

International Regulatory Climate Session 3

Tom Marten, Director of Regulatory Affairs, MCI EMEA
Global Forum, Rome, November 6, 2003

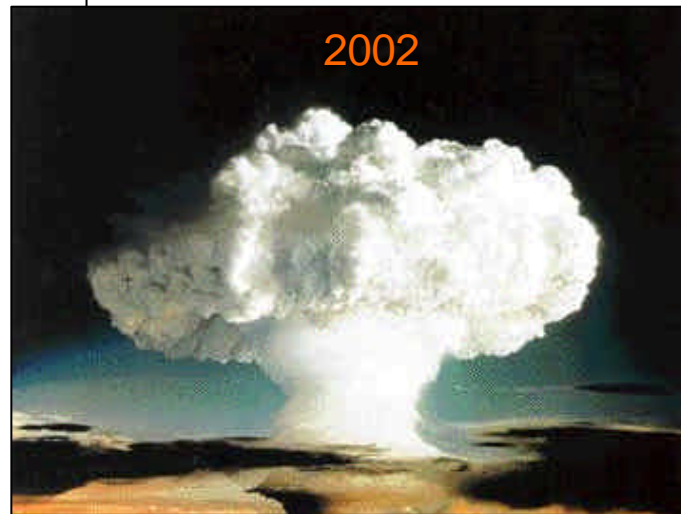


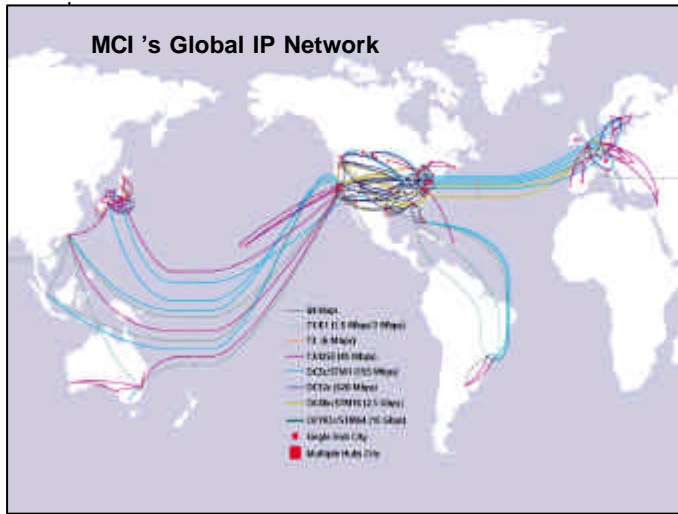
Agenda

- Access Pricing
- Broadband (DSL)
- Price Squeeze
- EU Transposition
- US vs EU vs Asia

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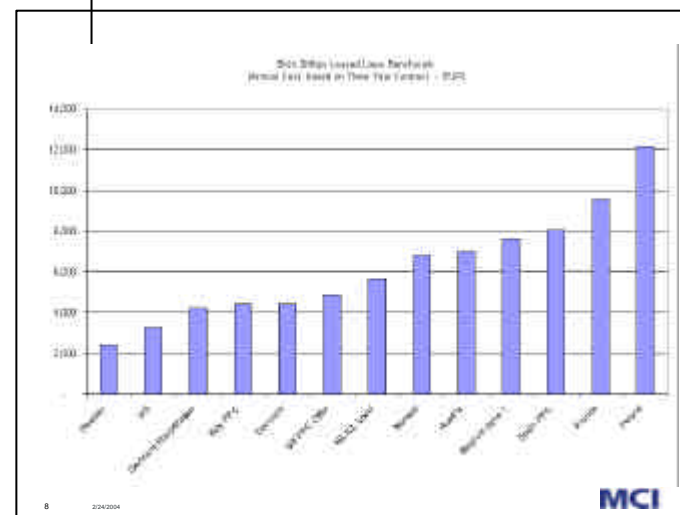
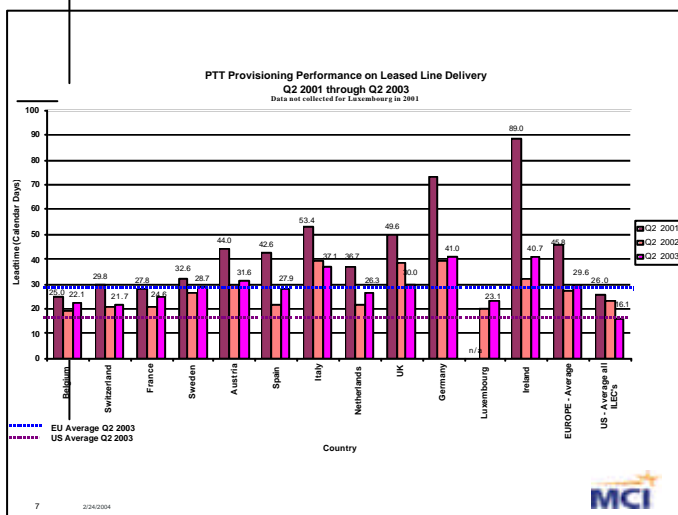
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Access Pricing and Provisioning (Leased Lines)

