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January 19, 1999

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

Re: Proposed Global Venture Between AT&T Corp. and British Telecommunications plc
IB Docket No. 98-212

Dear Ms. Salas:

On behalf of AT&T Corp. ("AT&T") and the applicants in the above-referenced proceeding, with regard to the proposed global venture between AT&T and British Telecommunications plc ("BT"), we hereby respond to the December 22, 1998 letter from Regina M. Keeney, Chief of the International Bureau of the Federal Communications Commission ("Commission") to Judy Simonson seeking certain information with regard to the processing of the above-referenced applications.

1. *An analysis of the impact of AT&T's proposed acquisition of IBM's global data networks on the Commission's review of the proposed joint venture between AT&T and BT.*

Applicants do not believe that AT&T's proposed acquisition of IBM's global data networks should have any impact on the Commission's review of the proposed international venture between AT&T and BT (the "Global Venture"). Approximately two-thirds of the assets being acquired by AT&T from IBM relate to switching and related facilities located in the United States and used for domestic value added services. The services offered by the IBM business AT&T proposes to acquire do not overlap with the services offered today by AT&T/WorldPartners, AT&T-Unisource or Concert. In contrast to the large MNC accounts targeted by the Global Venture, ultimately for IP protocol-based services, the IBM accounts to be transferred to AT&T consist of more than 30,000 primarily small to mid-sized corporate customers that employ multiple communication protocols and that purchase on average only tens of thousands of dollars of service

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per year. Most fundamentally, IBM owns no international (or domestic) transport facilities, and, given their scale and vintage, the in-country switches, routers and related facilities AT&T seeks to purchase from IBM, even if eventually transferred to the Global Venture, would not materially advance the Global Venture's IP network plans.

More specifically, under the Master Asset Purchase Agreement ("Agreement") between IBM and AT&T dated December 7, 1998, AT&T will acquire and continue to operate the business of IBM that consists of designing, implementing the design of, operating, managing and maintaining the IBM Global Network and providing, marketing and selling a suite of services that make up IBM's "Global Network Services" (including network outsourcing services, MDNS services, internet access services, managed internet services, file transfer services, transaction routing services and universal messaging services). The assets to be acquired from IBM include customer contracts, employees and intellectual property rights. The IBM Global Network assets being transferred to AT&T do *not* include any transport facilities (e.g., interests in cable consortia or IRUs). Rather, the transport facilities that are one component of the IBM Global Network are all *leased* from telecommunications carriers (including AT&T).[1] Thus, the network assets owned by IBM, which are components of the IBM Global Network and which will be transferred to AT&T, consist primarily of widely dispersed frame relay switches, ATM switches, routers, multiplexers, modem pools, and network access gateways.[2]

Article 19 of the Framework Agreement between AT&T and BT provides certain mechanisms for the acquisition of businesses, investments or assets that either party acquires before the formation of the Global Venture. It remains uncertain which of the IBM assets may ultimately be offered to the Global Venture under these provisions.[3]

However, the impact of such assets on the Global Venture, whether transferred or otherwise used by the Global Venture, would not be material. Because of rapid and continuing

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[1] Currently, AT&T supplies to IBM approximately 80% of the US-domestic long-distance leased lines and of the international half-circuits originating from the US. AT&T's assets used to provide the international half-circuits will be transferred to the Global Venture in accordance with the Framework Agreement between AT&T and BT and therefore the Global Venture will become a supplier to the IBM Global Network under the existing leased line agreements.

[2] The proposed acquistion does not involve the transfer of any FCC licenses.

[3] With respect to asset acquisitions that exceed $25 million, for example, the decision to acquire must be made by the management board of the Global Venture and is subject to the veto of the parties.

technological developments since the deployment of IBM's facilities, those facilities, even to the extent they are located in cities targeted by the Global Venture and are ultimately tranferred to or used by the Global Venture, have neither the capacity nor the functionality consistent with long-term use by the Global Venture in its planned provision of IP-protocol based services. Rather, any benefit to the Global Venture would come through the short-term use of the IBM nodes to accelerate modestly the roll-out of the Global Venture's IP network in certain cities. Currently, the parties envision that the IP network will begin to be deployed on October 1, 2000, with completion by the end of that year of service to the 100 targeted cities. If available to the Global Venture, the real estate and IP nodes owned by IBM could possibly accelerate by several months the completion of this initial rollout. Further, use of those facilities as a backstop could possibly briefly postpone (but not eliminate) the Global Venture's deployment of some node equipment in some cities. For these reasons, IBM's proposed acquisition of IBM's Global Network Services business, which was motivated largely by AT&T's desire to strengthen its outsourcing and public internet businesses, should have no impact on the Commission's public interest review of the Applications.

