

Antitrust Unit Indicates AT&T Move Isn't Near

By a WALL STREET JOURNAL Staff Reporter

WASHINGTON—The Justice Department's Antitrust Division said it's continuing its investigation of American Telephone & Telegraph Co., but indicated that it isn't close to a decision on whether to charge the company with anticompetitive practices.

"No determination has been made," according to Keith Clearwaters, Deputy Assistant Attorney General for antitrust.

Yesterday, the Bureau of National Affairs, an independent research and publishing firm, reported that the government soon would charge AT&T with antitrust violations and seek to break up the giant utility by forcing it to shed Western Electric Co., its manufacturing arm. In addition, BNA said the suit would charge AT&T with unfair marketing practices in an effort to drive competitors out of the interstate private line business.

Both AT&T and the Justice Department have confirmed earlier reports that the Antitrust Division is studying AT&T's pricing and business practices in the leased private-line market.

Mark Garlinghouse, AT&T vice president and general counsel, said yesterday that the company is "confident that we aren't in violation of the antitrust laws" and that the Justice Department "will find that no action is warranted."

Fighting Bell

Suit to Split Up AT&T Bears Out Ford Pledge Of Antitrust Firmness

Justice Agency Is Viewed As Shucking Nixon Image Of Coddling Big Business

Company Denies Violations

In its historic suit calling for breakup of the giant American Telephone & Telegraph Co., the Ford administration appeared to be making good on promises of tougher antitrust enforcement.

The Justice Department in Washington charged AT&T with monopolizing the market for telecommunications service and related equipment. The department said the action is the largest antitrust suit ever filed, based on the assets of the company involved. The suit seeks the following relief:

Divestiture of Western Electric Co., the Bell System's manufacturing arm, and the splitting up of Western Electric into two or more operating companies. In 1973 Western Electric's sales totaled more than \$7 billion, nearly one-third of AT&T's revenues of \$23.53 billion.

- Splitting off of AT&T's Long Lines Department, which handles long-distance calls,

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from the corporation's local operating companies, either by divestiture of the Long Lines unit or by sale of some or all of the operating companies.

The suit leaves the door open for the Justice Department to seek the divestiture of Bell Telephone Laboratories Inc., the company's research arm, from AT&T. "We really haven't arrived at a determination of how to handle Bell Labs," a department official said.

AT&T's Reaction

The department said it hoped the eventual result of its action would be lower telephone rates. But in New York, AT&T contended that just the opposite would happen—that costs would soar and service decline. The company also expressed surprise at the suit and denied any violation of antitrust laws.

On the New York Stock Exchange, trading of AT&T was suspended an hour before the close yesterday pending the announcement of the government action. The Securities and Exchange Commission, which halted trading, said it wouldn't be resumed before the opening of the Big Board today. The stock last traded yesterday at \$45.625, unchanged from its close Tuesday. Wall Street in general was surprised by the antitrust suit, and the action also raised some legal questions on the bond market regarding an AT&T offering.

The suit against the nation's largest company was filed in a federal district court in Washington late yesterday. The action follows President Ford's recent promise that his administration generally plans to "zero in on more effective enforcement" of the antitrust laws.

Besides showing that the administration plans to put some muscle behind its words, specialists said the suit demonstrates that the Antitrust Division is trying to shake off its Nixon administration image of laxness in treatment of big business. "It means that the Justice Department has finally been revitalized," a government antitrust official said.

Democratic Sen. Philip A. Hart of Michigan, chairman of the Senate Antitrust subcommittee, said the suit shows that the Justice Department is willing to put the antitrust laws "to work on a basic problem of the economy—the structure of a most significant industry," as well as attacking price-fixing conspiracies.

For the record, however, Justice Department officials said, the suit was filed at this time only "because we completed our investigation." They added that the White House—"both White Houses"—have been kept informed of the investigation, which began more than 14 months ago.

Regardless of high-level support, prosecution of the suit may be more difficult—and will surely take longer—than the lengthy investigation that led to the suit.

A Tenacious AT&T Fight

Major antitrust actions take years to wrap up. Moreover, during the last few years AT&T has tenaciously fought Federal Communications Commission efforts to encourage competition with the Bell System. AT&T officials have lashed out against government efforts to create competition, which they contend will weaken the company's efficient operations and produce higher telephone rates.

