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COMMENT & ANALYSIS - Finding a new way to communicate - MICHAEL POWELL.  
By MICHAEL POWELL.

As unforgiving financial markets and corporate scandals batter the telecommunications industry, there is an urgent need to restore confidence. The industry is, after all, important to economic prosperity and the quality of life around the world.

All stakeholders in the US telecoms sector - consumers, the industry, Wall Street, and the government - must act responsibly to strengthen the market. The path that the US takes will help determine what happens overseas.

A clear understanding of the recent dynamics of the telecoms industry is essential to developing effective policies. In the US, the 1996 Telecommunications Act launched an ambitious effort to increase competition in the communications market. The Act was implemented during an economic boom. Now, the government must review that experience and identify what changes are needed during a harsh market downturn.

It may seem that everything has gone wrong. In truth, the sector confronts two interrelated crises. One involves accounting scandals and corporate malfeasance. The other is reflected in broad sectoral distress: the sector is burdened with estimated debt of nearly \$1,000bn (€23bn); nearly half a million communications workers have lost their jobs and US companies have lost \$2,000bn in market value.

These two crises have undermined public confidence and investor faith in the sector's future prospects. But sweeping pessimism is unwarranted. Despite the challenges, the US market is showing resilience. Internet usage continues to grow at historically high levels for a new technology; broadband is increasingly available to residential users; wireless services are widespread; and consumers now routinely use an array of communications services unimaginable to earlier generations. Liberalisation of communications markets is directly responsible for this progress and US government policies will continue to assist in these areas.

So how did such a positive story become swamped by gloom and disaster? The late 1990s "internet gold rush" spurred vast capital flows into construction of new networks. Network usage grew dramatically, but not enough to fill the newly available capacity. After the dotcom crash, investors demanded more immediate return from telecoms investments, but there was not enough revenue to support all those who had entered the market. As telecoms companies began to fail, some others resorted to fraud and deception to mask core fundamental problems and even to inflate, artificially, revenue growth.

I believe there are ways to stabilise the industry, despite its dire problems. Several steps are critical to form the foundation for any lasting recovery.

First, we must root out corporate fraud. The degree of deception and malfeasance we have witnessed is deplorable. There is no hope for any sector of the economy if corporate leadership does not end such deception and breach of public trust. Governments must continue to vigorously seek out, prosecute and jail corporate wrongdoers. Investment activity will not return without renewed confidence in corporate governance.

Second, financial health must be restored to the industry. Telecom companies must clean up their balance sheets, and address the debt load. Again, there has been progress in this area. There

have been major shake-ups within companies as corporate boards respond to demands to be more aggressive, and more focused on the operations of their companies.

Third, there must be industry restructuring to address overcapacity, hyper-competition, weak pricing power and falling revenues. I will recommend that the Federal Communications Commission block any transactions that are anti-competitive and harm consumers. But no transaction will be deemed unthinkable before the application is even filed with the FCC. This commission will review mergers on merit, and not try to shape the industry's structure by public musings.

Fourth, the industry needs new sources of revenue. Companies must find ways to stimulate the demand needed to employ the existing over-supply of capacity. In the residential market, the most promising opportunities appear to be linked with broadband. The FCC wants to create a regulatory climate that promotes investment in broadband. We are also re-examining our spectrum and media policies to ensure that we do not artificially constrain these sectors. The public interest will be served by giving consumers new services and improving revenue prospects for producers.

Fifth, there must be a reform of the industry's economic and regulatory foundations. The FCC must provide a regulatory framework that promotes facilities-based competition - where companies use their own equipment, rather than leasing it from a competitor - investment and innovation. While fraud and excessive debt have resulted in the problems of the current market, everyone involved needs to take constructive action. The effort I have outlined goes far beyond the scope of one national regulatory agency. Telecommunications stakeholders must work together to prevent the current economic turmoil from limiting the industry's long-term promise.

The writer is chairman of the US Federal Communications Commission.