

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF LEGAL COUNSEL

In the Matter of )  
 )  
International Settlement Rates )  
\_\_\_\_\_ )

IB Docket No. 96-261

COMMENTS OF  
INTERNATIONAL TELECOM JAPAN INC.

Jeffrey P. Cunard  
Lothar A. Kneifel  
Debevoise & Plimpton  
555 13th Street, N.W., Suite 1100E  
Washington, D.C. 20004

Counsel to International Telecom Japan Inc.

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## SUMMARY

International Telecom Japan Inc. ("ITJ") urges the Commission not to adopt the proposals set forth in the Notice of Proposed Rulemaking ("Notice") for the following reasons.

First, although ITJ agrees with the Commission that international settlement rates sometimes are above cost, ITJ believes that government-established, mandatory settlement rate benchmarks will undermine the long-standing practices by which accounting rates are negotiated on a commercial basis between correspondents in a bilateral relationship. As both the FCC and U.S. carriers have noted previously, it is far preferable for carriers, rather than governments, to be responsible for establishing the various elements – including settlement rates – that constitute these commercial relationships.

Second, the FCC's proposals are untimely and inappropriate because they would preempt multilateral efforts to reform the international settlements system, including those at the ITU and the OECD. Given that the current system has been established by international practices and agreements, changes to or reform of the present regime must be made on the basis of an international consensus, not unilateral action.

Third, currently, accounting rates are moving steadily toward costs. Japan, like the United States, has a large settlement payments deficit. Like carriers in the United States, Japanese carriers, including ITJ, have negotiated directly and successfully with their foreign counterparts to reduce accounting rates.

Fourth, the Notice assumes that the principal reason for imbalanced settlement payments are above-cost settlement rates and an unwillingness or inability of non-U.S. carriers to lower accounting rates. The FCC Notice, however, does not contain facts supporting this

assumption. As recognized by the FCC, the ITU and others, settlement payments on particular routes might be out of balance for various reasons. Among these are the marketing practices of U.S. carriers themselves, including calling card services, call-back, and the routing of bilateral traffic through third countries.

Fifth, on routes with developing countries, overly swift reductions in settlement rates may be undesirable and will not, in any event, necessarily bring settlement payments into balance. Furthermore, settlement revenues can be an essential source of funds for telecommunications development in developing countries, redounding to the benefit of their citizens, increasing the exchange of traffic and, ultimately, benefitting U.S. and other developed country carriers.

Sixth, today, there is no universally accepted better approach to the present system of bilateral, commercially negotiated accounting rates. Instead of taking unilateral actions that may have direct and dramatic economic effects in developing countries, the Commission, in ITJ's view, should continue to engage in a dialogue with those countries – to explain the advantages of competition and liberalization, which, in turn, will lead to lower accounting rates – and to lending its support to multilateral efforts to reform the system.

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**COMMENTS OF  
INTERNATIONAL TELECOM JAPAN INC.**

International Telecom Japan Inc. ("ITJ") respectfully submits the following comments in response to the Commission's Notice of Proposed Rulemaking ("Notice") in IB Docket No. 96-261.

**INTRODUCTION**

In 1985, the Japanese Telecommunications Business Law ("TBL") paved the way for full-fledged, facilities-based competition in telecommunications services in Japan. With the enactment of the TBL, ITJ was established on July 1, 1986 as a Type-1 (facilities-based) common carrier.

ITJ commenced operations as a provider of international public-switched telephone network ("PSTN") service on October 1, 1989; its first foreign correspondent was AT&T. Today, ITJ is providing international PSTN services to over 150 countries and areas in the world, including more than 100 countries to which ITJ has established direct international telephone circuits through fiber optic submarine cables and/or INTELSAT satellites. ITJ America, Inc., a wholly-owned subsidiary of ITJ, has recently been granted Section 214

authority to resell non-interconnected international private lines between the United States and Japan.<sup>1</sup>

As one of three presently-authorized providers of international facilities-based telecommunications services in Japan, ITJ supports the Commission's objectives of opening markets and encouraging vigorous competition in the provision of telecommunications services worldwide. Having carefully reviewed the Commission's Notice, ITJ is in general agreement with the Commission that international settlement rates are sometimes above-cost; indeed, it is widely recognized that the current international settlements system is showing signs of strain and that, as is currently taking place in multilateral forums, alternatives to the present settlement mechanisms should be considered.