Justice Department officials said the AT&T suit won't even come to trial "for at least three years" barring a negotiated settlement. Appeals—presumably up to the Supreme Court—could stretch the proceeding to a decade or more. Of course, AT&T won't have to shed any units until the suit is completed.

If successful, the Justice Department suit could open the vast telecommunications business to a host of companies, including some of the nation's largest computer and communications firms, that are current or potential competitors of the Bell System.

That system is staggering in size. The 23 Bell System operating subsidiaries serve 112.3 million telephones, or more than 80% of the nation's total, leaving the other 20% or so to some 1,705 independent phone companies, according to the Justice Department. In addition, the company's Long Lines department transmits more than 90% of the nation's long-distance telephone calls. The Bell System also transmits most of the nation's data, television shows and other communications, and it manufactures most

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Fighting Bell: AT&T Suit Backs Ford Pledge of Antitrust Rigor

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of America's communications equipment (For details of current Bell System operations, see story on page 6.)

The Justice Department last charged AT&T with antitrust violations in 1949, and that suit wasn't settled until 1956. Bell disposed of that action by signing a controversial consent order, which many critics charged didn't go nearly far enough.

The 1949 complaint also called for the divestiture of Western Electric, but AT&T settled the suit by agreeing that Western Electric manufacture only telephone equipment. As a result, Western Electric had to shed certain units that manufactured nontelephone equipment, such as railroad-dispatch machinery and movie gear.

The current suit represents an admission by the antitrusters that the 1956 settlement "wasn't strong enough," said Keith I. Clearwaters, third in command of the Antitrust Division.

Government antitrusters said the reason for filing the new suit is simple: Because of AT&T's massive clout, the telecommunications industry isn't competitive. "The purpose of this suit is to make the industry competitive, and that's what we're going to do," said Joe Sims, special assistant in the Antitrust Division.

The hoped-for upshot: lower telephone costs eventually. "By instilling more competition, we should be able to help lower rates to consumers," Mr. Sims said.

Attorney General William Saxbe said the government had "carefully considered the possible impact" of the antitrust action against AT&T and concluded that "the law must be enforced."

In New York, AT&T said that "we are confident that we are not in violation of the antitrust laws and are astonished that the Justice Department would take its present action with apparent disregard for its impact on the public." The statement, by AT&T's chairman, John D. deButts, said that the federal move "could lead to fragmentation of responsibility for the nation's telephone network. If that happens, telephone service would deteriorate and cost much, much more."

For the 1,700 non-Bell phone companies in the U.S., a successful antitrust move could prove a mixed blessing. None of them compete with AT&T for phone customers. Like AT&T's subsidiaries, each has a monopoly franchise to provide phone service in a specific territory. Indeed, monopoly was brought to the phone industry because competition created inconvenience and costly service; in some places you needed three different phone companies' equipment to be able to talk to everyone in town. None of the rival firms there would accept a call from a competitor's phone line.

The non-Bell, or independent, companies might find it advantageous to buy equipment from Western Electric if it were spun off. But a number of them have manufacturing units of their own, and they may find it difficult to compete with a mammoth like Western.

Breaking off the Long Lines department, however, could give the independents a bigger share of long-distance revenues and a larger voice in deciding how the revenues are to be split.

Wall Street was surprised and shocked by the scope of the government's action against AT&T, whose stock is the most widely held in the nation; the company's 556 million shares are in the hands of more than 2.9 million holders.

"It raises the old question, 'Who needs this now?'" says Robert Stovall, vice president of Reynolds Securities. "Hitting AT&T at this time—when companies are having trouble raising money, the stock market's on tenterhooks and the bond market is just beginning to recover—is bound to shock a lot of people."

Analysts believe the federal action, initially at least, will hurt the company's stock, although they had considered antitrust moves against AT&T a possibility for some time. They fear, too, that the reaction could chill other sections of the market as well.

"The implications are large," says Douglas Robertson, an analyst at Argus Research Corp., "and far too little is known yet to really analyze them. I would hope that any negative investor reaction would be temporary, but the action raises more questions than there are answers at this point."

