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May 1, 2002

Dear Colleague:

Our friend, Senator Breaux, is fishing for cosponsors for a so-called “parity” bill. While the arguments offered for cosponsorship are simple, the consequences of this legislation are anything but. This legislation in the name of “parity” is nothing more than a Trojan Horse to deregulate the Bells and extend their monopoly. The Bells and their CEOs are out and about arguing they need to be deregulated so they can fuel a broadband explosion and finally deliver on the promise of the Information Age. We’ve heard their promises before and we know the truth. There is not now, and there has never been, any prohibition on the Bells offering their customers broadband. In fact, SBC proudly boasts that it lined up 183,000 DSL customers in the first quarter alone this year – under the current rules the Bells decry. Their argument boils down to the claim that the Bell companies are regulated while cable is not, and Congress and/or the FCC should eliminate this “disparity.” But the Bells are comparing apples and oranges.

The two industries are markedly different, and have been treated as such by the Congress and the FCC for decades. If we are to up and change that now, we must look carefully at every area where the industries are treated differently, and not just pretend its only about regulatory “disparity” on broadband. Maybe the answer is to increase regulation on cable to create parity in the public interest. Maybe its not. Maybe we should look at parity between the Bells and the competitive carriers they want to squash. The Bells currently enjoy preferential access to buildings, local rights of way, quicker line provisioning and billions of revenues from their captive customer base. I’m sure competitive carriers would like parity in these areas. Regardless, the parity sought by the Bells is nothing more than their latest attempt at a monopoly grab.

While the Bells claim they need “parity” to catch up to cable, it is the Bells who have had broadband technologies the longest. For near 20 years, the Bells sat on a variety of broadband technologies – ISDN, xDSL, – you name it, all the while seeking deregulation at the state and federal level which they claimed would free them up to offer broadband services. A look at history shows their claims ring hollow. Prior to the 1996 Act, the Bells had no obligation to provide competitors access to their local networks. Their pitch to state regulators – let us raise prices, and we’ll roll out broadband. While they raised prices in states where allowed to, the

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broadband almost never came – costing billions to the ratepayers and providing dividends galore to the shareholders. In their annual reports they promised Wall St. they would wire tens of millions of American homes with fiber (which would allow broadband speeds 25 to 50 times faster than the services today). Today, almost a decade later, one analyst report finds only 33,000 homes served by fiber, of which only 300 are served by the Bells. Then, with the 1996 Act, the Bells begged Congress to let them into long distance, so they would open their markets and compete across America. We gave them that opportunity and they decided to combine and litigate, rather than compete. As for broadband, it was only after cable and competitive phone carriers entered the market (after we passed the 1996 Telecom Act allowing them to do so) that the Bells finally starting offering broadband in earnest.

Now come the Bells calling again with their biggest charade. For those supporting deregulation in the name of “parity”, keep in mind that the Bell companies still control over 90% of the last lines into every home and business in America according to the latest figures from the Federal Communications Commission. While Verizon and SBC have opened some of their markets to competition, Bell South and Qwest have not, and today, more than six years after we passed the 1996 Act, the Bells have complied with the market opening requirements of the Act in only 11 states. What is so disappointing about this record is that the Bell lawyers wrote the pro-competitive requirements that they now flout.

And as if this were not enough, “parity” could have a devastating impact on universal service and a disproportionate impact on rural America, because broadband services will never be eligible for universal service support as contemplated by the 1996 Act. In 1996 we knew a broadband revolution was possible and didn’t want rural America left behind. That’s why we included universal service and built in an evolving flexibility to help rural consumers keep up with the information age. Under “parity” however, broadband may no longer be a common carrier service and, therefore, may never be eligible for universal service support.

Please don’t be misled by the Bell claims for parity. If there were ever a bait and switch, this is it. Their lawyers and lobbyists have been at this for some time. I know them well. With this parity push, they want to avoid opening their markets to competition when it comes to broadband. With this approach, we can kiss competitive telecom carriers goodbye and extend the Baby Bells’ monopoly into the lucrative broadband market for business customers. While cable may have an edge with residential broadband, only because they started first, they have never been a serious player in the business marketplace, where the Bells still dominate. Pass “parity” and you create *at best* a duopoly between cable and the Bells in residential America and an uncontrolled monopoly in the money rich business market. The result – higher prices, shoddy service and less innovation – the exact opposite of what the Bells claim and what Congress should be promoting.

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With the exception of rural America and underserved areas, there is no broadband deployment crisis in America, notwithstanding the Bell claims. 80-85% of Americans have access to broadband, but only 10-12% are buying. Not many people want to pay \$50 a month for faster access to their emails. On the other hand, rural businesses, hospitals, and educational institutions ought not be denied access to services the rest of America may soon take for granted. I'm working on legislation to promote broadband in these underserved areas which I hope to introduce soon. Let's focus on the real problems, and not those alleged by the Bell monopolies.

Sincerely,

A handwritten signature in black ink, appearing to read "Ernest F. Hollings". The signature is stylized and cursive, with a large initial "E" and "H".

Ernest F. Hollings