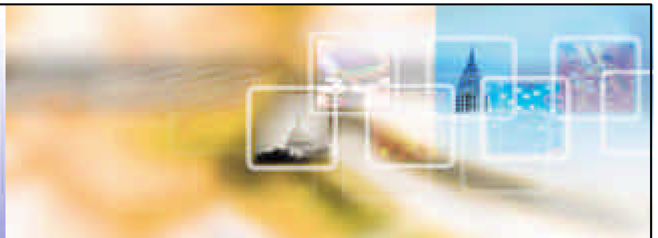

INTERNATIONAL TELECOMMUNICATIONS REGULATORY CLIMATE

Global Forum 2003

SWIDLER BERLIN SHEREFF FRIEDMAN

Moderated by

Andrew D. Lipman

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THE PAST SIX YEARS

- WTO Agreement 1997 - Major telecom markets agree to
  - accelerate liberalization
  - permit foreign investment
  - adopt safeguards to ensure interconnection at reasonable terms and conditions
- New opportunities to
  - provide cross-border services by owning or leasing both ends of international circuits (*e.g.*, without relying on incumbent PTT)
  - form innovative joint ventures with foreign carriers
  - provide domestic and local services overseas with unorthodox routing arrangements
  - provide end-to-end, one-stop-shopping to customers in the United States and abroad

2

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THE PAST 6 YEARS

- Competition and the WTO Agreement of 1997 -- success or failure?
  - From the perspective of the *consumer*, it has been a success.
    - Greater choices and lower rates.
  - From the perspective of the *economy*, it has been a success in-part and a failure in-part.
    - Large growth in telecommunications revenues;
    - Larger share of the economy;
    - Former monopolies are experiencing steep decline in revenues

3

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THE PAST 6 YEARS

- Competition and the WTO Agreement of 1997 -- success or failure?
  - From the perspective of *new entrants and investors*, its been a challenge.
    - Hundreds of companies disappeared;
    - Hundreds of billions of dollars lost;
    - Hundreds of thousands of jobs vanished;
    - Cloudy Horizon.

4

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THE PAST 6 YEARS

- Analysts have observed:
  - Uneven regulation internationally has created gray markets
  - Competition often based on exploiting regulatory loop holes
  - Exaggerated Demand For International Facilities- Internet Trees Grow to Heaven;
  - Underestimated Supply of International Facilities;
  - Advancements in technology reduced costs, but did not create new revenue-generating products;
  - New products cannibalized revenue from existing products and services rather than create new markets and revenue sources;
  - No new “killer app” to subsume demand.
  - Uneven regulation presents challenges to opening offices worldwi de

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5

WHERE ARE WE NOW

- Competition has been established in industrialized countries
- Competition is being introduced in developing countries
- Switched networks being replaced with IP-based networks
- Accounting rate system being replaced with flexible market-based system
- New delivery platforms being introduced for voice services such as Internet, cable, satellite, and wireless
- Distinction between voice and data becoming indistinguishable

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6

NEW MARKET-BASED BILATERAL SYSTEM

- Liberalized markets have made possible new system
  - Open agreements between carriers
  - Market-based pricing system
- Similar to traditional accounting rate process because based on number of minutes sent, allows offsets

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7

ADVANTAGES OF NEW MARKET-BASED BILATERAL SYSTEM

- Takes advantage of competitive transit prices currently availabl e
- Doesn’t lock the parties into long-term rate periods or volume commitments
- Payment terms often flexible (weekly, biweekly, monthly or other basis)
- Agreements more open and simple
- Access to more diverse base of suppliers

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8

ADVANTAGES OF NEW MARKET-BASED BILATERAL SYSTEM (cont'd)

- Margins tend to be larger because don't need to pay for half-circuit
- Encourages revenue growth through lower prices in order to drive volumes higher
  - Incumbent carriers have incentive to generate traffic instead of rely on inflated one-way accounting rates

9

VOICE OVER IP: The Looming Issue

- By default, VoIP is treated as an information service in the U.S. and many other countries.
  - VoIP providers, unlike providers of traditional long distance carriers that use circuit switching technology, do not pay access charges.
    - Cost savings: 1.1 cents/min. or more in the U.S.
  - VoIP providers do not contribute to the federal Universal Service Fund
    - Cost savings: 6 to 7% of gross revenue (less access) in the U.S.
  - VoIP calls are exempt from the international "settlements" process, which compensates carriers for terminating calls from other countries.
  - VoIP infrastructure may be exempt from CALEA in the U.S.

10

ADVANTAGES OF VoIP IN NEW MARKET-BASED BILATERAL SYSTEM

- Less bilateral agreements needed
  - Instant global presence via a single interconnection with the transit carrier
  - Access to carriers anywhere the Internet goes
- Rapid provisioning of capacity
- New revenue streams from expanded reach

11

FUTURE

- Regulations must evolve away from traditional switched voice network model
- VoIP and other technologies blur line between telecommunications and information services, and offer competitive advantage for non-traditional carriers
- E.U. has taken steps to harmonize regulation
- U.S. is struggling with State vs. Federal approach to regulation
- National security concerns are playing a larger role in regulatory decisions

12

QUESTIONS FOR PANEL

- How are regulators addressing the challenges of the new marketplace with changes in technologies, delivery platforms, and services?
- How should universal service be defined and accomplished?
- What role should national security play in the future regulatory environment?
- Does the vision of global telecommunications services have any future, or will disparate regulations, technology platforms and national security issues require carriers to focus on partnerships and strategic alliances to build an international presence?

13

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