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AT&T and the Antitrust Laws: 
A Strict Test for Implied Immunity

In a major antitrust suit recently filed against American Telephone and Telegraph Co. (AT&T),¹ the United States alleges that AT&T has monopolized the markets for telecommunications equipment and services² in violation of § 2 of the Sherman Act.³ The Government is seeking to separate AT&T's operating companies, which provide principally intrastate telephone and other telecommunications services, from its Long Lines Department, which provides interstate services and interconnection between the operating companies.⁴

The Government is attempting to restructure an industry heavily regulated by the Federal Communications Commission (FCC). As a result of the suit, the court and the Commission will be engaged in overlapping factual inquiries under different statutes embodying different legal standards; the suit threatens to interfere with the Commission's efforts to formulate and implement regulatory policy in the communications industry. This threat of interference is clearest in the most important submarket of interstate telecommunications services—intercity voice and data transmission.⁵ This Note argues that in this submarket the conduct challenged by the Government is within the exclusive jurisdiction of the FCC and is therefore immune from the antitrust laws.

¹. United States v. AT&T, Civil No. 74-1698 (D.D.C., filed Nov. 20, 1974).
². Complaint at 11-15, United States v. AT&T, Civil No. 74-1698 (D.D.C., filed Nov. 20, 1974) [hereinafter cited as Complaint]. This Note does not discuss the claim of monopolization in the telecommunications equipment market.

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony. . . .

⁵. For a definition of this submarket for antitrust purposes, see note 70 infra. This Note does not discuss the Government's allegations concerning AT&T's conduct in two secondary submarkets for telecommunications services—video program transmission and mobile telephone service.
I. The Doctrine of Implied Immunity

A. Reconciling Antitrust and Regulation

The accommodation of the antitrust laws and economic regulation has troubled courts since the earliest applications of the Sherman Act.6 Broadly speaking, the Act seeks to prevent “undue limitation on competitive conditions”;7 it is premised on the theory that “the unrestrained interaction of competitive forces will yield the best allocation of our economic resources.”8 The theory of regulation, on the other hand, is that the “unrestrained interaction of competitive forces” in a particular industry will not adequately serve the public interest.9 Congress therefore establishes a regulatory agency to supervise the conduct of firms in the industry according to a generalized concept of the “public interest”10 which embodies no necessary preference for competition.11 Subjecting a regulated firm to antitrust liability raises the danger that conflicting standards of conduct may be imposed on the firm by the court enforcing the competitive mandate of the antitrust laws and by the federal agency enforcing its view of the public interest.

Any attempt to resolve this conflict must begin with the antitrust and regulatory statutes themselves. In some industries, Congress has perceived the potential for conflict and has granted immunity from the antitrust laws for certain conduct by regulated firms.12 Where

6. See, e.g., United States v. Trans-Missouri Freight Ass’n, 166 U.S. 290 (1897) (rate agreement among railroads, approved by Interstate Commerce Commission, held subject to antitrust laws).
7. Standard Oil Co. v. United States, 221 U.S. 1, 58 (1911).
8. Northern Pac. Ry. v. United States, 356 U.S. 1, 4 (1958). The Act was also intended to serve the noneconomic goal of providing “an environment conducive to the preservation of our democratic political and social institutions . . .” by preventing massive concentrations of industrial power. Id. See United States v. Aluminum Co. of America, 148 F.2d 416, 427 (2d Cir. 1945) (Congress “not necessarily actuated by economic motives alone” and may have preferred a system of small producers for “indirect social or moral effect”).
9. See 2 A. Kahn, The Economics of Regulation: Principles and Institutions 1, 4-5 (1971). For example, the relevant market may be one of natural monopoly which cannot efficiently support more than one firm; market imperfections may prevent the competitive process from producing goods of optimal quality, quantity, and price; or desired policy objectives other than those associated with competition may not be achieved. C. Kaysen & D. Turner, Antitrust Policy: An Economic and Legal Analysis 189-90 (1959).
10. See, e.g., 47 U.S.C. § 201(a) (1970) (FCC may order a common carrier to interconnect with another if in “public interest”); id. § 201(b) (rates and practices must be “just and reasonable”); id. § 214 (no construction or extension of lines unless for “public convenience and necessity”); Loewinger, Regulation and Competition as Alternatives, 11 Antitrust Bull. 101, 128-34 (1966).
Congress has failed to resolve explicitly the potential conflicts between antitrust and regulation, a court faced with an antitrust claim must attempt to infer congressional intent from statutory language and legislative history. Because these often provide little guidance, the courts have been forced to develop their own standards for making the accommodations between federal regulation and antitrust. The result of these efforts at accommodation has been a judicial doctrine under which an antitrust claim against a regulated firm will be dismissed if the conduct challenged has an “implied immunity” from the antitrust laws or, equivalently, is within the “exclusive jurisdiction” of the regulatory agency.

B. A Strict Test for Implied Immunity

The reasoning by which a court decides a particular claim of implied immunity is often only implicit in its opinion. In Gordon v.
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New York Stock Exchange\textsuperscript{16} and United States v. National Association of Securities Dealers (NASD),\textsuperscript{17} the Supreme Court recently upheld immunity defenses to allegations of price fixing, concerted refusals to deal, and resale price maintenance in the securities industry, where the Securities and Exchange Commission (SEC) had specific authority to approve the conduct challenged in the suit. The Court apparently assumed that Congress must have recognized that it was allowing the SEC to approve per se violations of the antitrust laws.\textsuperscript{18} In cases such as the Government antitrust suit against AT&T, however, a broader range of conduct is at issue, and the alleged antitrust violation is more complex. In such circumstances the Court's willingness to find immunity has turned on whether the defendant is subject to regulation which is sufficiently "pervasive."\textsuperscript{19} The logic of this inquiry appears to be that if Congress has invested a regulatory agency with pervasive authority over an industry under a discretionary public interest standard, it must have determined that competition alone was inadequate to vindicate the public interest. Therefore, Congress must have intended to exempt the regulated firms from the competitive standard of the antitrust laws, at least when the matters at issue in the antitrust suit are within the agency's authority.\textsuperscript{20}

It is difficult, however, to give the doctrine of implied immunity any precise analytical content. The leading cases apply conclusory labels to discrete fact situations, stating on the one hand that immunity is implied only in cases of "plain repugnancy"\textsuperscript{21} between the

\textsuperscript{16} 422 U.S. 659, 682, 691 (1975) (upholding summary judgment for defendants in class action against major stock exchanges and their members alleging that the system of fixed commission rates for certain transactions was in violation of §§ 1 and 2 of the Sherman Act).

\textsuperscript{17} 422 U.S. 694, 729-30 (1975) (upholding dismissal of complaint alleging a combination by association of securities dealers and others to restrict the sale and fix the resale prices of mutual fund shares in secondary market transactions). For a discussion of Gordon and NASD, see Note, SEC Regulation as a Pervasive Regulatory Scheme—Implied Repeal of the Antitrust Laws with Respect to National Securities Exchanges and the NASD, 44 FORDHAM L. REV. 355 (1975).

\textsuperscript{18} See Gordon v. NYSE, 422 U.S. 659, 681-82 (1975) (Court notes that legislative permission for fixing of commission rates under SEC supervision occurred seven years after the Court's decision in United States v. Trenton Potteries Co., 273 U.S. 392 (1927), declaring price fixing a per se violation of the Sherman Act.) This logic is more explicit in the lower court opinion in Gordon. Gordon v. NYSE, 498 F.2d 1303, 1307 (2d Cir. 1974).


antitrust and regulatory statutes, and on the other that it is implied to keep federal agencies "free from the disruption" of conflicting antitrust judgments. Factors relied upon in one case are ignored altogether in others. Commentators have despaired of formulating a coherent theory of the implied immunity doctrine, and lower courts are left with little or no guidance in deciding an immunity claim on a particular set of facts.

