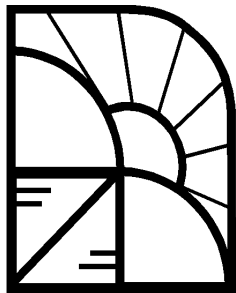


PHOENIX CENTER 2002 U.S. TELECOMS SYMPOSIUM

20 November 2002
Hyatt Regency Capitol Hill
Washington, D.C.



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Personal Remarks of
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Market Structure Matters

Sunk Costs of Entry/Exit +
Barriers to Entry =

Only a Few “Facilities-Based” Entrants

**Wishing for a Different Result Won't
Change this Fact**

Impact for Local Telecom and Unbundling

- Legal: section 251(d)(2) “impairment”
 - What about subsequent entrants?
 - Are they “impaired” without access to wholesale alternatives?
- Practical
 - Does it matter to consumer welfare?
 - Or, why would forcing all telecom entrants to be vertically-integrated between network and services (which is what denying unbundled access would do) be “bad”?

Forced Vertical Integration

Would we be better or worse of if we...

- Forced Dell to build microprocessors before they were able to sell a PC?
- Forced Intel to write operating system software before sell microchips?
- Forced Microsoft to make PCs?

Why is Local Telecom Different?

Will “intermodal” competition work?

- Different Networks, Different Capabilities (“non-homogeneous”)
- Different geographic scale
- Risk (benefit?) of product differentiation
- Risk of tacit collusion
- Examples:
 - DBS/cable competition
 - Cable telephony

Wholesale Telecom Markets

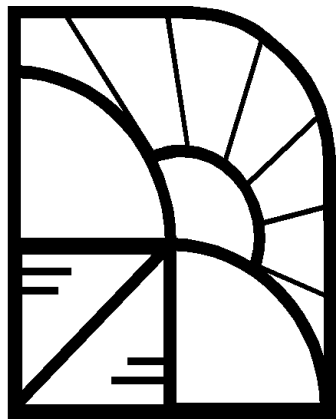
“Competitive” Telecom Markets have Vibrant Wholesale Sectors...

- Vibrant wholesale sectors: long-distance, international, satellite telecom, mobile wireless
- No vibrant wholesale sector: local telephone, multichannel video
- Moreover, *government has assisted/promoted creation of these wholesale markets*

The Lesson

Public policy should promote and foster the development of *vibrant, effective, and efficient* wholesale markets at all layers

...only then will conditions for retail deregulation be in place



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