- MCI EMEA uses last kilometer local tails from incumbents to connect customers to our global network
- EU and National laws and regulations require PTT's to provision leased lines/PPC's on a non-discriminatory basis, at cost oriented prices.
- MCI has led the charge across Europe to bring local access leased lines into the interconnection regime (PPC's).
 - Strong decisions in the UK and Netherlands, Spain and Italy, have resulted in substantial improvements (35% price reductions and/or improved provisioning times)
 - A good decision by Reg TP in Germany imposing binding QoS obligations (binding SLA's, improved delivery and repair times, reporting obligations and penalties) was appealed by DT, and is now blocked in the courts. Pricing is good in Germany, repair and provisioning times are bad.
 - FT has so far refused to implement an ART decision on leased lines (the "WorldCom decision" of 2002). PPC pricing is among the highest in Europe, although provisioning is excellent. We expect progress in the 2004 RIO to be published 11/14/03.



DSL Bitstream

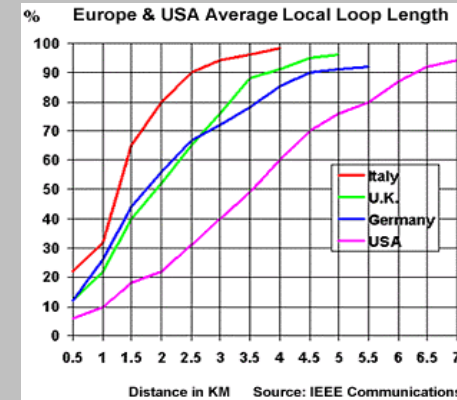
- The new EU regulatory framework calls for NRA's to regulate DSL bitstream offers by incumbents. Significant divergence with U.S. policy (FCC Triennial Review).
- DSL bitstream will become the access method of choice in the EU. This will accelerate the move to IP services (IP access, IPVPN, VoIP, etc.) for which DSL is especially well suited.
- New entrants require control over DSL bitstream quality of service -- speed and functionality -- in order to provide value added services. ATM handover is favored for corporate customers, and IP/L2TP handover for SME's and remote workers.
- There is a lack of harmonization of DSL bitstream offers across Europe today.
 - France offers the best range of regulated offers, in both IP/L2TP and ATM variants (FT's IP ADSL and Turbo DSL products).
 - The UK offers a regulated ATM product (DataStream) but is moving toward lifting regulation of the IP Stream product (IP Stream), which could hurt competition.
 - No regulated ATM product is available at all in Germany, and no regulated IP product is available in the Netherlands.

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xDSL Copper Loop Market



Price Squeeze

- Price squeeze is a problem wherever new entrants have to buy essential access inputs from competitors in a dominant position.
- Most EU countries require approval or publication of PTT retail prices in the interest of transparency, and to permit identification of price squeeze.
 - A movement away from this requirement in the UK is a grave concern.
- Across Europe price squeeze is a problem for mobile termination.
 - This is clearly more harmful than the absolute level of termination rates.
 - MNO's offer MVPN deals to end users in the UK and Germany with on net termination rates below our F2M interconnection costs.
 - Vertically integrated operators in France (FT/Orange, Cegetel/SFR) offer discounts to retail corporate customers, below our F2M interconnection costs.
 - The use of GSM gateways in France and Belgium is the result of retail M2M termination rates set below interconnection F2M rates.
- Tough decisions by Competition Authorities in coming months in France and Spain will address this issue.

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Implementation of the EU Framework

- EU member states were required to adopt the new regulatory framework for electronic communications by July 2003.
- The UK, Ireland and Scandinavian countries met this deadline, most continental countries (France, Germany, Netherlands) did not.
- Adoption of the new framework should result in increased powers for national regulators (investigative powers, powers to impose remedies and sanctions).
- Although delayed implementation is a concern, the key is maintaining effective regulation of non-competitive markets.
 - This continues to be the case in France.
- We are most concerned about the substance of implementation.
 - The draft implementing legislation in Germany specifically contradicts the EU framework recommendation concerning regulation of F2M.

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