

Testimony of

Mr. Edward E. Whitacre, Jr.

March 15, 2005

Edward E. Whitacre, Jr.
Oral Testimony
Senate Judiciary Committee Hearing
"Remaking the Telecommunications Industry"
March 15, 2005

Thank you, Chairman Specter.

The title of this hearing, "Remaking the Telecommunications Industry" is appropriate...as demonstrated by the SBC-AT&T merger.

Our merger is a positive development for customers, competition and for America's leadership in global communications.

We will bring together state-of-the-art networks... innovative, advanced products and services... unmatched talent and expertise...and a rich tradition of customer service and reliability.

And we will ensure that the company which started it all more than one hundred years ago...will be part of it all for many years to come.

Our merger comes as the U.S. telecommunications industry is trying to get up off the mat. For the first time in a long while, we can see light at the end of the tunnel.

But the journey through that tunnel has been pretty hard.

Since 2000, telecommunications service providers and equipment manufacturers have lost more than 700,000 jobs. Annual capital investment has declined by more than \$70 billion. Companies have lost more than \$2 trillion in market capitalization.

Until relatively recently, SBC was losing 60,000 access lines each week.

And in all honesty, adverse regulation has contributed to this downward spiral.

So, Wall Street is investing less and less in telecom. Telecom is investing less and less in its products and services. We can see the consequences: today, the U.S. is 11th in the world in broadband deployment.

In short, this industry is in turmoil...and that's why we decided to do the SBC-AT&T merger.

The reasons for combining these two companies are clear.

First, while SBC has a strong presence in many local markets, we do not have a national or global network of our own. We lease one.

AT&T has those assets, and they are very good.

Second, the "next big thing" in communications technology is voice over Internet Protocol...or VoIP.

It has already opened the door to a host of new competitors. Dozens upon dozens of cable companies and others are using VoIP to provide telephone service, and they are winning customers.

SBC does not have a consumer VoIP service but AT&T does. The combined company will have the resources and incentives to compete with VoIP in our region, outside our region and for business customers around the world.

The third reason for our merger is the opportunity it creates for enhanced competition in the large business customer segment.

While SBC has made some progress in this market...it is slow going. AT&T will give us the ability to compete more effectively, nationally and globally.

For these reasons, the SBC-AT&T merger will enhance competition and should be viewed positively from an anti-trust perspective.

For the most part, SBC and AT&T do not compete head-to-head. This is certainly true in the mass market.

Where we do compete--in the mid- to large-business space--customers will still have numerous choices...from such diverse providers as systems integrators, equipment manufacturers and other phone companies such as Verizon and Qwest.

When you assess this market without bias, it is clear that no two companies can control this competitive and crowded space, even after the mergers as currently contemplated.

The same holds for access to the Internet by rural carriers.

Our ability and willingness to connect rural companies to SBC's IP backbone will not change, and we anticipate no change in pricing to these customers.

This merger is a logical step in the evolution of a competitive industry that is light years removed from when the last federal telecom law was enacted in 1996.

Today there are more wireless subscribers in the U.S. than there are traditional phone lines.

Data traffic now exceeds voice traffic by a margin of eleven-to-one.

Cable companies will offer phone service to two-thirds of American homes this year. And other competitors using IP-based services continue to grow.

On March 9th, the Wall Street Journal reported that America Online will soon offer VoIP service to its 22 million U.S. subscribers...with plans to extend it even further.

In that same day's paper, Cox Communications said in a letter to the editor that in some markets, including Orange County, California, 40 percent of consumers subscribe to Cox Digital Telephone, and 82 percent of their phone customers use Cox for their long-distance service.

Little of this was envisioned when the Act was passed...which is why we need the laws to catch up.

We need rules that treat new technologies with the lightest touch possible and which allow the competitive marketplace to discipline retail prices.

Such reform would spur much-needed innovation, investment and growth...goals that I hope and believe this Committee shares.

Thank you.