Worries rise over telecom mergers

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The Federal Communications Commission's decision Monday to allow some of the biggest telecommunications groups in the United States to band together may have surprised few, but some industry analysts are already questioning whether the mergers of SBC Communications with AT&T on the one hand and Verizon Communications buying out MCI on the other will actually help or hinder customers and the telecommunications industry as a whole.

For its part, the FCC is bullish about the prospect of the impending mega-mergers, stating clearly that it will benefit consumers as well as the companies involved.

"The Commission concluded that consumers will reap the rewards of the public interest benefits that will flow from these mergers," the FCC said in a statement announcing its approval of the buyouts.

"These benefits include integration of complementary networks, which will increase efficiency and provide consumers with new services and improved network performance and reliability. The mergers will create stable, reliable U.S.-owned companies that will provide improved service to government customers and benefit national defence and homeland security. In addition, the mergers will give the companies increased economies of scale and scope, which should increase their incentives and resources to engage in basic research and development. Finally, the mergers should result in substantial cost savings, which should benefit consumers throughout the country," the FCC added.

At the same time, the FCC said that neither Verizon nor SBC, which will effectively be the biggest players in the market post-merger, can raise their calling rates for up to two years after the deals go through.

Yet even with such caveats, some worry not only that telecom customers will lose out but that the companies themselves will not gain much from becoming so big.

Credit-rating agency Standard & Poor's, for instance, said AT&T's prospects look shaky even though it has been given the green light to be bought out by SBC.

"We view AT&T as having a weaker business profile than SBC, given its declining consumer long-distance business, and more importantly, the ongoing significant competition it faces in the enterprise customer market," an S&P research paper concluded Monday. It pointed out that as of June 30, AT&T has about $7.7 billion in debt and $1.9 billion in cash, even though its acquisition was valued at about $22 billion, consisting of $15 billion in SBC shares, a $1 billion special dividend, and about $6 billion in AT&T debt.

As a result, S&P said, "Absent a guarantee, we will evaluate the degree to which SBC will explicitly and/or implicitly support AT&T's debt to determine AT&T's rating, given its higher standalone business risk. This will include an assessment of the strategic importance of AT&T to SBC's overall business plans and likelihood to continue to support AT&T, if business conditions materially deteriorate from current levels, especially in the enterprise market. The fact that SBC recently announced that it will adopt the AT&T name upon close of the transaction would suggest a fairly high degree of strategic importance of these assets."

Meanwhile, consumer groups expect that the mergers will only lead to higher prices and less choice for users when it comes to picking out services, and some argued that the buyouts would only be a move back to the days when the Bell group dominated the telecommunications market.

"Approval of these mergers undermines more than 20 years of efforts to introduce competition into the residential local and long distance telecommunications market," said Gene Kimmelman, senior director of public policy for Consumers Union.

Meanwhile, the director of research at the Consumer Federation of America, Mark Cooper, said, "Given the failure of the Department of Justice to impose any meaningful conditions on the SBC-AT&T and Verizon-MCI mergers last week, and the desire of Federal Communications Commission Chairman Kevin J. Martin to impose no conditions whatsoever, Commissioners Copps and Adelstein have been forced to carry a heavy burden to protect consumers and preserve the openness of the Internet."