ITJ strongly believes that the FCC's proposed approach — which is inherently unilateral — is imprudent and will undermine both commercial negotiations and the very constructive study efforts that are underway at the International Telecommunication Union ("ITU"), the Organization for Economic Development ("OECD") and elsewhere. For these reasons, ITJ urges that the Commission support, not preempt, those efforts and, therefore, that it not adopt the proposals set forth in the Notice.

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1. See Application of ITJ America, Inc., Order, Authorization and Certificate, DA 96-1782, File No. I-T-C-96-275 (rel. Oct. 29, 1996).

**I. GIVEN THE LONG-STANDING COMMERCIAL NATURE OF BILATERAL ARRANGEMENTS, CHANGES SHOULD BE MADE ON THE BASIS OF A MULTILATERAL CONSENSUS, NOT UNILATERAL ACTION.**

**A. Accounting Rates Historically Have Been Established by Commercial Negotiations Without Direct Government Pressure.**

Carriers, the Commission and the ITU have always acknowledged and, indeed, been wholly supportive of the fact that accounting rates are and should be the result of commercial negotiations between the providers of international PSTN services. Indeed, carriers historically have resisted pressures and intrusions from governments in establishing accounting rates on the basis of commercially-agreed terms. The Commission's recent steps to enhance U.S. carriers' negotiating flexibility in recognition of the increasingly competitive nature of the environment emphasize that commercial negotiation should be given primacy in setting accounting rates.<sup>2</sup> Properly, accounting rates have always been viewed as the subject of commercial negotiations due to the complexity of the discussions, the financial calculations necessary, and the fact that they are an integral part of establishing and developing a commercial correspondent relationship.

The principal and critical role of the FCC, and other regulators, in international settlements has been to ensure that carriers are not subject to discriminatory treatment, including whipsawing, in foreign markets; in addition, regulatory bodies such as the Commission review and approve accounting rate changes for the benefit of operators and consumers. In the United States, these important functions are carried out by the FCC pursuant to its International

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2. See Regulation of International Accounting Rates, Fourth Report and Order, Docket No. CC 90-337, Phase II (rel. Dec. 3, 1996) ["Fourth Report and Order"].

Settlement Policy ("ISP"), as it may be modified to take account of new competitive developments, and in connection with its approval of non-U.S. carrier entry into the U.S. market. Until recently, any U.S. government involvement in discussing or establishing accounting rates beyond these traditionally regulatory functions was not generally welcomed by carriers.<sup>3</sup>

The principle of mutuality in establishing accounting rates and the other elements of what is essentially a commercial, bilateral relationship is deeply embedded in the historic structure and practices of the international telecommunications system. Recently, the fundamental principles of charging for telecommunications services, including the establishment of accounting rates, were reviewed comprehensively at the World Administrative Telegraph and Telephone Conference ("WATTC-88"), in which the United States Government took a leading role. The International Telecommunications Regulations ("ITR"), which were adopted at the WATTC-88 and to which the United States Government is a signatory, formally embody the principle of mutuality:

For each applicable service in a given relation, administrations (or recognized private operating agencies) shall **by mutual agreement** establish and revise accounting rates to be applied between them, in accordance with the provisions of Appendix 1 and taking into account

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3. See, e.g., Comments of AT&T, Regulatory Policies and International Telecommunications, CC Docket No. 86-494, at 19-20 (May 20, 1988), cited in Order on Reconsideration, 4 FCC Rcd 323, 332-33 (rel. Jan. 4, 1989) (FCC involvement beyond such activities "could bring the accounting rate process to a standstill," would slow rather than accelerate needed changes in the marketplace, and "would run a very high risk of changing the fundamental nature of international services from one of cooperation and collaboration into one of confrontation;" therefore, AT&T concludes, there is no justification for additional regulatory action by the FCC).

relevant CCITT Recommendations and relevant cost trends.<sup>4</sup> [emphasis added]

More recently, in 1992, the ITU's CCITT adopted ITU-T Recommendation D.140, to which the Notice repeatedly cites, and on which it explicitly relies for its suggested pricing methodology.<sup>5</sup> That Recommendation, too, expressly recalls that the ITR indicates that it is administrations (and, presumably, recognized private operating agencies) that "shall by mutual agreement establish and revise accounting rates to be applied between them." Recommendation D.140, Preamble A.

