local phone companies, which charge for access to the backbone.

The fees charged for those connections are rising and have been the subject of "a running gunfight for years," said Brian R. Moir, president of the E-Commerce & Telecommunications Users Group, which represents large industries and institutions such as universities that send and receive huge volumes of Internet traffic.

With the prospect of Verizon and SBC owning two of the biggest backbone providers in AT&T and MCI, Moir said, his members fear a possible squeeze. The FCC decided in January to review those connection rates, which Moir said should be part of any merger examination.

Moreover, he said, whereas AT&T, MCI and the large local phone carrier in a given region once would bid on providing long-distance and data services for large businesses or government agencies, there would now be one fewer bidder.

The danger, Moir and others said, is that SBC and Verizon could use their ability to bundle soup-to-nuts telecommunications services for businesses in ways that could make it impossible for rivals to compete.

At the moment, there is so much backbone capacity that prices are falling. And there are several other backbone providers.

But if the mergers are approved, "Verizon and SBC are well-positioned to dominate and make it more difficult for other backbone providers to offer packages of services," said Gene Kimmelman, head of the Washington office of Consumers Union.

Michael E. Glover, a Verizon attorney, responded that the acquisition of MCI would allow his firm to compete for global business with AT&T for the first time.

He also disputed Moir's assertions that network connection costs are going up.

Blair Levin, a former FCC official and now a telecommunications analyst for the investment firm Legg Mason, agreed that integrated phone and Internet backbone giants could jeopardize competition.

"You can do bundling so it can be discriminatory," he said.

Levin added that regulators might look closely at whether AT&T, for example, should be forced to give up some local facilities that allow customers to connect directly to its backbone.

The recent mergers, which also include a proposed combination of Nextel Communications Inc. and Sprint Corp., come when many in the industry and on Capitol Hill want to take a fresh look at the 1996 Telecommunications Act, which was passed before many Internet services were developed.

But Levin said he expects any legislative action to follow the antitrust reviews.

"Mergers are the 800-pound gorilla on all policy proceedings," he said.
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