2. *The definition of "global corporate communications services," as the term is used in the above application, and the basis for the determination (including the method of calculation) that AT&T and BT have a combined market share in this market of less than 10 percent.*

As stated in the Applications, Applicants have used the term "global corporate communications services" to refer to the provision of "voice, data, video and other telecommunications services" to multinational corporations "over a compatible international network of facilities that have the same quality, characteristics, features and capabilities wherever they are provided." Public Interest Statement at 18. The Commission has elsewhere used the term "global seamless services." See Merger of MCI Communications Corporation and British Telecommunications plc, BT/MCI II, 12 FCC Rcd. 15351, 15377 (1997) (describing "global seamless services" as "consisting of a combination voice, data, video and other telecommunications services that are offered by a single source over an integrated international network of . . . facilities, and that have the same quality, characteristics, features and capabilities wherever they are provided").

As stated in the Applications, the statement that "AT&T and BT together account for less than ten percent of [worldwide] sales" of global corporate communications services, Public Interest Statement at 21, is based on the limited publicly available information on total sales. There are few such estimates, and they vary considerably, a fact that should not be surprising given the enormous growth and rapid evolution in technologies, customer demands and range of suppliers (including many non-traditional providers of telecommunications services). Applicants relied principally on the two public studies of which they were aware that purport to provide both market size and market share estimates. The first is by CIT Research, entitled "The Global Market for Managed Network Services 1998." The CIT study, based on interviews, annual reports, press releases and other research, provides global market shares for what CIT calls the "network management and support services" ("NM&S") market. CIT included within this sector managed voice/VPN services (excluding Centrex-style public switched VPN services), facility management

(FM), and VSAT facilities management.[4] Based upon an estimated 1997 NM&S revenue of $13.9 billion, CIT estimated shares for Concert and AUCS/World Partners at 4.8% and 1.9%, respectively. See The Global Market For Managed Network Services 1998 (CIT Research) at Chapter 2, page 3 (listing $ 665 million revenues for Concert and $ 260 million revenues for AUCS/World Partners); *id.* Chapter 7, page 7 (listing total revenues as $13.9 billion).

McGraw Hill's "Global VANS Market: 1995 Edition" provides estimates, based upon supplier interviews, of global and regional providers' shares of "VANS" services, which are defined to include managed data network services, international virtual private network voice and data services, outsourcing and facilities management. McGraw Hill estimated a 1997 worldwide revenue of $22.9 billion and attributed 6.3% and 3.9% shares to AT&T (and "Partners") and BT/MCI, respectively. See Global VANS Market: 1995 Edition (Northern Business Information 1995) at 434.

Even assuming that the secondary research upon which the McGraw Hill and CIT studies were based produced accurate revenue estimates, Applicants believe that these figures overstate the concentration that will occur as a result of the proposed Global Venture. First, as noted above, both studies appear to have attributed sales by BT/Concert entirely to BT and sales of WorldSource services and AT&T-Unisource services entirely to AT&T. That is clearly inappropriate. A substantial portion of Concert's 1997 sales were by MCI, which is withdrawing from, and will be competing with, Concert. Likewise, AT&T will be withdrawing from World Partners and AT&T-Unisource: at least 35% of revenues from the sale of WorldSource services and from the sale of AT&T-Unisource services are attributable to sales by other carriers (under contracts to which AT&T is not even a party).

Further, neither the McGraw Hill study nor the CIT study accounts for the substantial portion of global corporate communications services that are supplied through self-provision. In this regard, as an alternative to purchasing a package of global corporate communications services from a Global One or MCI/WorldCOM, for example, corporate customers can (and do) purchase and manage, through their own telecommunications departments, the component piece-parts of those services from various facilities-based providers. Properly reflecting revenues attributable to self-provision would significantly increase the worldwide revenue base from which market shares are estimated.