In short, when governments act in their regulatory capacity — not as administrations — the global community has recognized that their proper role must be confined to oversight of, not intervention in, accounting rate matters. Indeed, the FCC itself has taken the leadership role in advocating that governments worldwide make a clean separation between, on the one hand, commercial activities in the telecommunications sector, including operators' establishment and negotiation of rates for services, and, on the other hand, the supervisory role appropriate for regulatory bodies.<sup>6</sup> Here, where it is clear that the FCC is not acting as an administration but as a regulatory overseer, it is all the more appropriate for it to leave such

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4. See International Telecommunications Regulations, Final Acts of the World Administrative Telegraph and Telephone Conference, Melbourne, Australia, Art. 6.2.1 (November 28 to December 9, 1988), ratified, 138 Cong. Rec. S 11762 (1992).
  5. See ITU-T Recommendation D.140, "Accounting Rate Principles for International Telephone Services," Geneva (1992).
  6. See Market Entry and Regulation of Foreign-Affiliated Entities, Report and Order, 11 FCC Rcd 3873, 3894 (1995) (there must be "sufficient separation" between the operator and the regulator "to ensure that the regulator is independent, empowered, and does not have a conflict of interest in regulating the operator").

negotiations to the commercial marketplace, and to resist the temptation to apply the clumsy hand of government pressure and control.<sup>7</sup>

**B. Changes to the Accounting Rate System Should be Made on the Basis of Multilateral Discussions, Which are Already Well Underway**

Given that the current system has been established by international practices and agreements, changes to or reform of the present regime must be made on the basis of international consensus. In direct response to the FCC's inquiry, at ¶ 17 of the Notice, ITJ believes that such a consensus can emerge only through discussions and agreements that are conducted and concluded at the multilateral level.

Multilateral discussions are necessary to ensure that the interests of affected carriers in all countries, and of their customers, will be properly taken into account. Any unilateral approach, including the proposals contained in the Notice, will, regrettably, be disruptive, destabilize the international telecommunications system and, in the long term, be counterproductive to the laudable goals that the FCC would like to achieve.

The Commission itself recognizes that several multilateral discussions are already well underway.<sup>8</sup> As the Commission is well aware, ITU-T Recommendation D.140 has, since its adoption in 1992, been the subject of much discussion and attention worldwide.

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7. ITJ is not taking any position with respect to whether the FCC has the statutory jurisdiction or the authority under the Communications Act of 1934 to take the actions that it is proposing. See Notice, at ¶ 19. Rather, ITJ is expressing the view that the international telecommunications system has long-established expectations — expectations that, in some measure, have been fostered and nurtured by the FCC itself — reflected in binding international legal commitments that governments should simply stay out of the business of establishing accounting rates.

8. See Notice, at ¶ 15.

More recently, just in November 1996, the Secretary General of the ITU issued a consultative document that raises fundamental questions with respect to examination of the functioning, and possible reform, of the system of international settlements.<sup>9</sup> For ITJ and, presumably, other ITU members, the ITU Consultation Document and the ongoing work of Study Group 3 to which it relates will be a major focal point of attention over the next several months for the Study Group, which is chaired by Mr. Matsudaira of KDD. The FCC Notice notes the existence of this document, and the substantial work that it contemplates, in two footnote references.<sup>10</sup> Assuredly, the participants in the ITU system will take up Mr. Matsudaira's invitation to "give serious thoughts to the points raised" by the ITU Consultation Document and to submit contributions.

In the ITU Consultation Document, the ITU Secretary General lays out a multilateral framework for reforming the accounting rate system, one "in which all countries benefit, not just those carriers with market power."<sup>11</sup> In seeking comment on the accounting rate system and also on possible alternatives to the current system, the Secretary General states that he is not committed to the survival of the accounting rate system *per se*, but would rather see it function more efficiently while alternative options are being explored.<sup>12</sup>

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9. See Consultation Document on Accounting Rate Reform, Submission at ITU-Telecommunications Standardization Sector, COM 3-2-E, Study Group 3, Geneva (Nov. 11-15, 1996) ["ITU Consultation Document"].

10. See Notice, at ¶ 60 nn. 63-64.

11. ITU Consultation Document, at 8.

12. Id.

The questions raised by the ITU Consultation Document are not at all dissimilar to those that the Commission has been asking for several years and that undergird the Commission's Notice. As to how these questions should be examined, and how an international consensus might develop, the ITU Consultation Document asks whether it would be appropriate to convene a World Telecommunications Policy Forum, whether the ITU should hold a World Conference on International Telecommunications, and whether and how other multilateral organizations should be involved in the process.<sup>13</sup> In short, the ITU proposes to move forward on the basis of a broad multilateral approach to address a set of issues that are fundamentally global in their dimensions.