But it is possible to distill from the Supreme Court's decisions all the criteria which it has found relevant in determining whether antitrust immunity should be implied. Any claim of immunity which can meet all of these criteria should certainly succeed. The case law suggests five criteria for this strict test: (1) the conduct challenged in the antitrust complaint, as well as rates, entry, and investment in the market, should be continually subject to the supervisory authority of the regulatory agency; (2) the agency should have the power to grant the relief requested by the antitrust plaintiff; (3) the benefits of competition should enter into the agency's public interest calculation; (4) agency expertise should be particularly useful in deciding issues in the antitrust suit; and (5) the antitrust suit should involve important regulatory policy questions.

1. **Supervisory Authority over Conduct**

In the leading implied immunity case, *Pan American World Airways, Inc. v. United States*, the Supreme Court reversed a judgment against Pan American for violations of § 2 of the Sherman Act, ruling that the complaint was within the exclusive jurisdiction of the Civil Aeronautics Board (CAB). The Court stressed that the acts alleged in the suit as antitrust violations were "precise ingredients" of the CAB's regulatory authority. To satisfy this criterion, the conduct

23. See, e.g., p. 292 infra.
24. See Handler, supra note 13, at 290-92 (suggesting a national committee to study the proper accommodation of regulation and the antitrust laws); Pogue, supra note 15, at 317.
25. 371 U.S. 296 (1963). The Court remanded the case with an order that the complaint be dismissed. See Note, *Antitrust and the Regulated Industries: The Panagra Decision and its Ramifications*, 38 N.Y.U.L. Rev. 593 (1963). *Pan Am* was the first case in which the Court was clearly using the concept of exclusive agency jurisdiction. *Id.* at 604.
26. Specifically, the Court referred to the CAB's authority to grant certificates for operation on assigned routes and to allow or disallow affiliations between common carriers and air carriers. 371 U.S. at 305. See Hughes Tool Co. v. Trans World Airlines, Inc., 409 U.S. 363, 402-03 (1973) (Burger, C.J., dissenting).

The district court in *Pan Am* had held that Pan American Airlines violated § 2 of the Sherman Act in using its 50 percent ownership of Panagra Airlines to prevent Panagra from securing authority from the CAB to extend its routes from the Canal Zone to
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at issue in the suit must be subject to the supervisory authority of the relevant regulatory agency; in other words, the agency must have authority to monitor the activity and to order that it be modified or terminated.27

Several cases suggest further that the agency's supervisory authority must extend to essentially the type of regulation imposed on public utilities,28 which has traditionally involved control over the rates, entry, and investment of firms in the industry.29 This stricter requirement of supervisory authority is in keeping with the concept of "pervasive regulation." An agency which controls these market variables can better shape the industry to meet the various policy objectives implicit in the regulatory act's public interest standard.

the United States in competition with Pan Am. 193 F. Supp. 18 (S.D.N.Y. 1961). The initial complaint also charged (1) that Pan Am and W.R. Grace & Co. formed Panagra under an agreement that Panagra would have the exclusive right to traffic along the west coast of South America while Pan Am, with no competition from Panagra, would operate in other parts of South America and between the Canal Zone and the U.S.; (2) that Grace conspired to monopolize and did monopolize air commerce between the eastern coastal areas of the U.S. and the western coastal areas of South America and Buenos Aires. 371 U.S. at 298.

27. The "precise ingredients" criterion was first stated in United States Navigation Co. v. Cunard S.S. Co., 284 U.S. 474 (1932), a case involving an alleged combination and conspiracy among certain shipping firms in violation of §§ 1 and 2 of the Sherman Act. The Court concluded that the matter was within the exclusive jurisdiction of the Shipping Board. 284 U.S. at 485. The Supreme Court has subsequently suggested that Cunard was a case of express, not implied, immunity under § 15 of the Shipping Act. Carnation Co. v. Pacific Westbound Conf., 383 U.S. 213, 220-21 (1966). However, the Cunard Court did not rely on an express immunity theory. See United States Navigation Co. v. Cunard S.S. Co., supra at 486-87.

28. In United States v. RCA, 358 U.S. 334 (1959), the Supreme Court considered the question whether the FCC's approval of an agreement to exchange television stations barred a civil antitrust action by the Government. The Court ruled that it did not, noting that most of the cases dealing with implied immunity concerned common carriers rather than broadcasters. Id. at 348. The Court observed that broadcasters are not subject to the extensive controls, such as rate regulation, which typify common carrier regulation, id. at 348-49, and reasoned that the failure to subject broadcasters to the extensive regulation conventionally applied to common carriers necessarily implied that Congress intended that the field of broadcasting be one of free competition. Id. at 349. It held that the antitrust laws should therefore apply. Id. at 350.

In United States v. Philadelphia Nat'l Bank, 374 U.S. 321, 352 (1963), the Court rejected a claim of implied immunity, noting that "bank regulation is in most respects less complete than public utility regulation" and that federal agencies had no authority over investment and service and only indirect authority over rates.

It should be noted that the Court in RCA uses the term "primary jurisdiction" instead of "implied immunity" or "exclusive jurisdiction." For a discussion of the confusion involved in the use of these terms, see note 15 supra. It is obvious from the references in RCA to two implied immunity cases, Keogh v. Chicago & N. Ry., 260 U.S. 156 (1922), and United States Navigation Co. v. Cunard S.S. Co., 284 U.S. 474 (1932), that the Court was using the term "primary jurisdiction" in the sense of both primary and exclusive jurisdiction. 358 U.S. at 347-48. A similar confusion exists in Philadelphia National Bank. 374 U.S. at 353-54.

29. See I. A. KAHN, supra note 9, at 20-21. Authority over investment should include authority to order capacity expansions and generally to maintain the quality of service.
If Congress failed to grant an agency authority over these variables, it may not have intended to supplant conventional market forces and displace the antitrust laws.

The supervisory authority criterion was emphasized in *Hughes Tool Co. v. Trans World Airlines, Inc.* In holding that the CAB had exclusive jurisdiction over the alleged anticompetitive conduct, the Court relied on the fact that the conduct was continually subject to the supervisory authority of the agency. Mere agency authority to approve a firm's entry into the market, without the authority to monitor its conduct, is not sufficient for antitrust immunity. But the Court

30. 409 U.S. 363 (1973). As Chief Justice Burger points out in his dissent, the acts at issue in *Hughes Tool* were elements of an attempt to restrain trade in aircraft supply and manufacturing. The CAB has no authority over entry, rates, or investment in this market, and hence does not meet the more demanding requirement of supervisory authority discussed at p. 259 *supra*. *Hughes Tool Co. v. Trans World Airlines, Inc.*, 409 U.S. 363, 403 (1973) (Burger, C. J., dissenting); Handler, *supra* note 13, at 286.

31. TWA instituted this suit for treble the alleged damages resulting from the Hughes Tool Company's exercise of its controlling interest in TWA from 1944 to 1960, in particular, Hughes Tool's efforts to control the acquisition and financing of aircraft by TWA. Under § 408 of the Federal Aviation Act, 49 U.S.C. § 1378 (1970), the Civil Aeronautics Board must approve the acquisition of control of an air carrier by any person engaged in any phase of aeronautics. The Supreme Court held that this authority, in conjunction with the CAB's ongoing supervisory authority under § 415 of the Act, 49 U.S.C. § 1385 (1970), placed the conduct at issue beyond the reach of the antitrust laws. 409 U.S. at 389.


The confusion stems from the fact that the Court did pursue both arguments. Section 414 of the Federal Aviation Act, 49 U.S.C. § 1384 (1970), provides that any person affected by an order under § 408, 49 U.S.C. § 1378 (1970) (consolidation, merger, purchase, lease, contracts to operate, or acquisition of control of air carriers), § 409, 49 U.S.C. § 1379 (1970) (interlocking relationships), or § 412, 49 U.S.C. § 1382 (1970) (pooling and other agreements), is relieved from the operation of the antitrust laws insofar as necessary to enable them to comply with the order. The Court made a determined effort to work the fact situation in *Hughes Tool* into the express immunity framework of § 414 by attempting to view all the transactions between Hughes Tool and TWA from 1944 to 1960 as part of the original 1944 order under § 408 permitting Hughes Tool to obtain de facto control of TWA. 409 U.S. at 375-76, 379.

