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MCI Situation Forces Closer Look At Telcom Service Business

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Recent allegations by competitors against MCI raise some interesting issues for carriers who provide interstate services within the United States. Whether or not the allegations made against MCI are true, the fact remains that the complex tariffing system, initially put in place to police carriers providing all transport services (more about this later), this most recent bit of negative publicity has focused a bright light into one of the darkest corners of the telecommunications service business.

Telecommunications carriers have long relied on the fact that telecommunications contracts and billing are so complex that even the savviest consumers have an inordinately difficult time reconciling them. In fact, there are many fine consulting firms whose job it is to provide this service for end users. In addition to corporate, government and residential end-users, other telecommunications customers include other telecom service providers whose own billing mechanisms for the provision of wholesale and interconnection services are equally twisted.

The recent claims made by those who have the most to lose (AT&T, Verizon and SBC) if MCI is able to resurrect itself as a major player and prime threat in the telecommunications services marketplace, are about the access charges that carriers pay to connect with the networks of other carriers. A carrier that can avoid or minimize the access charges that it pays to other carriers can do business for less money than a carrier that cannot.

Given that MCI/WorldCom's activities prior to its bankruptcy enabled it to drive customer fees to an unrealistically low level, competitors have been forced to do the same (all, of course, based upon creative accounting), by cutting expenses in any way possible in order to achieve something close to a balanced bottom line. The state of the telecommunications industry over the past two years is a reflection of how well this strategy worked, particularly following WorldCom's implosion when both WorldCom and its competitors were left with long-term customer contracts that have had the ultimate — and an unrelenting — negative impact on income.

In addition to access charges, which from a customer's perspective are buried within end-user charges, carriers and customers are subject to an array of end-user taxes and fees. Generally speaking (and that's because there are exceptions and subtleties to all telecommunications laws and regulations), telephone calls that are intrastate are subject only to state and local taxes and fees, while interstate and international calls are subject to federal, state and local taxes and fees. The variation in the way that taxes and fees (some of which are merely carrier revenue fines masquerading as government-mandated fees) are applied has created a number of loopholes through which carriers have tried to wiggle through in an effort to either save

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money or gain market share or both.

Federal and state telecommunications regulations largely derive from rules in place for the transportation industry. As such, the phrase "common carriage," which carries a great deal of meaning in telecommunications circles, has its origin with rules affecting transportation including, among others, airline shipping, railroad and tracking industries. In fact, before the creation of the FCC, and during the very early monopolistic years of telecommunications growth, rules and regulations affecting the burgeoning business were set by the Interstate Commerce Commission, the same group that regulated land, air and sea transport.

Interestingly, certain tax exemptions remain between telecommunications carriers and other providers of interstate common carriage services. As an example, non-telecommunications common carriers — including airlines and trucking companies — that offer services to the public (including commercial airlines and an example, but excluding trucking companies that only deliver for a single store chain) are exempt from certain federal taxes that are levied

against other businesses based upon interstate and international telecommunications usage. These exemptions are the great-great grandchildren of the first generation of common carrier regulations.

One of the essential purposes of the landmark 1996 Telecommunications Act was to create competition on the local level, and enhance competition at the interstate and international levels. While in the intervening years between the drafting of the 1996 act and the present, market events have caused both the interstate and intrastate markets to evolve in ways different than those initially envisioned, thus creating some unique opportunities and challenges for both end-users and the affected telecommunications businesses themselves.

Specifically, consumers have had to become much more knowledgeable and creative about acquiring telecommunications services that was previously necessary. The added issues raised by the recent headlines concerning MCI have only added another layer of complexity to the already confusing telecommunications marketplace. How the charges and counter charges play out is anyone's guess, but what's certain is that competition in the telecommunications arena, while ultimately driving costs down, has created its own corporate soap opera filled with intrigue and unusual but mutually convenient alliances (to wit AT&T and Verizon on the same side). Perhaps it could be called "As the Rotary Dial Turns ..."

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