As both the Commission and the ITU recognize, other multilateral organizations are involved in examining these issues. The OECD has studied accounting rate reform and its members have reached some consensus on the need for such reform. The Commission cites to the comprehensive statement by the OECD on the subjects that are also raised by the Notice: "International Telecommunication Pricing Practices and Principles: A Progress Review" ("OECD Study").<sup>14</sup> The OECD Study, concurring with Recommendation D.140, the ITU Consultation Document and the FCC, expressly emphasizes that accounting rates should be cost-oriented. Like the ITU, however, the OECD highlights the inevitably multilateral character of

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13. Id.

14. OECD, Paris (1995) (cited in Notice, at ¶ 15 n.19).

the discussions; for example, the OECD Study notes that there are still areas where further "agreement" will be necessary, including the details underlying the concept of cost orientation.<sup>15</sup>

ITJ recognizes that multilateral discussions can and do take time to produce a genuine multilateral consensus. In the long term, however, moving forward to reform the system on the basis of a multilateral approach is much more likely to produce the results that the FCC and ITJ believe desirable: a decline in accounting rates worldwide, not just on routes between the United States and other countries, but on many other routes.

A unilateral approach, such as the FCC proposes, certainly can be implemented much more quickly than concluding a multilateral agreement. ITJ, however, believes that any such unilateral decision will be perceived as preempting the various other ongoing multilateral processes in which other operators are now participating in good faith. Instead of a multilateral approach to determining what the costs underlying the settlement rate should be — as contemplated by Recommendation D.140 — the FCC proposes to establish its own costing methodology and then to assert what the international settlement rate should be for a particular class of bilateral relationships. If a foreign carrier fails to respond to a U.S. carrier, then the Commission proposes to use various enforcement measures, among them being the draconian step of directing U.S. carriers to pay a settlement rate no higher than the benchmark rate established by the FCC itself.

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15. OECD Study, at 47.

As the Commission notes, for many carriers, making the transition to the cost-oriented settlement rates that it proposes will, indeed, require "substantial adjustments."<sup>16</sup> For some countries, these "adjustments" may include fundamental sectoral and even macro-economic changes. Many national governments are unlikely to embrace the compulsive element of structural change that is inherent in the FCC's proposals.

Accordingly, adoption of the FCC's proposed unilateral approach may well be counter-productive. Over the last several years, the Commission has seen that many countries respond well to its gentle persuasion and stand eager to replicate, in their own environments, the substantial achievements of the highly competitive U.S. telecommunications sector. Continued pursuit by the Commission of an ongoing dialogue to explain the advantages of competition and liberalization, which will lead to lower accounting rates, is likely to be more productive than taking unilateral actions that are certain to have direct and dramatic economic effects in some markets.

Several years ago, the National Telecommunications and Information Administration made similar points in response to a forerunner proposal of the Commission. In reaction to the FCC's then-proposal to establish benchmark rates as "guidelines," the NTIA commented:

Although the Commission's proposed "benchmark rates" offer useful guidance to the carriers in negotiating reduced accounting rates, **the Commission should be aware that many foreign administrations may object to the unilateral establishment of rates by the United States,**

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16. Notice, at ¶ 25.

**and that it may ultimately be counterproductive for the Commission to take such action.**<sup>17</sup> [emphasis added]

NTIA further stated:

As a complement to carrier-generated data regarding progress (or lack thereof) with foreign correspondents in reducing accounting rates, **greater emphasis should be placed on the advocacy, at the international level, of measures to reduce international calling prices and accounting rates, such as through the ITU/CCITT and the OECD.** In this regard, NTIA supports the Commission's goals of obtaining more accurate accounting rate data through the Executive Branch's efforts to use the ITU/CCITT and the OECD as vehicles for providing greater transparency in international accounting rates.<sup>18</sup> [emphasis added]

In its Second Report and Order in Docket No. 90-337, the FCC did establish benchmarks for Europe, Asia and other regions.<sup>19</sup> Nonetheless, as the FCC stated in its Order on Reconsideration in that Docket not even one year ago, "we emphasize that the benchmarks are only negotiating guidelines, not mandatory requirements."<sup>20</sup> To now make those benchmarks mandatory on a unilateral basis, as envisioned by the Notice, could well lead to friction between the U.S. government and U.S. carriers, on the one hand, and other governments and non-U.S. service providers, on the other, thereby impeding progress to cost-based accounting rates. Thus,

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17. See NTIA Reply Comments, Regulation of International Accounting Rates (Phase II), CC Docket 90-337, Summary at 2 (Sept. 27, 1991).