However, as Chief Justice Burger noted in his dissent, many of the actions alleged to have damaged TWA were never reviewed by the CAB. Id. at 404 n.18. The Government itself made this observation, Memorandum for CAB as Amicus Curiae at 9-15, which seriously undermined the majority's contention that "[e]ach transaction was approved by the Board and each approval was an order under § 408 . . . ." 409 U.S. at 379. In view of these difficulties, the Court's references to the CAB's supervisory authority over the control exercised by Hughes Tool years after the original CAB authorization appear to be an attempt to fit *Hughes Tool* into the implied immunity formula of *Pan Am*, a decision which is cited with approval throughout the opinion. See 409 U.S. at 388-89. The Supreme Court has recently given support to this interpretation by citing *Hughes Tool* as an implied immunity case. United States v. National Ass'n of Sec. Dealers, 422 U.S. 694, 734-35 (1975).
indicated in Hughes Tool that the CAB need not actually have approved the conduct at issue or even have been aware of it, so long as the agency had the power to exercise control over the general class of conduct if it chose to do so. The Supreme Court has recently indicated that the degree to which an agency's supervisory authority is exercised may be relevant to, although not necessary for, a finding of implied immunity. Read together, the leading implied immunity cases dealing with SEC and CAB regulation suggest that immunity requires either evidence of active supervision or existence of a complaint procedure by which an injured party may invoke the jurisdiction of the agency.

32. See 409 U.S. at 385-86, 389. The importance of this supervisory authority criterion was also emphasized in Otter Tail Power Co. v. United States, 410 U.S. 366 (1973). The Government brought an antitrust suit against Otter Tail Power, an electric power company, to enjoin alleged violations of the Sherman Act, including Otter Tail's refusal to sell power at wholesale to municipal systems in communities where it had previously been selling at retail and its refusal to transfer ('wheel') power from other companies over its transmission facilities to these systems. The Supreme Court upheld the lower court's finding that Otter Tail had violated § 2 of the Sherman Act.

The Court rightly dismissed the implied immunity defense as to "wheeling." The FPC has no authority to order wheeling, 410 U.S. at 375, and therefore no supervisory authority over refusals to wheel. The more interesting immunity question concerned the refusal to sell power at wholesale. Otter Tail maintained that its refusal to deal with the municipal companies should be immune from antitrust sanctions because the FPC has the power to compel involuntary interconnections of power systems pursuant to § 202(b) of the Federal Power Act, 16 U.S.C. § 824a(b) (1970). The Court rejected this argument, noting that the essential thrust of § 202 is to encourage voluntary interconnections.

The Otter Tail Court's reading of the legislative history of the Federal Power Act was that Congress had considered and rejected pervasive regulation. 410 U.S. at 374. The FPC lacks authority over substantial elements of the commercial relationships between Otter Tail and the municipal cooperatives and between those cooperatives and their customers. The FPC has no control over the local distribution or generating plant of any power company, including companies that engage in interstate transmission, and has no control over the development of local cooperatives, their rates or, except insofar as they seek interconnection with interstate companies, the percentage of their power requirements to be produced by local generators. See 16 U.S.C. § 824(b) (1970); Jersey Cent. Power & Light Co. v. FPC, 319 U.S. 61, 72 (1943). The FPC did not have control over rates, entry, and investment in this retail power distribution market; therefore Otter Tail could not meet the stricter supervisory authority requirement for its implied immunity claim.

The FPC's lack of jurisdiction over wheeling may explain, in part, the Court's reluctance to find that the agency had exclusive jurisdiction over interconnection. A power company cannot wheel to a municipal cooperative with which it is not interconnected. Since the courts could not order wheeling without in fact also ordering interconnection, it would have been logically inconsistent for the Supreme Court to hold that the courts had jurisdiction over wheeling while the FPC had exclusive jurisdiction over interconnection.


34. In Pan Am and Hughes Tool the CAB did not even believe that it had the authority to supervise the conduct at issue. See Memorandum for CAB as Amicus Curiae at 9-18, Hughes Tool Co. v. Trans World Airlines, Inc., 409 U.S. 363 (1973); Brief for United States in Response in No. 23 at 42-43, Pan American World Airways, Inc. v.
2. **Agency Authority to Grant Relief**

Another criterion for implied immunity found in *Pan Am* and other cases is that the agency have the power to grant the type of relief requested in the antitrust suit. More recent cases have not subscribed to this requirement. *Hughes Tool* and *Gordon v. New York Stock Exchange*, for example, both involved private treble damage actions in which the Supreme Court found exclusive jurisdiction in a regulatory agency not empowered to grant damages.

United States, 371 U.S. 296 (1963). This approach suggests a desire to focus on the agency's statutory authority and to leave to Congress assessments of the efficacy of the regulators.

The discussion in *Gordon v. NYSE*, 422 U.S. 659, 685 (1975), and United States v. National Ass'n of Sec. Dealers, 422 U.S. 694, 734 (1975), of the SEC's exercise of supervisory authority is not inconsistent with the lack of such a concern in *Pan Am* and *Hughes Tool*. In *Gordon* and *NASD*, the Court relied principally on its decision in *Silver v. NYSE*, 373 U.S. 341 (1963). *Silver* involved an antitrust action brought against the New York Stock Exchange by two nonmembers for alleged violations of § 1 of the Sherman Act, centering on the Stock Exchange's order to its members to terminate their direct wire telephone connections with the two nonmembers after the Exchange denied the nonmembers approval for such connections. The Supreme Court held that the New York Stock Exchange was not immune from the antitrust laws because the SEC did not have jurisdiction to review particular instances of enforcement of Exchange rules.

The *Silver* Court pointed out that it would be a different case "were there Commission jurisdiction and ensuing judicial review for scrutiny of a particular exchange ruling, as there is under the 1938 Maloney Act amendments to the Exchange Act to examine disciplinary action by a registered securities association," referring to 15 U.S.C. §§ 78o-3(g), 78o-3(h), 78y(a) (1970). 373 U.S. at 358 n.12. Review under these sections is triggered by the petition of any person aggrieved by the action. See R.H. Johnson & Co. v. SEC, 198 F.2d 690 (2d Cir.), cert. denied, 344 U.S. 855 (1952). *Silver* may be read as holding that before a court infers antitrust immunity, it must find that a mechanism exists by which the aggrieved party may invoke the jurisdiction of the regulatory agency. Otherwise the agency might never review the conduct at issue. In *Pan Am* and *Hughes Tool* such a complaint procedure was available by virtue of §§ 408(e) and 411 of the Federal Aviation Act of 1958. 49 U.S.C. §§ 1378(e), 1381 (1970). In *Gordon* and *NASD* on the other hand, there appears to have been no such complaint procedure available. See, e.g., Brief of the United States as Amicus Curiae at 28, *Gordon v. NYSE*, 422 U.S. 659 (1975); cf. *Jurisdictional Statement* at 25-28, United States v. National Ass'n of Sec. Dealers, 422 U.S. 694 (1975). Therefore, the Court looked for evidence of some exercise of that authority with respect to the conduct at issue. Absent a complaint procedure this evidence afforded some assurance that the agency was aware of the problem and could take action if it thought necessary. See *Gordon v. NYSE*, supra at 683-85.


38. 422 U.S. 659 (1975).

39. Neither the CAB nor the SEC has authority to grant damages. Pan American World Airways, Inc. v. United States, 371 U.S. 296, 311 (1963); Thill Sec. Corp. v. NYSE, 433 F.2d 264, 278 (7th Cir. 1970).
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The ability to grant most forms of injunctive relief is implicit in the requirement of supervisory authority over conduct.\textsuperscript{40} Even if the agency has supervisory authority over regulated firms, however, it may not be able to order divestiture\textsuperscript{41} or to award damages. The inference that Congress intended to displace conventional antitrust remedies is certainly stronger if the agency is authorized to award both of these additional forms of antitrust relief.\textsuperscript{42} A strict test for implied immunity should therefore include the remedy requirement.

