

## BELLS UNITE: THE AT&amp;T AND BELLSOUTH DEAL

## AT&amp;T's Bid Raises Brows of Consumer Groups

## Acquisition of BellSouth Sparks Monopoly Fears, But Wider Services Likely

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Consumer advocates are likely to complain about AT&T Inc.'s proposed acquisition of BellSouth Corp., but the combination could bring more new high-tech services and lower prices to some customers.

An AT&T-BellSouth deal, if approved, would effectively create two national telephone giants, Verizon Communications Inc. and AT&T, each offering local phone, business, and wireless services. It would give AT&T sole control over the nation's largest wireless operator, Cingular Wireless, which has been a joint venture between the price-aggressive AT&T and the more conservative BellSouth.

AT&T has made a name for itself as

among the lowest-priced high-speed Internet-access providers, while the more cautious BellSouth has largely resisted such moves. A deal could change that for customers in BellSouth's home territory.

"BellSouth's mantra was to defend margins, and the mantra of AT&T was to grow the business," says analyst Roger Entner of information-technology research company Ovum, pointing to BellSouth's rates for high-speed Internet access—more than double those of AT&T, which had invested in laying fiber cable to individual homes. Mr. Entner added that BellSouth's customers could see lower prices for high-speed Internet access and other services perhaps within weeks of the deal's close.

Some consumer advocates worry that the battle between cable and phone companies alone won't be enough to keep overall prices down for voice, video, data and other services. Cable and telecommunication operators might favor their own variety of services over the offerings of competitors, limiting the availability of alternatives reaching consumers.

"If 'the average consumer wakes up in the morning and has two choices, cable or phone...they know that's not enough to guarantee competition,'" said Mark Cooper, director of research at Consumer Federation of America in Washington. The companies "will jostle each other a little bit in the beginning, but will soon figure out that it is in their interest to split the monopoly rents rather than compete them away."

As for the spread of new, high-tech services, more consumers might benefit from completion of the deal.

BellSouth has lagged behind in rolling out television services, unlike other phone companies that are trying to offset losses from the increasing number of customers who are turning to Internet-phone services sold by cable and other companies. AT&T is the first major phone company to make a foray into offering Internet-based television, and it likely will eventually roll out that service to customers in its expanded territory.

As for wireless service, the deal will give Cingular a clearer focus. Wireless analyst Ellen Daley, of Forrester Research Inc. in Cambridge, Mass., believes that the combination would allow Cingular to concentrate on extending services that blend typical wireline services with those of wireless, such as dual-mode handsets that let customers switch between the two to minimize costs.

"It's easier for the company to serve one master, and easier for them to focus on competing against Verizon," she said.

The latest deal follows SBC's acquisition of AT&T and Verizon's acquisition of MCI Inc. Both received government approval with few restrictions despite concerns that businesses customers would pay higher rates.

Consumers Union, an advocacy group, will ask the government to split AT&T into two companies—wireline and wireless—if the deal goes through, said Gene Kimmelman, federal policy director for Consumers Union, which publishes Consumer Reports.

With the decline of prices for wireless calling, many consumers have cut the cords of their landline phones. But Mr. Kimmelman believes that the merger could slow that trend, since AT&T has little incentive to keep lowering its wireless calling prices to compete with its landline business.

Mr. Kimmelman believes that the competition from cable companies is only substantial in providing Internet-access services and not in phone services, where cable providers aren't "fully in the market yet," and have a "horrible record" raising consumers' cable TV bills three times faster than the inflation rate.

In the short term, combining forces will afford the incumbent providers the sort of economies of scale enabling them to undercut the new competition with bundled services at lower prices, said James Katz, a professor of communication at Rutgers University in New Brunswick, N.J. Although the number of big telecom providers is shrinking, consolidation should make the incumbent providers more competitive against the newcomers—a boon for consumers.

But the longer term is on the side of the insurgent companies, Prof. Katz contends. The reason: The rise of new technology is happening faster than the telecommunication companies can consolidate. New Internet-based companies "can plunge their capital into new forms of communication, like Wi-Fi and Wi-Max, whereas the incumbent carriers still have their huge capital investments they will need to do something with."

As more alternatives emerge, "consumers will feel more comfortable opting out of the old monopoly providers," he added. Although new providers such as Vonage Holdings Corp. are expanding rapidly, they are far from mainstream. That will change with the proliferation of new technology, something far outpacing the restructuring of the global telecom industry. In some European countries, Mr. Kimmelman notes, phone companies have started offering combined wireline, wireless and video services for \$35 to \$40 a month, or about half or less of what U.S. consumers pay. He points out that most U.S. consumers don't purchase high-speed Internet access, and may end up paying more for basic services without obtaining any savings from bundled plans.

Others believe the merger will change little for consumers. "It's like a marriage between a couple that's been dating for a decade," said Reed Hundt, who was the Federal Communications Commission chairman under President Clinton. "It's so predictable as to not attract a great deal of questioning."

—Dionne Searcey and Christopher Rhoads contributed to this article.