18. Id. at 9.

19. Regulation of International Accounting Rates (Phase II), Second Report and Order and Second Further Notice of Proposed Rulemaking, 7 FCC Rcd 8040 (1992) ["Second Report and Order"].

20. See Regulation of International Accounting Rates (Phase II), Order on Reconsideration, 11 FCC Rcd 6332, 6334 (1996).

ITJ fears, the Notice will not be viewed as the constructive "next step," as intended by the FCC, in the ongoing worldwide efforts to reform the international accounting rate system.<sup>21</sup>

## **II. VARIOUS FACTORS OTHER THAN COST AFFECT ACCOUNTING RATES, TRAFFIC FLOWS AND SETTLEMENT IMBALANCES.**

The FCC's proposal is predicated on the proposition that it knows best how to move accounting rates closer to costs and largely on the assumption that imbalances in settlement payments are produced by settlement rates being above costs. ITJ agrees that many settlement rates worldwide are above costs. The FCC's analysis, however, fails to adequately take into account the various reasons why settlement payments on particular routes, including those between the United States and other countries, might be out of balance.

### **A. Japan, Like the United States, Has Experience With a Settlement Payments Deficit.**

ITJ offers these observations from a standpoint that is not wholly unlike the experiences of some U.S. carriers. For many years, Japan, like the United States, has had a net outflow of settlement payments; the net outflow is now roughly 50 billion yen per year. Also like carriers in the United States, Japanese carriers, including ITJ, have negotiated directly and successfully with their foreign counterparts to reduce accounting rates. Through such commercial negotiations, accounting rates between Japan and many other countries have been gradually reduced over time. For example, accounting rates between Japan and an Asian country, which were at 1.47 Special Drawing Rights ("SDRs") as recently as October 1989 have been reduced six times since then, and now stand at 0.90 SDRs.

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21. See Notice, at ¶ 1 (Notice is "next step" in "ongoing effort" to reform the system).

**B. On the U.S.-Japan Route, as Well as on Other Routes Among "High Income" Countries, Settlement Rates are Continuing to Decline.**

The accounting rate on the U.S.-Japan route has been steadily declining. ITJ notes for the Commission that its accounting rate with U.S. carriers has been reduced by more than half, from 1.34 SDRs per minute as recently as 1990 to 0.63 SDRs per minute last year.<sup>22</sup> Thus, although, based on FCC data, the aggregate U.S. settlement payment to Japan is the highest, apart from Canada, of any such payment to a "high income" country, the accounting rate between the United States and Japan is moving steadily toward costs. As indicated below, there is a variety of reasons, other than settlement rates, that contribute directly to the settlement imbalance, both between the United States and Japan and on other routes where U.S. carriers now are aggressively marketing their services.

Moreover, as to other bilateral relationships among many of the developed countries (those classified as "high income" by the Notice), accounting rates have declined markedly over the last few years, and are continuing to do so.<sup>23</sup> Given these trends, the urgency for adoption of the Commission's proposals would seem to be lessened considerably, at least with respect to such countries.

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22. FCC, Report on Trends in the International Telecommunications Industry, Fig. 30 (Decline in Accounting Rates) (rel. Aug. 22, 1996).

23. Indeed, based on Appendix B to the Notice, it appears that only nine of the top thirty countries for U.S. settlement outpayments are "high income" countries.