3. Competition and the Public Interest

In \textit{Pan Am}\textsuperscript{43} and recently in \textit{Gordon and United States v. National Association of Securities Dealers},\textsuperscript{44} the Court suggested that an im-

\begin{itemize}
\item \textsuperscript{40} See pp. 238-59 supra.
\item \textsuperscript{41} The Court has indicated that the inability to grant divestiture may defeat an implied immunity claim. Pan American World Airways, Inc. v. United States, 371 U.S. 296, 311-13, 313 n.19 (1963).
\item \textsuperscript{42} See Keogh v. Chicago & N. Ry., 260 U.S. 156, 162 (1922).
\item \textsuperscript{43} 371 U.S. 296, 304-09 (1963).
\item \textsuperscript{44} Gordon v. NYSE, 422 U.S. 639, 689-91 (1975); United States v. National Ass'n of Sec. Dealers, 422 U.S. 694, 732 (1975).
\end{itemize}
plied immunity claim is strengthened by a showing that the agency considers the benefits of competition in regulating the industry in the public interest. This emphasis on competition is difficult to justify. Although competition is undoubtedly relevant to an agency's determination of the public interest, it is necessarily only one of many factors in that determination. Indeed, the reason Congress imposes regulation on an industry is because unfettered competition does not adequately serve broader policy objectives.

4. Agency Expertise

A consideration articulated in earlier implied immunity cases, and suggested in more recent ones, is whether the issues in the suit involve questions requiring agency expertise concerning the regulated industry. The rationale for this criterion is not simply that the agency is a better factfinder than the court in a given controversy—the rationale for the doctrine of primary jurisdiction; indeed, reliance on agency expertise in the early implied immunity cases may be a result of the courts' tendency to confuse the concepts of primary and exclusive jurisdiction. The principle behind judicial deference to agency expertise in a finding of exclusive jurisdiction is one of practical accommodation between regulation and antitrust: when an agency has the expertise to supervise an industry effectively, "continuing regulation is a better calibrated tool for . . . controlling anti-competitive behavior within an industry than the more blunt and generalized instrument of the antitrust laws."

5. Presence of Important Regulatory Policy Issues

The last and possibly most significant questions in weighing a case for implied immunity underlie the decision in Pan Am and are stated more explicitly in other cases: whether the issues in the suit

49. See notes 15, 28 supra.
52. See, e.g., United States v. National Ass'n of Sec. Dealers, 422 U.S. 694, 734-35 (1975) (repeal of the antitrust laws implied where necessary to make the regulatory scheme work); United States v. RCA, 358 U.S. 334, 346-52 (1959). The importance of this criterion has received greatest emphasis in the "self-regulation" cases. See Riehl v. Chicago Mercantile Exch., 409 U.S. 289 (1973); Silver v. NYSE, 373 U.S. 341, 358 (1963) (Court defined central issue as "the extent to which the character and objectives of the duty of exchange self-regulation contemplated by the Securities Exchange Act are incompatible with the maintenance of an antitrust action.")

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necessarily involve important questions of regulatory policy and, if so, whether antitrust enforcement might seriously hamper, if not preclude, realization of the agency's policy objectives under the public interest standard. Implicit in this inquiry is the assumption that Congress could not have intended to permit the antitrust laws to hamper or foreclose the achievement of legitimate regulatory policy objectives. The potential for collision with the regulatory scheme is inherent in the court's power to impose new behavioral patterns on an industry in order to foster competition rather than to further the public interest as defined by the agency. Under this last criterion, the court asks whether the agency's exercise of its supervisory authority under a different legal standard might lead to conflicting judgments with significant ramifications for the industry and the public.

II. AT&T and Implied Immunity

A. Competition in Intercity Voice and Data Services

The origins of the Government suit as it relates to interstate telecommunications services lie in an FCC decision to experiment with competition in intercity private line services. In 1969 the FCC authorized Microwave Communications, Inc. (MCI) to establish a low-cost microwave transmission link between Chicago and St. Louis in direct competition with the Bell System's private line services. In 1971 the Commission announced a "general policy in favor of the entry of new carriers in the specialized communications field." The FCC's

55. Microwave Communications, Inc., 10 F.C.C.2d 953 (1969). This was the first instance of FCC authorization of a common carrier in competition with the established telephone companies for private line voice and data traffic. (As opposed to conventional dialed long distance service, a private line is dedicated solely to communication between two or more locations specified by the customer. See AT&T, 34 F.C.C. 244, 250 (1961)). The trend toward expanding the options available to communications users had begun some years before. In 1959 the Commission for the first time permitted private users to provide their own point-to-point microwave communication links. Allocation of Frequencies in the Bands Above 890 Mc., 27 F.C.C. 359 (1959), modified, 29 F.C.C. 825 (1960). This privilege was enhanced by a later Commission order which allowed private users to pool their resources and share a microwave link. Cooperative Sharing of Operational Fixed Stations, 4 F.C.C.2d 406 (1966). See also Irwin, The Communication Industry and the Policy of Competition, 14 BUFFALO L. REV. 256 (1964). Although significant in principle, these authorizations were of little practical importance because of the relatively high cost and the coordination problems of private microwave systems.
decision to experiment with competition in service lines traditionally within the established common carriers' tariffs was prompted by complaints from the computer industry that existing service offerings were inadequate. The entry of specialized carriers was authorized in order to develop new telecommunications services neglected by the established carriers.

The decision to promote competition in private line services was followed in June, 1972, by the FCC's announcement of the policies which would govern domestic satellite authorizations. The FCC saw domestic satellites as a means of providing the specialized carriers with low cost transmission facilities, thereby enhancing their market viability. Therefore the Commission restricted AT&T's use of satellites in order to prevent AT&T from preempting the technology or from using satellites to gain an unfair advantage in its competition with the specialized carriers. These and other FCC actions have pre-

57. Computer service companies and user groups maintained that the telephone companies were being unresponsive to the computer user's needs for specially engineered data communications services. See Specialized Common Carrier Services, 29 F.C.C.2d 870, 893-96 (1971). See also D. Dunn, Policy Issues Presented by the Interdependence of Computer and Communications Services 52 (Stanford Research Institute Rep. No. 7379B-1, 1969). For a detailed compilation of computer industry complaints, see A. Lipinski, Digest of the Responses to the FCC Computer Inquiry (Stanford Research Institute Rep. No. 7379B-5, 1969).


62. The FCC decided to prohibit AT&T from providing specialized services over satellite facilities for the first three years in which it uses domestic satellites or until satellites serving the specialized carriers have enough business to operate at an efficient level of output. 35 F.C.C.2d at 851-52. And in order to prevent total satellite preemption by AT&T, the Commission ruled that it would permit concerns owning domestic satellites to lease capacity to AT&T only up to a given percentage of their total capacity. Id. at 853, modified, 38 F.C.C.2d at 687-88. Lastly, to prevent sham competition, satellite operators who decided to lease capacity to AT&T were prohibited from also offering end-to-end specialized carrier service. 35 F.C.C.2d at 848-49 (discussion of Comsat/AT&T proposal). This stricture was removed later in the year. 38 F.C.C.2d at 680-81, 688. See also GTE Satellite Corp., 49 F.C.C.2d 42 (1974).

