
UNE-P competition stimulates Bell company investment

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The incumbent Bell telephone companies are investing more heavily in their network in states where competition is most intense -- even as an economic slowdown has caused total telecom investment to decline -- the Phoenix Center says in a new POLICY BULLETIN.

On average, net investment by BellSouth, SBC and Verizon has increased \$759 per year per UNE-P access line, or about \$5.2 billion in 2002. As such, on average, UNE-P adds about 6.4 percent a year to Bell company investment.

Even in 2002, when the Bell companies' total net investment fell by about 7 percent, investment dollars were more heavily allocated to states with greater UNE-P competition, according to POLICY BULLETIN NO. 5, Competition and Bell Company Investment in Telecommunications Plant: The Effects of UNE-P. But the aggregate decline was cut in half by the additional investment related to UNE-P competition.

"The evidence is unmistakable. When the Bell companies face competition in the local phone market, they have to invest more heavily in order to upgrade their offerings and hold on to their customers," Phoenix Center president Lawrence Spiwak says.

UNE-P investment partly offset sluggish economy

While the Bulletin notes that overall telecom investment was slowed by general economic weakness in 2002, the decline would have been steeper but for the impact of UNE-P.

"While the Bells have claimed they cannot invest unless they are granted regulatory favors including the end of UNE-P network access requirements, their actions belie their words," Spiwak says. "What we are seeing is predicted by both economic texts and the 1996 Telecom Act -- companies that have to compete for customers work harder, invest more, and deliver better services than monopolies."

Based on the most recent publicly available data from the Federal Communications Commission, the latest findings are consistent with a previous Phoenix Center POLICY BULLETIN released in June, which showed that the 1996 Telecom Act generated an additional \$267 billion in total telecom investment between 1996 and 2001.

consumers benefit as competition induces upgrades and cuts prices

The study assesses investment by BellSouth, SBC and Verizon, but excludes Qwest because it has not yet filed data for 2002. It notes that the exclusion of Qwest enhances the analysis because it is in poor financial health relative to the other Bells and its region has relatively limited UNE-P competition.

The BULLETIN directly rejects assertions by the Bell companies that network access and pricing requirements discourage investment or otherwise injure the sector's economic performance.

"However," the BULLETIN notes, "the competition facilitated by unbundling has been shown to lead to substantial price declines and innovation in telecommunications policies."

Finally, and perhaps most importantly, the Phoenix Center's POLICY BULLETIN explains that reductions in investment are not per se undesirable, because economic performance in an industry is improved when industry output is produced with lower quantities of capital and/or labor. If output in the telecommunications industry rises or is constant and this output is produced with less investment, then society is probably better off for it.

As Phoenix Center president Spiwak concludes, "given the mounting evidence that the market-opening provisions of the Telecom Act benefit U.S. consumers and businesses, the current cynicism, ideological bias and outright ignorance towards UNE-P and TELRIC pricing must come to an end."

Phoenix Center can be found on the World Wide Web at <http://www.phoenix-center.org/>.

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