**C. Aggressive Practices by U.S. Carriers Are an Important Factor in the Growth in the U.S. Settlement Deficit on Particular Routes and Overall.**

The FCC has long blamed non-U.S. carriers and foreign governments for the growing U.S. settlement outpayments. As the Commission itself recognizes, among the most important factors in the size of that deficit are the actions of U.S. carriers, citing call-back, routing of bilateral traffic through third countries and Internet telephony as service innovations that now, and may in the future, accentuate the market distortions caused by above-cost settlement rates.<sup>24</sup> The ITU Secretary General notes that tariff dissymmetries are being exploited by alternative calling procedures that favor the routing direction that offers the lowest price; some of these services "are offered by the major carriers themselves, including use of calling cards, country direct service and freephone,"<sup>25</sup> while others are offered by new entrants, such as call-back companies and resellers. In particular, ITJ notes, major U.S. carriers have marketed calling cards in Japan and elsewhere that allow non-U.S. calls to be billed as if they had originated in the United States. Now, they are promoting call-back service and routing of traffic through third countries ("refiling"). Even AT&T, historically not supportive of call-back services, has launched an international call-back service in Japan.<sup>26</sup>

In its Notice, the Commission cites to the ITU Consultation Document to note that the ITU, too, has emphasized that the technological means for bypassing the settlements

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24. See Notice, at ¶¶ 12-13.

25. ITU Consultation Document, at 4.

26. See AT&T U-Turn as it Launches its own Callback Service, Network Briefing, (Dec. 6, 1996).

regime are developing rapidly, thus diminishing what was once a secure source of revenue streams for financing investment in telecommunications infrastructure.<sup>27</sup> The ITU Consultation Document concludes that although some traffic imbalances occur naturally due to geographical, historical or demographic reasons, imbalances have been accelerating because of price distortions and reverse routing of calls.

All of these actions have resulted in a substantial decrease of outgoing traffic from Japan and some other countries to the United States, siphoning off non-U.S. carriers' customer revenues while increasing the U.S. settlements outpayment. The FCC's Notice does not even attempt to parse the extent to which these activities, or other "natural" causes — rather than actual differences in collection charges and high accounting rates — account for settlement imbalances. Yet, based on ITJ's experience, U.S. carrier-marketed calling card services often are most attractive to U.S. customers, including business travelers, because they allow unified billing statements, and they permit users to communicate in English, sidestep unfamiliar dialing practices when making an international call and avoid known or unknown hotel surcharges. None of these actual or perceived advantages to U.S.-marketed reverse calling services, of course, have anything to do with above-cost settlement rates or high collection charges.

In point of fact, U.S. carriers are benefitting very substantially from the decrease in outgoing traffic from Japan and other countries to the United States, whether as a result of call-back, calling card or refile services. They enjoy substantial increases in the amount of revenues generated from outbound collection charges, which are only somewhat offset by the settlement payments they must make to non-U.S. carriers to "terminate" those calls. A reduction

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27. See Notice, at ¶ 60 n.63 (citing ITU Consultation Document, at 6)

in the settlement rates may only result in increasing the profitability of these practices by U.S. carriers, not in necessarily increasing the amount of real non-U.S.-originated calling to the United States or in ultimately bringing settlement payments into balance. For this reason, non-U.S. carriers view with some considerable skepticism the oft-recited arguments of the U.S. carriers and the Commission that the settlement deficit is a "significant subsidy" paid by U.S. consumers to non-U.S. carriers and their end users.<sup>28</sup>

**D. On Developing Country Routes, Swift Reductions in Settlement Rates May Not be Desirable and Will Not Necessarily Bring Settlement Payments Into Balance.**

In negotiating accounting rates with a broad range of its correspondents, ITJ has recognized that traffic flows cannot be swiftly, or on the basis of quick fixes, brought into balance. Many of the countries with which Japan has the densest traffic flows are countries in various states of development. Although some of these countries may have settlement rates with Japan that are above cost, it is unrealistic to assume that traffic flows will eventually come into balance simply by negotiating lower accounting rates.

As the Commission points out in the Notice, settlement revenues are an essential source of funds for telecommunications development in developing countries. The ITU Consultation Document expressly notes that settlement payments constitute hard currency that are used to buy telecommunication equipment; such payments also are used to secure loans to operators.<sup>29</sup> As the FCC, the ITU and other studies have found, moreover, these carriers have

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28. See Notice, at ¶ 8 (arguing that to the extent the settlement payment imbalance exceeds actual costs it represents a "significant subsidy" to foreign carriers).

29. See ITU Consultation Document, at 5.

cost structures and levels that may be quite dissimilar to those of carriers in more developed countries.