63. By December, 1973, there were applications for authorization to provide specialized carrier service to 200 cities. Commission Policies Governing the Licensing & Regulation of Specialized Common Carriers, 44 F.C.C.2d 467, 472 (1973). The FCC has also licensed miscellaneous and radio common carriers to compete with the Bell System in the provision of audio and video program transmission services and intracity mobile telephone services. See General Mobile Radio Serv., 13 F.C.C. 1190, 1219 (1949) (allocation of frequencies for competitive mobile radio systems); Allocation of Frequencies in 150.8-162 Mc/s Band, 12 F.C.C.2d 841 (1968), aff'd sub nom. Radio Relay Corp. v. FCC, 409 F.2d 322 (2d Cir. 1969) (competition in providing paging services); Affidavit of John C. Jones at 4-6, II Appendix Annexed to Defendants' Memorandum Submitted Pursuant to the Court's Order of February 27, 1975, United States v. AT&T, Civil No. 74-1698
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sented AT&T with its strongest competitive challenge since the turn of the century.\footnote{64}

AT&T has responded to the competition of the specialized carriers with three complementary strategies. First, it has cut rates, removed some restrictions on the manner in which a subscriber may use Bell lines,\footnote{65} and adopted the "Hi-Lo" Tariff in an attempt to jettison the constraints of nationwide cost-averaging.\footnote{66} Second, its operating companies have delayed or refused the specialized carriers access to their local distribution facilities.\footnote{67} Third, AT&T has introduced new facilities for data communications services to meet the objections of the

\footnote{(D.D.C., filed Nov. 20, 1974) (competition in intercity program transmission services). A miscellaneous common carrier is a common carrier engaged in the intercity transmission of audio and video signals, principally by means of microwave. \textit{Id.} at 4. A radio common carrier normally provides two-way mobile radio service and one-way radio signalling (paging) services within a locality. \textit{Id.} at 2.


61. In July, 1972, AT&T reduced the rates on its "Dataphone" data sets by approximately 24 percent and filed tariffs permitting more flexible use of channel-deriving equipment. AT&T-Long Lines Dep't, 39 F.C.C.2d 637 (1973). \textit{See also} AT&T, Long Lines Dep't, 53 F.C.C.2d 470 (1975). "Dataphone" is an AT&T trademark. A data set is a device which performs the modulation/demodulation and control functions necessary to provide compatible interconnection between computer and communications facilities. \textit{See} J. MARTIN, \textit{TELECOMMUNICATIONS AND THE COMPUTER} 101-02 (1969).

62. Each established carrier has historically priced its interstate services on the basis of a nationwide averaging of its costs. For any given class of service, the rates are designed to be uniform throughout the contiguous 48 states, although costs vary significantly in serving different routes and different customers. AT&T, 44 F.C.C.2d 697 (1974). Because the pricing policies of the established carriers are so constrained by nationwide cost-averaging, these carriers charged that MCI and the other specialized carriers were "cream-skimming," i.e., serving only high-density, low-cost routes and exploiting the lack of any obligation to serve unprofitable routes. \textit{See} Specialized Common Carrier Serv., 29 F.C.C.2d 870, 900-61 app. C (comments of AT&T).

In response to specialized carrier competition, AT&T introduced its controversial "Hi-Lo" Tariff. AT&T, 43 F.C.C.2d 821 (1973). The "Hi-Lo" Tariff was designed to end nationwide cost-averaging of private line services. Under the tariff, customers desiring private line services between high-density traffic points utilizing the most efficient technology pay a lower rate than the user desiring service on lower density, costlier routes. \textit{See} AT&T, 55 F.C.C.2d 224, 227-30 (1975). In January, 1974, AT&T also filed tariffs which applied the Hi-Lo rate structure to WATS service. AT&T, 46 F.C.C.2d 81 (1974). WATS or "wide area telephone service" provides telephone service within a defined geographical area at a flat fee per month or at a fee based on time in use as opposed to time and distance. \textit{Id.} at 81-82.

63. Since the specialized carriers do not presently have local distribution facilities, their systems depend on interconnection with the local distribution systems of the established carriers. The response of Bell Operating Companies has ranged from outright refusal to interconnect to the delaying tactic of insisting that local state regulatory approval was necessary for interconnection. \textit{See} Bell System Tariff Offerings of Local Distribution Facilities for Use by Other Common Carriers, 44 F.C.C.2d 245, 246-60 (1973).}
computer industry to the inadequate transmission capabilities of the old private lines. In addition, its operating companies have allegedly harassed customers of the specialized carriers with threats of economic reprisals.

B. Application of the Strict Test for Implied Immunity

The Government has alleged that AT&T has monopolized the relevant telecommunications services submarket by refusing to intercon-
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nect with specialized and domestic satellite common carriers,\textsuperscript{71} by making predatory price reductions with its TELPAK tariff,\textsuperscript{72} and by engaging in a general course of anticompetitive conduct including reciprocal buying agreements with its own customers, harassment of customers of competitors, preemptive use of others' market ideas, and abuse of the regulatory process.\textsuperscript{73} A threshold question is whether this conduct is immune from antitrust attack because of the FCC's regulatory authority in the telecommunications services submarket. The Communications Act of 1934\textsuperscript{74} does not expressly grant AT&T's Long Lines Department and the Bell Operating Companies immunity from the antitrust laws for the conduct challenged in the Government's suit.\textsuperscript{75} Nor does the legislative history of the Federal Communications Act indicate how Congress intended the Act and the antitrust laws to be reconciled.\textsuperscript{76} Therefore, if AT&T's alleged monopolization of inter-

\textsuperscript{71} Complaint, supra note 2, at 12-13.

\textsuperscript{72} The Government refers to the tariff as "a startling reduction in price which virtually eliminated the incentive for construction and use of private microwave systems." Plaintiff's Memorandum, supra note 69, at 10. For a discussion of the TELPAK tariff, see Trebing, Common Carrier Regulation—The Silent Crisis, 34 LAW & CONTEMP. PROBS. 299, 319-20 (1969).

\textsuperscript{73} Plaintiff's Memorandum, supra note 69, at 13.


\textsuperscript{75} However, a merger transaction among telephone and telegraph companies approved by the FCC is immune. 47 U.S.C. §§ 221(a), 222(c)(1) (Supp. III 1973).

\textsuperscript{76} Regulation of the telecommunications common carrier industry dates back to 1910 and passage of the Mann-Elkins Amendment to the Interstate Commerce Act, ch. 309, § 7, 36 Stat. 539, 544 (1910). This amendment extended the definition of common carrier in the Interstate Commerce Act to telephone, telegraph, and cable companies. The Bell System was not subject to effective regulation until 1934, S. Rep. No. 781, supra note 44, at 2; from 1910 to 1934 the ICC heard only four minor rate cases. Gabel, supra note 44, at 357-58. The Mann-Elkins Amendment did not address the question of conflict with the antitrust laws. See generally Plaintiff's Memorandum, supra note 69, at 38-41. As was the case initially with railroads, see United States v. Trans-Missouri Freight Ass'n, 166 U.S. 290, 314-15 (1897), courts must have assumed that the antitrust laws were fully applicable.

Congress first granted express immunity from the antitrust laws to telephone common carriers in the Willis-Graham Act of 1921, ch. 20, 42 Stat. 27, which exempted certain mergers and acquisitions. The legislative history of the Willis-Graham Act indicates a recognition that the economics of the telephone industry were such that competition could be detrimental to the public and to the industry in some instances. See S. Rep. No. 75, supra note 44; H.R. Rep. No. 109, supra note 44. But the Act specifically
state, intercity voice and data communication services is beyond the reach of the antitrust laws, the immunity must be implied. In this critical submarket, AT&T's conduct would seem to qualify for antitrust immunity even under the strict test put forth in Part I above.

1. Supervisory Authority over Conduct

The FCC has supervisory authority over the conduct challenged in the Government's claim of monopolization of the interstate telecommunications services submarket. The Commission has already acted to compel AT&T to interconnect with the competing carriers, has shielded only approved property consolidations from the antitrust laws. No other express immunity provision for telephone companies was incorporated in the Communications Act of 1934. Nevertheless, the legislative history of that Act indicates congressional acquiescence to the existing telephone monopoly. See S. REP. No. 781, supra at 2 (telephone business a monopoly and must therefore be effectively regulated). See also H.R. REP. No. 59, 72d Cong., 1st Sess. (1932); Preliminary Report on Communications Companies (Spawm Report), H.R. REP. No. 1273, 73d Cong., 2d Sess., pt. 1, at xxx-xxxii (1954). Defendants' Memorandum Submitted Pursuant to the Court's Order of February 27, 1975, at 7-9, United States v. AT&T, Civil No. 74-1698 (D.D.C., filed Nov. 20, 1974).

