



# NEWS

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## **FCC CHAIRMAN MICHAEL POWELL OUTLINES SIX CRITICAL STEPS FOR TELECOM INDUSTRY RECOVERY; CALLS FOR LEGISLATION IN THREE AREAS**

Washington – FCC Chairman Michael Powell today outlined six steps for managing the current turmoil in the telecommunications industry and “for stabilizing the industry over time.”

Testifying before the Senate Commerce Committee, Powell said the telecommunications market “is not collapsing and is not going to fail over time.” However, he said that it is “riding on very stormy seas,” and added, “Recovery is not going to occur overnight and is likely to require difficult - even painful – choices. Successful recovery is dependent on the collective efforts of Congress, federal and state regulators, the private sector and financial markets.”

Powell said he remains “confident that we are not facing a crisis in the provision of services stemming from WorldCom’s bankruptcy.” He said the FCC has procedures in place to respond to bankruptcy situations in the industry to “(1) maintain the operation of the network, (2) contain the fallout to prevent damage to other companies or consumers, and (3) provide for an orderly transition of customers and assets, should that be necessary.”

Powell asked Congress to “assist us in our efforts by providing the Commission with more tools to protect and promote the public interest.” Specifically, he requested additional statutory authority to extend the FCC’s ability to prevent service disruptions, to increase the maximum fines the FCC can impose in enforcement actions, and to provide the right regulatory environment for the provision of broadband services.

Chairman Powell’s six critical steps for economic recovery include:

(1) Protect Service Continuity: Powell said the first step is “to protect consumers by ensuring continuity of service and by maintaining the integrity and reliability of our Nation’s telecommunications network in light of the risks and realities stemming from future bankruptcies.”

(2) Root Out Corporate Fraud: Powell said that “the degree of deception and malfeasance that has been uncovered in recent weeks is deplorable.” As a second step, He said, “Governments must continue to vigorously seek out, prosecute and jail corporate wrongdoers that have personally profited while defrauding the American people.”

(3) Restoring Financial Health: Cleaning up the Balance Sheets: Powell said the third step is for telecom firms to “clean up their balance sheets to restore financial stability and reality to this industry.”

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He noted that telecommunications companies are estimated to be carrying approximately \$1 trillion in debt, and he warned, “Until firms substantially pay down this debt, much needed capital will continue to sit on the sidelines and the recovery will be stalled.”

(4) Prudent Industry Restructuring: Powell said that under the fourth step of his outline, “It is difficult to imagine the industry stabilizing without some modest and prudent restructuring.” Citing problems of markets “glutted with excess capacity,” he said, “One cannot think about long-term consumer benefits without also considering the long-term prospects of carriers that provide quality service to consumers. For other industry participants, survival and health will depend on prudent industry consolidation.” Powell added, “I emphasize ‘prudence’ because some mergers clearly could present a threat to competition and may not be in the public interest.” He said, “Regulators will have to walk a fine line to achieve stability while not squelching competitive opportunity.”

(5) New Revenue through New Services: Powell said, “To grow and expand revenues, companies must offer new services,” citing broadband services as a substantial growth area. He said that the development and deployment of “true broadband infrastructure” will provide the opportunity to develop new services that will “take the infrastructure to new heights not understood or appreciated today.” He said, “We must now focus on uncorking the network at the last mile, and regulatory policy must lead the way.”

(6) Reform Economic and Regulatory Foundations: Powell said that a sixth step requires federal and state policymakers “to continue to work diligently to create genuine and viable economic regulatory foundations for communications services and competition,” including more pricing flexibility for local retail services, incentives for competitive entry, promoting deployment of advanced networks, and promoting “more efficient use of spectrum while continuing to find ways to get more spectrum into the market.”

Powell listed three areas where additional legislative authority would help:

(1) He asked for extension and clarification of Section 214 discontinuance authority “so that we can limit any service disruption in these troubled times.” He warned that current section 214 authority may not extend to critical services such as the Internet backbone.

(2) He reiterated his call “to put some real teeth in our enforcement authority” by increasing the maximum fine from \$120,000 to \$1 million for a single violation and from \$1.2 million to \$10 million for a continuing violation, and to lengthen the statute of limitations for common carrier enforcement. He said the increased penalties “will have a solid, deterrent effect against illegal activities.”

(3) He said that “broadband very likely holds the key for the long-term recovery of the telecommunications industry,” and said, “The importance of the development, however, merits that Congress take a hard look at updating the Telecommunications Act of 1996 to provide the proper regulatory framework for broadband.” He said the FCC hoped this year to complete “core” broadband proceedings, but said, “The importance of residential broadband to improving

revenue growth and stimulating demand to drain excess capacity, merits the attention of Congress.”

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