Clearly, the use of settlement payments to develop infrastructure and to increase telephone penetration in lesser-developed correspondent countries ultimately redounds to the benefit of not only their citizens but also of carriers from developed countries. The greater the teledensity, the greater the number of calls that can be exchanged between Japan (or the United States, for that matter) and such countries, thereby increasing the likelihood that the cost-per-call will decrease and that settlement payments will be brought into a somewhat greater balance.<sup>30</sup>

In addition, ITJ notes that callers from developed countries simply are more used to calling, and have more capital to do so, than callers from developing countries. Thus, even if settlement rates are moved closer to costs, developed countries are still very likely to have settlement deficits with less developed countries.

### III. CONCLUSION

The preceding observations are offered not with the intention of suggesting that the existing accounting rate system is perfect. To the contrary, the flexibility recently afforded by the Commission on these matters is seen as a very useful development for carriers engaged in the correspondence of traffic between the United States and other competitive environments.<sup>31</sup>

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30. Although the FCC and some U.S. carriers opine that developing countries employ settlement payments for purposes unrelated to improving telecommunications services and that underdeveloped network infrastructures persist despite such payments, see Second Report and Order, 7 FCC Rcd at 8042-43 & n. 31, the Commission has not adequately examined those assertions and relationships in this Docket.

31. See Fourth Report and Order, supra note 2.

More broadly, and with respect to the global context, however, at present several alternatives are being explored in multilateral forums.<sup>32</sup> Currently, there is no universally accepted better approach to the one that we have, which is based on the commercial establishment of accounting rates by and between correspondents.

For the reasons set forth above, ITJ respectfully urges the Commission to give its fullest and undivided support to these multilateral efforts to reforming the international settlements system and, accordingly, to refrain from adopting the proposals set out in the Notice.

Respectfully submitted,



Jeffrey P. Cunard  
Lothar A. Kneifel  
Debevoise & Plimpton  
555 13th Street, N.W., Suite 1100E  
Washington, D.C. 20004

(202) 383-8000

Counsel to International Telecom Japan Inc.

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32. See ITU Consultation Document, at 7 (noting possible alternative approaches, including those contained in Recommendation D.150, "sender keep all" and facilities-based interconnection agreements).

## SERVICE LIST

Chairman Reed E. Hundt  
Federal Communications Commission  
1919 M Street, N.W., Room 814  
Washington, D.C. 20554

Commissioner Susan Ness  
Federal Communications Commission  
1919 M Street, N.W., Room 832  
Washington, D.C. 20554

Commissioner James H. Quello  
Federal Communications Commission  
1919 M Street, N.W., Room 802  
Washington, D.C. 20554

Kerry E. Murray, Esq.  
Telecommunications Division  
International Bureau  
Federal Communications Commission  
2000 M Street, N.W., Room 800  
Washington, D.C. 20554

Peter Cowhey, Chief  
Multilateral & Development Branch  
International Bureau  
Federal Communications Commission  
Room 800, Mail Stop 0800A  
2000 M Street, N.W.  
Washington, D.C. 20554

Commissioner Rachelle B. Chong  
Federal Communications Commission  
1919 M Street, N.W., Room 844  
Washington, D.C. 20554

William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W.  
Room 222  
Washington, D.C. 20554

John Nakahata  
Senior Legal Advisor  
to Chairman Reed Hundt  
Federal Communications Commission  
1919 M Street, N.W.  
Room 814  
Washington, D.C. 20554

Jackie Chorney  
Legal Advisor to Chairman  
Reed Hundt  
Federal Communications Commission  
1919 M Street, N.W.  
Room 814  
Washington, D.C. 20554

Troy Tanner, Chief  
Policy and Facilities Branch  
Telecommunications Division  
International Bureau  
Federal Communications Commission  
2000 M Street, N.W.  
Washington, D.C. 20554

Diane Cornell, Division Chief Telecommunications Division  
International Bureau  
Federal Communications Commission  
2000 M Street, N.W., Room 800  
Washington, D.C. 20554

Donald H. Gips, Chief  
International Bureau  
Federal Communications Commission  
2000 M Street, N.W., Room 800  
Washington, D.C. 20554

Brett Haan  
International Bureau  
Federal Communications Commission  
2000 M Street, N.W., Room 800  
Washington, D.C. 20554

International Reference Room  
Common Carrier Bureau  
Federal Communications Commission  
2000 M Street, N.W., Room 102  
Washington, D.C. 20554

International Transcription Service  
Federal Communications Commission  
2100 M Street, N.W., Suite 140  
Washington, D.C. 20037

Kathryn O'Brien  
International Bureau  
Federal Communications Commission  
2000 M Street, N.W., Room 822  
Washington, D.C. 20554