On the bond market, the antitrust move raised legal questions regarding a \$600 million public offering by AT&T on new notes and debentures that had begun just a week earlier. The major problem, bond dealers said, is whether the giant sale, the largest ever by any utility, can be brought to conclusion. The reason is that the Justice Department action appears to alter facts contained in the official prospectus.

Investors haven't yet received and paid for the securities, nor has Salomon Brothers, the managing underwriter, delivered the \$600 million check to AT&T. Last night, however, Salomon Brothers said it expected to deliver the check next Tuesday, as scheduled, and said it would make the necessary changes in the prospectus. Despite that statement, both Salomon and the investors conceivably could use the government suit in an attempt to void their commitments.

In Washington, Justice Department officials said that "in terms of assets," yesterday's suit against AT&T—with assets of \$67 billion—is the largest the Antitrust Division has ever filed. It surpasses the 1911 action that led to the breakup of Standard Oil Co. and the still-pending suit against International Business Machines Corp. The IBM case, filed in 1969, hasn't come to trial yet.

The 15-page complaint charges that AT&T, Western Electric, Bell Laboratories and various coconspirators that weren't named as defendants, including the Bell System's 23 operating subsidiaries, are "engaged in an unlawful combination and conspiracy to monopolize" the telephone and related communications businesses.

According to the suit, the conspiracy

"has consisted of a continuing agreement and concert of action among the defendants and coconspirators" to:

— "Prevent, restrict and eliminate competition" from other telecommunications companies

Give Western Electric all the Bell System's business for telecommunications equipment, eliminating competition from other potential suppliers.

The suit also alleges that AT&T, Western Electric and Bell Laboratories have "attempted to obstruct" a number of companies competing for portions of the Bell System's business by making it difficult for the competitors to hook into Bell System facilities. As a common carrier regulated by the Federal Communications Commission, AT&T is supposed to provide service to all customers.

The would-be competitors listed in the complaint include the following categories, although specific companies weren't named.

— Specialized common carriers, which compete with the Bell System to lease point-to-point microwave circuits—called private lines—to business customers for the transmission of voice, data and facsimile communications at flat monthly charges. The Bell System currently accounts for about 90% of the \$1.1 billion private-line market, according to the Justice Department. Companies striving to compete with the Bell System for this business include International Telephone & Telegraph Corp. and MCI Communications Corp.

— Domestic satellite carriers, which want to compete for the long-distance transmission of television signals, data and voice communications. Companies seeking to compete in this area are RCA Corp.; Communications Satellite Corp., which has a joint venture with AT&T and has also proposed a joint venture with IBM; and Western Union Corp.

— So-called radio common carriers that provide mobile telephone service, taxi-dispatch service through mobile radios, and paging services. Motorola Inc. competes with the Bell System in this field, but a host of smaller companies also fight for business in the area.

— The terminal equipment, or interconnection industry, which manufactures data processing, facsimile and even telephones for connection to Bell System lines and circuits.

Over the last few years, the Federal Communications Commission has issued a number of decisions designed to open these fields to companies trying to compete with AT&T. But many of the companies have charged, both in court and before the FCC, that the Bell System has blocked them from head-to-head competition by making it difficult for them to tie into Bell System facilities.

For instance, this week nine manufacturers of interconnection equipment filed a private antitrust suit against AT&T. The suit charged the company with stifling competition and sought \$900 million in damages. Other aspiring competitors have also filed a raft of private suits.

In case the government feels the proposed divestitures of Western Electric and the long-distance operations aren't enough to fully restore competition in the telecommunications business, the Justice Department left itself an open end. One section of the complaint says the government also seeks "other and further relief as the nature of the case may require." This "further relief" could mean AT&T's shedding of Bell Laboratories, antitrust officials said.

All in all, the suit is broader than most people outside the Antitrust Division had anticipated, and its size raises the question of whether the Justice Department may have bitten off more than it can chew. Already, it is understood, the Antitrust Division's force of 370 lawyers is strained with the huge IBM case and a variety of investigations.

"At this point, we think we do have enough resources," says Mr. Sims of the Antitrust Division. "If later on we think we need more manpower, then we'll try to get it."



Department of Justice

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AT

The Department of Justice today filed a civil antitrust suit charging American Telephone and Telegraph -- the world's largest privately owned corporation -- with monopolizing telecommunications service and equipment in the United States. The suit seeks substantial divestiture by AT&T.