Title II of the 1934 Act, dealing with common carriers, does not include a section like that in Title III, 47 U.S.C. § 313 (1970), which expressly makes the antitrust laws applicable to radio communication. Because a large percentage of voice and data communication in the domestic common carrier industry is by means of microwave radio, it might be argued that § 313 of the Federal Communications Act preserves the applicability of the antitrust laws in the instant case. This argument creates a distinction among regulated firms based not on the service provided in the market but on the mode of transmission, while the courts and the Commission have made distinctions in functional rather than technological terms, i.e., common carriers vs. broadcasters as opposed to wire vs. radio. See, e.g., FCC v. Sanders Bros. Radio Station, 309 U.S. 470, 474 (1940) ("[T]he Act recognizes that broadcasters are not common carriers and are not to be dealt with as such. Thus the Act recognizes that the field of broadcasting is one of free competition."). The legislative history of § 15 of the Radio Act of 1927, ch. 169, § 15, 44 Stat. 1168, the predecessor of § 313, does not evince congressional intent to make the antitrust laws applicable to common carrier services by radio. Compare 67 CONG. REC. 5557-59 (1926) (remarks of Rep. Johnson) and 67 CONG. REC. 5481-82 (1926) (remarks of Rep. Davis) with 67 CONG. REC. 12616 (1926) (remarks of Senator Dill).

The Supreme Court suggested in United States v. RCA, 338 U.S. 334, 346 (1959), that even evidence that Congress did not intend to prevent enforcement of the antitrust laws in the communications industry does not end the inquiry. If application of the antitrust laws would seriously undermine a comprehensive regulatory scheme, the courts may still defer to the Commission. Cf. id. at 346-32. In fact, the Court has inferred immunity in two cases despite an express savings clause in the relevant act (49 U.S.C. § 1506 (Supp. III 1973)); Hughes Tool Co. v. Trans World Airlines, Inc., 409 U.S. 363 (1973); Pan American World Airways, Inc. v. United States, 371 U.S. 296 (1963). Hence the existence of such a savings clause in the Communications Act, 47 U.S.C. § 414 (1970), is of little importance.

Recently the Ninth Circuit characterized the implied immunity doctrine as a safeguard against undue interference of the antitrust laws with the regulatory scheme of the Federal Communications Act. ITT v. General Tel. & Electronics Corp., 518 F.2d 913, 918-19 (9th Cir. 1975). But since General Telephone did not raise the implied immunity defense on appeal, the court did not consider it. Id. at 919.

In April, 1974, the FCC ordered AT&T to cease and desist from any conduct which results in a denial of, or unreasonable delay in establishing, physical connections.
been actively concerned with Bell's TELPAK tariff. The Commission has authority over the conduct challenged by the Government's subsidiary allegations of reciprocity, preemption of product innovations, and abuse of the regulatory process. Indeed, it is currently investigating the interstate aspects of AT&T's major competitive responses to the specialized common carriers. Finally, the FCC has

with the specialized carriers, or from employing any policy which would deny the specialized carriers interconnection services similar to those provided to the Long Lines Department of AT&T. Bell System Tariff Offerings of Local Distribution Facilities for Use by Other Common Carriers, 46 F.C.C.2d 413, aff'd sub nom. Bell Tel. Co. v. FCC, 503 F.2d 1250 (3d Cir. 1974), cert. denied, 422 U.S. 1026 (1975). The FCC has since dealt with a number of instances of alleged failures to comply with this order. See, e.g., 48 F.C.C.2d 676 (1974); 48 F.C.C.2d 449 (1974). This order was followed by institution of an investigation into the substantive provisions of all the Bell System tariffs offering intercity and local distribution facilities for other carriers. AT&T, 47 F.C.C.2d 680, modified, 49 F.C.C.2d 729 (1974). The investigation was terminated with a formal settlement agreement by AT&T and the specialized carriers. AT&T, 52 F.C.C.2d 727 (1975), appeal docketed sub nom. Carpenter v. FCC, No. 75-1564 (D.C. Cir., filed June 6, 1975). The FCC has promised to "closely monitor" implementation of the agreement. Id. at 733.

79. See Trebing, supra note 72, at 319-20; Note, supra note 64, at 689-92.


81. This has been virtually conceded by the Government. Transcript of Proceedings (Hearing on Jurisdictional Issues, July 25, 1975) at 60-62, United States v. AT&T, Civil No. 74-1698 (D.D.C., filed Nov. 20, 1974).
pervasive regulatory authority over the submarket through its control of rates,82 entry,83 and investment.84

The Government has argued that even if the FCC has authority to supervise the conduct of the defendants, it does not have authority over a conspiracy to engage in that conduct.85 This argument is predicated86 on the Supreme Court's 1945 decision in Georgia v. Pennsylvania Railroad Co., which is, however, easily distinguished.87 Moreover, both Pan Am88 and NASD89 dismissed conspiracy counts even though the agency had no express authority to supervise agreements among the alleged conspirators.90 In both cases the Court did not distinguish authority of the FCC, but emphatically withdrew the suggestion at oral argument. Id. at 145. In Docket No. 19419 the FCC is examining allegations that AT&T's rates for data sets are noncompensatory and predatory. AT&T, Long Lines Dep't, 46 F.C.C.2d 90, 91 (1974); 53 F.C.C.2d 470 (1975). The rates for AT&T's Dataphone Digital Service are under investigation in Docket No. 20288. AT&T, 50 F.C.C.2d 501 (1974). (Dataphone Digital Service is the tariff name given to private line service on AT&T's new Digital Data System, see note 68 supra.) The Hi-Lo Tariff, supra note 66, is being investigated in Docket No. 19919. AT&T, 44 F.C.C.2d 697 (1974). See also AT&T, 55 F.C.C.2d 224 (1975) (interim decision).

82. The charges, practices, classifications, and regulations for a communications service must be specified in the tariff. 47 U.S.C. § 203(a) (1970). They must be just and reasonable, id. § 201(b) and may not be unjustly or unreasonably discriminatory. Id. § 202. The FCC has the authority to prescribe just and reasonable rates, classifications, practices, or regulations when it finds those existing to be in violation of the Act. Id. § 205.

83. The FCC supervises entry into the telecommunications common carrier industry pursuant to id. § 214. This section requires any interstate carrier to obtain a certificate of public convenience and necessity before constructing a line which is not wholly intrastate.

84. A certificate of public convenience and necessity is required before the carrier can undertake any reduction in service. Id. § 214(a). On its own initiative or that of a complaining party, the FCC may order a carrier to expand its facilities. Id. § 214(d). The FCC's authority to dictate the terms and classifications of service, see note 82 supra, allows it to control the quality of service and indirectly the investment necessary to maintain that service.

The FCC has jurisdiction over every interstate call from terminal to terminal, including the telephone set or other station equipment. See United States v. AT&T, 57 F. Supp. 451 (S.D.N.Y. 1944), aff'd per curiam sub nom. Hotel Astor, Inc. v. United States, 325 U.S. 837 (1945); United States Dep't of Defense v. General Tel. Co., 38 F.C.C.2d 803, 809 (1973). The only interstate service subject to state regulation is local exchange service at border areas. 47 U.S.C. § 221(b) (1970).

85. See Plaintiff's Memorandum, supra note 69, at 37.

86. Id.

87. 324 U.S. 439 (1945). The basis for the decision in Georgia was not that the agency lacked supervisory authority over the defendants' conduct but that it lacked the authority to grant the injunctive relief requested in the antitrust suit. Id. at 453, 455. Following Keogh v. Chicago & N. Ry., 260 U.S. 156 (1922), the Court held that the district court had jurisdiction of an antitrust claim by the State of Georgia for injunctive relief against a conspiracy to fix railroad freight rates, because the Interstate Commerce Commission had no authority to enjoin the carriers from fixing rates. 324 U.S. at 457-58.