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[4] Excluded from the NM&S market were carrier's carrier services, calling cards, basic leased line services, mobile services or any other public switched data or voice service that is sold as a discrete offering (but that may also be included in the combination of services that make up the global corporate communication services provided to a multinational corporation). Also excluded were sales of equipment, systems, IT, and consultancy except where these are an integral part of a larger network management contract and are included in the price.

Nonetheless, Applicants caution against overreliance on market share data. Rapid growth, the convergence of technologies and services, and a dearth of reliable public data (for example, Applicants do not know the sales levels of even their largest competitors, much less the dozens of successful and rapidly growing newer entrants) render *any* traditional market share analysis with respect to global corporate communications services of limited utility.[5] In particular, the convergence of voice, data, and information technology using internet protocol ("IP") threatens to undermine the position of traditional telecommunications firms with legacy networks and systems relative to new entrants with IP-ready networks and systems. Existing revenue shares do not reflect the impact of these rapid technological changes.

Fortunately, as demonstrated in the Applications, there is no need to resort to such indirect measures of market power as market share to determine that the grant of the authorizations requested here are pro-competitive and pose no significant threat to competition in any relevant market. Most fundamentally, given the large and rapidly increasing number of strong competitors in the provision of global corporate communications services, Applicants could not conceivably impede competition absent control over the cable and satellite facilities used to provide global telecommunications and data services. As explained in the Applications, however, Applicants control only very small shares of this rapidly growing capacity.

3. *AT&T's and BT's IRU ownership on submarine cables.*

As requested by the Commission, AT&T and BT have provided as Exhibit 1 to this Response various Tables setting forth their ownership of Indefeasible Rights of Use ("IRUs") on submarine cables.

4. *Whether AT&T or BT controls or is affiliated with any foreign carrier that has market power and, if so, whether the affiliated foreign carrier is from a WTO or non-WTO country.*

In the individual Section 214 and Submarine Cable Applications filed as part of the Application, the Applicants reported on their affiliation with foreign carriers. In response to the specific information sought by the Commission in the Request, AT&T does not control and is not affiliated with any foreign carrier that has market power. The Commission has previously classified BTNA as dominant on the US-UK route because of its affiliation with BT, a "foreign carrier" as defined in § 63.18(h)(1)(ii) of the Commission's Rules.

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[5] As the Commission and the courts have recognized, market share is only a proxy for market power, and even a high market share does not by itself demonstrate market power.

BT also owns a 50% interest in Gibraltar Telecommunications International Limited ("GibTel"), an incumbent provider of international services in Gibralter, a non-WTO member. The Government of Gibraltar holds the remaining 50% interest in GibTel. While GibTel has well over 50% of the share of the market of international traffic with respect to Gibraltar, the dominant provider of domestic telecommunications services is Gibraltar Nynex Communications Limited.

In BT/MCI II, the Commission waived dominant carrier regulation on the US-Gibraltar route because the percentage of facilities based/facilities resale IMTS minutes on the route was de minimus based on international traffic data reported pursuant to Section 43.61 at that time. According to the Section 43.61 International Traffic Data for 1996, Table A4, released January 1998, the total facilities based/facilities resale IMTS minutes to Gibraltar were 573,578 out of a total worldwide of 18,873,804, 065. As in BT/MCI II, dominant carrier regulation on the US-Gibraltar route should be waived.

Respectfully submitted,

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cc: Regina M. Keeney
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Exhibit 1

Indefeasible Rights of Use ("IRUs")

	International Cable System	AT&T IRUs		BT IRUs	
I.	Atlantic	West	East	West	East
	TAT 8				
	(US - UK)	0	0	0	1
	(US - France)	0	0	0	7
	TAT 9				
	(US - UK)	0	0	0	0
	(US - France)	0	0	0	0
	TAT 10				
	(US - Netherlands)	0	0	0	0
	(US - Germany)	0	0	0	0
	TAT 11				
	(US - UK)	0	0	0	0
	(US - France)	0	0	0	0
	TAT 12/13				
	(US - UK)	0	0	0	0
	(US - France)	0	0	0	0
	*AC-1				
	(US - UK)	63	63	0	0
	(US - Germany)	63	63	0	0
	*Gemini (US - UK)	0	0	0	0
	*PTAT1 (US - UK)	127	21	0	116
	*CANTAT3 (UK - Canada)	0	0	0	0

