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July 6, 1998

EX PARTE OR LATE FILED

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Via Hand Delivery

Ms. Magalie Roman Salas  
Secretary  
Federal Communications Commission  
1919 M Street, N.W. - Room 222  
Washington, D.C. 20554

Re: **EX PARTE**  
ET Docket No. 95-18

ORIGINAL  
RECEIVED  
JUL - 6 1998  
FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Dear Ms. Salas:

Francis Coleman, Director of Regulatory Affairs, ICO Global Communications, North America ("ICO"), Larry Darby, Senior Advisor to CompassRose International, Inc. and the undersigned, met July 2, 1998 with Dale Hatfield, Chief Technologist, Office of Plans and Policy to discuss ICO's comments in the above-captioned proceeding.

Larry Darby discussed the economic impact of the above-captioned proceeding's proposed relocation costs on global satellite systems and presented the attached paper on the same. ICO provided an update on the commercial progress of its mobile satellite system, and otherwise restricted its discussion to the arguments presented in its comments filed in the above-captioned proceeding.

Two copies of this letter have been submitted to the Secretary of the Commission for inclusion in the public record, as required by Section 1.1206(b)(2) of the Commission's rules.

Very truly yours,

Cheryl A. Tritt  
Counsel for ICO Global Communications

Attachment  
cc: Dale Hatfield  
dc-122163

No. of Copies rec'd 0+2  
LINE A B C D E

# Economic Policy Issues Related to Global Satellites

*Presentation to  
Federal Communications Commission*

Larry F. Darby  
Senior Advisor to CompassRose International, Inc.

July 2, 1998



# Overview of Presentation

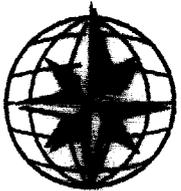
- Policy goals
- Core of the economic analysis
- Global implications of Commission action
- Capital market implications
- Economic perspectives on relocation policy
- Conclusions



# Satellite Policy Goals

- Encourage global satellite development
- Encourage satellite systems/services competition
- Encourage open access to global markets
- Promote investment; risk taking; innovation
- US leadership in commercialization of space
  - Technology
  - Exports of satellite products and services
- Balance with other public interest goals

*50-125% growth in different sectors*



# Core of the Analysis

- Four parts of the economic analysis:
  1. Global satellite systems differ in ways with significant policy implications
  2. US policies have significant externalities
    - External Costs and External Benefits
    - ROW will “follow” US leadership
  3. Relocation burdens will
    - Increase cost and prices
    - Increase uncertainty
    - Invite ROW to discriminate against US firms
  4. Relocation rules impact other policy goals



# Political Economy of Global Satellites

- Multiple political jurisdictions
- Special cost characteristics
  - High fixed costs and operating leverage <sup># 4.5 B sys</sup>
  - Costs shared with other countries
  - Enormous “transactions” costs
  - Space segment/ “system” costs are indivisible
    - Contrasts sharply with terrestrial systems
- Special demand characteristics
  - “Joint” revenue --
  - Enormous consumption “externalities”
    - Value to US depends on number of nations/consumers addressed

# 1B to cover capital costs not inc operational



# External Costs of US Relocation Decision

- ROW may take US decision as “license”
- ROW has differing policy agenda
- ROW may (mis)apply policy to US-based satellite systems
- Effect may be to export and encourage policies that conflict with US goals



# How Relocation Costs Matter

- Effects on competition policy
- Effects on investment and innovation policy
- Effects on market access
- Reactions of foreign administrations
- US leadership in satellite development



# Capital Market Effects of Relocation Policy

- Increase expected costs
- Foreign “multiplier” of US relocation burden
- Increase uncertainty
  - Investors asked to underwrite costs from foreign reaction
- Foreign barriers to entry reduce cash flow
  - Cost effects
  - Revenue effects
- Significant costs of delay -- uncertainty and risk



# Perspectives on relocation Charges

- No windfalls for incumbent  
uses and users
- Reflect Commission “technology” policies
  - Encourage new technologies and applications
  - Reduce regulatory barriers to innovation
  - Encourage investment and risk taking



# Economic Effects of Alternative Relocation Cost Assignment

## For Satellites:

- “Substantial” burden

## For Broadcasters:

- Negligible effect On:
  - Cash flow; earnings
  - Capital budget
- No Effect On:
  - Consumers
  - Resource allocation
  - Technological change
- Broadcasters will “Go Digital” in any event



# Views of “Like” Services

- Technical or spectrum-based view
- Economic view
  - Supply-side view
  - Demand side view
- Past Commission definitions
  - Customer perception: “critical”, a “linchpin”
- “Likeness” driven by user perceptions
- Significant competitive effects of different policies for “like” services



# Summary and Conclusions

- Domestic precedents of limited value
- Relocation costs will be magnified globally
- Time is money; risk; loss of opportunity
- FCC rules will impact:
  - Consumer choice
  - Market share
  - Success in marketplace