89. 95 S. Ct. 2427 (1975).

between supervisory authority over overt acts in a conspiracy and the conspiracy itself.91 Pan Am and NASD indicate that so long as the agency has authority over the overt acts at issue in the antitrust suit, its lack of authority over agreements to do those acts will not defeat a claim of implied immunity.92 Even if authority over agreements among regulated firms and their subsidiaries were necessary, the FCC would seem to possess that authority with respect to a conspiracy among AT&T and its subsidiaries—Western Electric, Bell Laboratories, and the Bell Operating Companies.93

Another argument is that the implied immunity doctrine does not extend to activity found unlawful by the agency—a position the Government contends94 is supported by Ricci v. Chicago Mercantile Exchange.95 But the Court in Ricci did not reach the defendant's implied immunity contention,96 and in none of the implied immunity


92. See also Carter v. AT&T, 365 F.2d 486, 492-94 (5th Cir. 1966), cert. denied, 385 U.S. 1008 (1967) (allegation of industry conspiracy to adopt telephone tariff does not undermine defense that FCC approved tariff); von Mehren, supra note 15, at 937 (reading Keogh v. Chicago & N. Ry., 260 U.S. 156 (1922), as rejecting, for acts within the purview of regulatory statutes, the doctrine that conspiracy will make illegal under the antitrust laws acts which are otherwise legal).

93. Related to the Government's conspiracy argument is its contention that if AT&T's individual acts, although legal in isolation, were part of an overall plan which showed an "intent to monopolize," there is no implied immunity defense. Transcript, supra note 81, at 64-67. But in implied immunity cases, the Supreme Court has never concerned itself with questions of intent. The argument that an illegal intent can defeat an immunity claim confuses the standards for an exemption from the antitrust laws with the standards for a violation of those laws assuming an exemption does not exist. Cf. Gordon v. NYSE, 422 U.S. 659, 687-88 (1975); Silver v. NYSE, 373 U.S. 341, 360 (1963). To disallow the immunity defense where intent to monopolize or to restrain trade is alleged would virtually destroy the implied immunity doctrine, since Sherman Act suits almost always involve allegations of specific intent.

94. The FCC has extensive authority to alter the market relationships of regulated firms with their subsidiaries and each other. See GTE Serv. Corp. v. FCC, 474 F.2d 724 (2d Cir. 1973); General Tel. Co. v. United States, 449 F.2d 846 (5th Cir. 1971). The FCC also has express authority over vertical and horizontal agreements. See 47 U.S.C. § 211 (1970) (carrier must file copies of all contracts, agreements, or arrangements with other carriers unless expressly exempted); id. § 218 (gives Commission broad authority to inquire into management of a carrier); id. § 215 (agency has broad authority to inquire into transactions of regulated common carriers). The FCC is presently engaged in an extensive investigation of the vertical relationship between the Bell System Operating Companies and Western Electric. See AT&T, 27 F.C.C.2d 151 (1971). See also Affidavit of Frederick J. Coper, I Appendix, supra note 63.


96. In Ricci, the plaintiff alleged that the Chicago Mercantile Exchange and others had conspired to restrain the plaintiff's business by transferring his membership to another in violation of Exchange rules and the Commodity Exchange Act. The Supreme Court upheld the district court's stay of the antitrust action until the Commodity Ex-
cases has it prejudged the question of the lawfulness under the regulatory act of the conduct at issue in the antitrust suit.\

2. **FCC Authority to Grant Requested Relief**

The Government's suit seeks both injunctive relief and the separation of all or part of the Long Lines Department of AT&T from some or all of the Bell Operating Companies. Since the FCC has statutory authority to grant injunctive relief, the only difficult inquiry under this criterion is whether the FCC has the power to order divestiture.

The existence of the Commission's divestiture authority is supported by *General Telephone Co. v. United States*, in which the Fifth Circuit upheld the FCC's authority to prohibit telephone companies from furnishing cable television service in their telephone service areas. The court relied on §§ 214 and 4(i) of the Federal Communications Act, which give the FCC general authority to authorize the establishment of interstate telecommunication lines and to issue necessary rules and orders. The court recognized that the FCC was applying its orders retroactively and, therefore, essentially ordering divestiture.

change Commission passed on the legality of the defendants' conduct under the Act. The Government seeks to rely on dicta that if the Commission found that the conduct violated the Commodity Exchange Act, then the antitrust action should probably proceed, absent more compelling evidence of the exclusive jurisdiction of the agency. *Id.* at 304.

The Government's interpretation of the *Ricci* dicta would eliminate the implied immunity criterion that the agency be able to afford the remedy sought. If the conduct challenged in the antitrust suit is lawful under the regulatory statute, the agency of course cannot apply a remedy; if the conduct is illegal, the immunity defense would be unavailable. There is, however, an interpretation of the *Ricci* dicta more consistent with cases where the Court has inquired into the agency's authority to grant a remedy, *pp. 262-63 & note 36 supra*. The Court's reluctance to find exclusive jurisdiction might be explained by the fact that *Ricci* sought treble damages as well as injunctive relief and that the Commodity Exchange Commission cannot award damages. *See* *Ricci v. Chicago Mercantile Exch.*, 447 F.2d 713, 717-18, 720 (7th Cir. 1971).

97. To the extent that the existence of a complaint procedure is important for the satisfaction of the supervisory authority criterion, *see* note 34 supra, such a procedure is available. The Government could have invoked the jurisdiction of the FCC under § 208 of the Communications Act of 1934. 47 U.S.C. § 208 (1970). The essence of the Government's claims with respect to the telecommunications services submarket could be expressed as allegations of violations of §§ 201, 202 and 214 of that Act. 47 U.S.C. §§ 201, 202, 214 (1970).


100. 449 F.2d 846 (5th Cir. 1971).


102. *Id.* § 154(f).

103. 449 F.2d at 854.

104. *Id.* at 863-64 ("new rules may abolish or modify pre-existing interests"), quoted with approval, *United States v. Midwest Video Corp.*, 466 U.S. 649, 674 n.31 (1972). *See* Petitions from Tel. Common Carriers & Cable Television Sys. Operators, 50 F.C.C.2d
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In the instant case, the logic of General Telephone would support a divestiture order by the FCC under the line authorization power of § 214. Moreover, approximately 69 percent of the circuit miles of long distance carrier facilities in the Bell System are microwave links.\(^{105}\) The FCC could use its radio licensing authority over these links to reallocate market shares in interstate communication service by refusing to renew AT&T's licenses and by accepting applications from others to operate the routes.\(^{106}\) The FCC is in fact now considering whether it should order the divestiture of AT&T's Long Lines Department.\(^ {107}\)

3. Competition and the Public Interest

The courts have consistently stressed the importance of competition in the FCC's determination of the public interest under the Federal Communications Act.\(^ {108}\) Indeed, the actions by AT&T which gave rise to the Government's claim of monopolization in the telecommunications services submarket were a response to the FCC's policy of encouraging competition from specialized carriers.\(^ {109}\) The FCC has even been reversed by the Court of Appeals for giving too much weight to the policy of competition in regulating common carriers.\(^ {110}\)

105. NARUC REPORT, supra note 70, at 4529.
110. Hawaiian Tel. Co. v. FCC, 498 F.2d 771 (D.C. Cir. 1974) (Commission did not meet its statutory obligation to consider the "public convenience and necessity" when it did no more than equate the public interest with more competition).
4. **FCC Expertise in the Communications Industry**

The legality of AT&T's conduct, whether judged under the Sherman Act or the Federal Communications Act, depends on several basic factual issues which require the FCC's expertise in the communications industry for proper resolution. The reasonableness of AT&T's price reductions depends on difficult marginal and average cost calculations. The FCC's familiarity with the technology and its experience in rate-making render it better equipped than a court to determine whether given rates are in some sense "compensatory." The reasonableness of AT&T's refusals to interconnect with competing carriers depends in large part on technical engineering questions which the courts are also ill-equipped to decide. In the last 10 years the courts have frequently deferred to the FCC's technical expertise on the question of the reasonableness of refusals to interconnect with specialized carriers or with customers who provide their own terminal equipment.