Attorney General William B. Saxbe said the suit was filed in U.S. District Court in Washington, D.C.

Assistant Attorney General Thomas E. Kauper, in charge of the Antitrust Division, said Western Electric Company, Inc., a wholly-owned subsidiary of AT&T, and Bell Telephone Laboratories, Inc., owned equally by AT&T and Western Electric, were also named defendants.

The 23 local Bell Telephone Operating Companies -- which together with the three defendant firms make up the Bell System -- were named co-conspirators but not defendants.

Mr. Saxbe said "I am fully aware of the service that the Bell System has provided. Nevertheless, I believe the law must be enforced. We have carefully considered the possible impact of this litigation and the requested relief. Of course, the ultimate relief to be achieved will be for the court to decide."

AT&T has total assets of more than \$67 billion, and its operating company subsidiaries supply more than 80 percent of the nation's telephones.

Those subsidiaries, often in conjunction with AT&T's Long Lines Department, take part in handling more than 90 percent of all interstate telephone calls in the United States.

Western Electric Company, Inc., which manufactures telecommunications equipment for the Bell System, is one of the nation's largest industrial corporations with total sales in excess of \$7 billion in 1973.

Bell Telephone Laboratories -- the nation's largest industrial laboratory -- conducts scientific research, development and design for the Bell System.

Mr. Kauper said the complaint charged the three defendants with combining and conspiring to monopolize, attempting to monopolize and monopolizing the telecommunications service and equipment markets, all in violation of Section 2 of the Sherman Act. He said the conspiracy included various named and unnamed co-conspirators not named defendants.

He said the complaint charged the defendants with:

-- Obstructing the interconnection with the Bell System of Specialized Common Carriers, firms

which transmit voice, data, and other telecommunications on a private line basis, such as a regional telephone network designed to serve the various offices of a particular company;

- Obstructing the interconnection of Miscellaneous Common Carriers, firms which transmit audio and video programming for broadcasters, such as a microwave company which transmits programs from a television network to its affiliates;
- Obstructing the interconnection of Radio Common Carriers, firms which provide land mobile telecommunications services in competition with franchised telephone companies, such as firms which provide telephone service for automobiles and paging devices;
- Obstructing the interconnection of Domestic Satellite Carriers, the few firms which transmit voice, data, and other communications on a private line basis via satellites;
- Obstructing the interconnection of customer-provided terminal equipment and refusing to sell terminal equipment, such as telephones, automatic answering devices or switchboards, to subscribers; and
- Directing the majority of Bell System telecommunications equipment purchases to Western Electric.

The various common carriers alleged to have been adversely affected by the actions of the defendants and co-conspirators are licensed by the Federal Communications Commission to provide interstate service in competition with services offered by AT&T and its subsidiaries.

The complaint further alleges that the defendants and co-conspirators attempted to prevent, restrict, and eliminate competition from private communications systems, principally microwave systems constructed and owned by major corporations to satisfy their internal telecommunications requirements.

According to the complaint, the alleged violation of Section 2 of the Sherman Act had the following effects:

- Defendants have achieved and maintained a monopoly in telecommunications service and telecommunications equipment in the United States;
- Actual and potential competition in telecommunications service and telecommunications equipment has been restrained and eliminated; and
- Purchasers of telecommunications service and telecommunications equipment have been denied the benefits of a free and competitive market.

In addition to a decree declaring that the defendants have violated Section 2 of the Sherman Act and an injunction preventing the defendants and their agents from any future

violations, the suit seeks the divestiture by AT&T of Western Electric.

In addition, it seeks the division of Western Electric into two or more competing firms if necessary to assure competition in the manufacture and sale of telecommunications equipment.

The suit also asks that AT&T be required to separate some or all of its Long Lines Department from some or all of the Bell Operating Companies through divestiture of capital stock interest or other assets.

This could result in the divestiture of the Long Lines Department from the Bell System or the divestiture of some or all of the Bell Operating Companies -- as separate and independent companies -- by AT&T in the interest of ensuring competition in telecommunications service and telecommunications equipment.

Mr. Kauper said "the specific relief we will seek to separate the Long Lines Department from the Bell Operating Companies will depend on what is feasible based upon the evidence adduced at trial."

The suit does not challenge the concept of exclusive franchises for the provision of local exchange telephone service.