Finally, AT&T will probably resist divestiture of its Long Lines Department by arguing that its entire complex of telecommunications services is a natural monopoly which cannot be broken up without great losses in efficiency. This issue involves even more difficult cost computations than the predatory pricing issue. A predatory pricing inquiry focuses on the costs for a given firm of the incremental unit of output at its current output level. The critical characteristic of natural monopoly, however, is the existence of decreasing average costs over the entire range of output demanded by consumers; hence the inquiry requires a determination of the average cost for the most efficient firm at each possible rate of output up to the total demand of the market. In Docket No. 20003 the FCC is attempting to

111. See Areeda & Turner, *Predatory Pricing and Related Practices Under Section 2 of the Sherman Act*, 88 HARV. L. REV. 697 (1975) (test for predatory pricing should be price less than short run marginal cost); Note, *Telex v. IBM: Monopoly Pricing Under Section 2 of the Sherman Act*, 84 YALE L.J. 558 (1975). The determination of the marginal cost of production for a firm is difficult in any context, but the difficulty is exacerbated in the case of AT&T by pervasive common costs, variation in costs of service with time of day, complex technology, and conceptual difficulties in defining the unit of output. And the existence of common and joint capital costs makes average cost even more difficult to calculate. See 1 A. KAHN, *supra* note 9, at 63-86; Vickrey, *Responsive Pricing of Public Utility Services*, 2 BELL J. ECON. & M. SCI. 337 (1971).

112. A statement of principles to be used in pricing specific telecommunication services under competitive conditions is under consideration in Phase II of Docket No. 18129, now pending before the FCC. AT&T, 38 F.C.C.2d 213, 216-17 (1972).


114. See, e.g., MCI Communication Corp. v. AT&T, 496 F.2d 214 (5th Cir. 1974).

115. 2 A. KAHN, *supra* note 9, at 119; 1 A. KAHN, *supra* at 124 n.3.
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define the extent of any natural monopoly in telecommunications services; the courts should leave this determination to the Commission.

5. Issues of Regulatory Policy in the Communications Industry

The Government's suit involves basic questions of regulatory policy in the communications industry. Established carriers have argued that competition from specialized common carriers has forced them to abandon nationwide cost-averaging for interstate services. The state regulatory authorities have argued that competition will destroy the revenue contribution to local telephone service and intrastate toll services made by interstate toll telecommunications services. Increased competition in interstate services forces Bell to lower its interstate rates, which in turn forces it to increase intrastate rates—in particular, local telephone rates and connection fees. State regulators argue that this


118. See note 66 supra. Some of the policy objectives behind cost-averaging were articulated by Hearing Examiner Herbert Sharfman. Among them are simplicity in administration of the tariff, easier customer understanding of the rate structure, and spreading of benefits of efficiencies and economies to all subscribers of a service rather than simply to those who are in a less costly location to serve. Microwave Communications, Inc., 18 F.C.C.2d 979, 987 (1967) (Initial Decision of Hearing Examiner Herbert Sharfman). See Note, supra note 64, at 687.

119. See NARUC REPORT, supra note 70, at 4534-47. The FCC generally allows a higher rate of return on the Bell System's interstate operations than state regulatory authorities allow on intrastate operations. Compare, e.g., AT&T, 9 F.C.C.2d 30, 88 (1967) (fair rate of return on AT&T's interstate operations is in the range of seven to 7½ per cent), with 66-70 P.U.R.3d Index-Digest, Return § 111 (1967) (rates of return allowed for particular telephone utilities). The principal, and subtler, mechanism by which the FCC creates these subsidies is its authority pursuant to 47 U.S.C. § 221(c)-(d) (1970) to value the property used by carriers for interstate services. The value of this property is the "rate base" to which a rate of return approved by the Commission is applied to determine the rates for interstate telecommunications services. See Cunningham, The Anatomy of a Utility Rate Case, in The New Economics of Regulated Industries: Rate-Making in a Dynamic Economy 21 (J. Haring ed. 1968). Since state regulatory agencies use a similar ratemaking procedure and since much of the Bell System telephone plant is used to provide both interstate and intrastate services, the relative rates for interstate and intrastate services can be altered by changing the interstate rate base. The more of the Bell System's capital in the interstate rate base, the lower intrastate rates. See Boritzki, Settlements and Separations, Public Util. Fort., Oct. 10, 1974, at 27.

result shifts the costs of telephone service from higher income to lower income consumers and undermines the national goal of a nationwide network with which any user can interconnect at modest cost.\textsuperscript{121}

The FCC is currently reassessing its pro-competitive policy in private line communications services.\textsuperscript{122} The Commission has noted that its assessment of this policy depends upon whether it finds that the public interest is served by subsidizing some consumers at the expense of others.\textsuperscript{123} These cross-subsidies are necessarily internal (intracorporate) subsidies because the regulatory agency has a ratemaking, not a taxing power.\textsuperscript{124}

The divestiture of AT&T's Long Lines Department would enhance competitive pressure on nationwide cost-averaging, and would make difficult, if not impossible,\textsuperscript{125} the subsidization of intrastate consumers by interstate consumers. These developments are likely to benefit business users at the expense of residential users, urban users at the expense of rural, and those who frequently call long-distance at the expense of those who do not. Perhaps this is a proper state of affairs.\textsuperscript{126} But it should result from an informed balancing of policy alternatives by the regulatory agency, not from an antitrust decree.

Divestiture of Long Lines may also disrupt the FCC's long range planning for the structure of the national communications network. In its current inquiry into the limits of natural monopoly in telecommunications, the Commission intends to examine the probable impact of new technologies and the potential benefits of restructuring AT&T.\textsuperscript{127} New technologies such as the laser may allow a single carrier to realize enormous economies of scale through increased use of

121. NARUC REPORT, supra note 70, at 4480-81.
124. The Commission can set rates which yield different profit margins on two services offered by the same regulated firm. But it cannot order one regulated firm to price its service well in excess of cost and appropriate these supernormal profits to subsidize another firm whose rates are held below cost.
125. The difficulty arises because the Long Lines Department and the Operating Companies will no longer be under common ownership and hence their investment will no longer be pooled to determine interstate rates. See note 119 supra. See also Hallingby, The Case for Keeping American Telephone Intact, PUBLIC UTILITY FORUM, Jan. 16, 1975, at 15, 18 (divestiture of Long Lines would make the planning and engineering of the national network more expensive).
126. See 1 A. KAHN, supra note 9, at 54-57.
intermediate switching and toll route concentration. The economies of scale made possible by new technologies may in the future broaden the scope of the existing natural monopoly in communications and render inappropriate the Commission's current emphasis on competition.

The injunctive relief sought by the Government against AT&T's product innovations, rate reductions, and refusals to interconnect would also interfere with the FCC's attempts to monitor competition among carriers. For example, both the court and the agency may prescribe the terms and conditions on which interconnection will occur.

The communications industry is undergoing a period of extraordinary technological progress. Most observers have stressed that the potential of the new information technology will not be realized if its development is left to the market, and have emphasized the need for a coherent and innovative approach to regulation in the industry. AT&T bulks largest in the industry, and a decision to dismantle its telephone monopoly should be made by that body best equipped to shape the industry in the public interest—the FCC.


129. See MCI Communications Corp. v. AT&T, 496 F.2d 214, 222 (3d Cir. 1974) ("Such a determination [of the reasonableness of a refusal to interconnect], involving, as it must, the comparative evaluation of complex technical, economic, and policy factors, as well as consideration of the public interest, should be made, in the first instance, by the administrative agency which has been entrusted with the primary responsibility for making such a determination and which has the expertise necessary for the development of sound regulatory policy."); FCC Memorandum, supra note 80, at 15.