* Private

	International Cable System	AT&T IRUs		BT IRUs	
II.	**Americas**	**West**	**East**	**West**	**East**
	Americas I (Carib)				
	(Fla - St. Thomas)	6	0	0	0
	(St. Thomas - Trinidad)	0	0	0	0
	(St. Thomas - Brazil)	6	0	0	0
	(Trinidad - Venezuela)	0	0	0	0
	Columbus II				
	(US - Portugal)	0	0	0	0
	(US - Spain)	0	0	0	0
	(US - Italy)	0	0	0	0
	ECFS (BVI)	0	0	0	0
	Unisur				
	(Brazil - Argentina)	1	1	0	0
	(Brazil - Uruguay)	0	0	0	0

	International Cable System	AT&T		BT	
III.	Mediterranean	Pt. 1	Pt. 2	Pt. 1	Pt. 2
	ADEN - DJIBOUTI	0	0	0	0
	APHRODITE 2 (Greece - Cyprus)	8	0	4	0
	ARIANE 2 (France - Greece)	0	0	0	0
	BSFOCS (Bulgaria - UK - Russia)	0	0	0	0
	CIOS (Cyprus - Israel)	8	0	3	0
	CADMOS (Cyprus - Lebanon)	0	0	0	0
	EMOS 1				
	(Italy - Greece)	0	0	0	0
	(Italy - Turkey)	0	0	0	0
	(Italy - Israel)	0	0	0	0
	ITUR (Italy - Turkey)	2	0	0	0
	KAFOS (Turkey - Bulgaria)	0	0	0	0
	Marseilles - Palermo	11	0	0	0
	MAT 2 (Spain - Italy)	0	0	0	0
	SAT 2				
	(Canaries - South Africa)	18	0	0	0
	(Madeira - South Africa)	5	0	1	0
	SEA - ME - WE 2				
	(France - Singapore)	0	0	3	0
	(France - Far East)	0	0	0	0
	UGARIT (Cyprus - Syria)	0	0	0	0
	Flag (various routes)	468	403	0	0

	International Cable System	AT&T		BT	
IV.	**European Mainland**	**P1**	**P2**	**P1**	**P2**
	Denmark - Germany	10	0	0	0
	Denmark - Poland	5	0	0	0
	Denmark - Russia	0	0	0	0
	Eurafrica	0	0	0	0
	Germany - Sweden	1	0	0	0
	Kattegat (Denmark - Sweden)	0	0	0	0
	Odin	0	0	0	0
	Pencan 5 (Spain - Canaries)	18	0	0	0
	Sweden - Latvia	1	0	1	0
	UK - Belgium (5 & 6)	13	0	0	0
	UK - Denmark 4	13	0	0	0
	UK - France (3 - 5)	0	0	0	0
	UK - Germany 5	2	0	0	0
	UK - Netherlands (12, 14)	0	0	0	0
	UK - Spain 4	0	0	0	0

	International Cable System	AT&T		BT	
V.	Pacific	P1	P2	P1	P2
	APC	1	0	0	0
	APCN	0	0	0	0
	AN2CAN	0	0	0	0
	Brunei - Singapore	0	0	0	0
	Philippines - Brunei	0	0	0	0
	Philippines - Malaysia	0	0	0	0
	Brunei - Malaysia	0	0	0	0
	China - Japan	0	0	0	0
	Chikura - Miyazaki	7	0	0	0
	Guam - Philippines	0	0	0	0
	Philippines - Taiwan	0	0	0	0
	Guam - Taiwan	0	0	0	0
	Japan - Hong Kong	8.23	0	0	0
	HONTAI II	0	0	0	0
	HAW 4 / TPC 3				
	(Japan - US)	0	0	0	0
	(Guam - US)	0	0	0	0
	(Guam - Japan)	0	0	0	0
	(Hawaii - Guam)	0	0	0	0
	(Japan - Hawaii)	0	0	0	0
	(USM - Hawaii)	0	0	0	0
	HAW 5 (US - Hawaii)	0	0	0	0
	NPC (US - Japan)	69	0	0	0
	PACRIM E (HI - Australia)	0	0	0	0
	PACRIM W (Guam - Australia)	0	0	0	0
	Russia - Japan - Korea	0	0	0	0

	International Cable System	AT&T		BT	
V.	**Pacific**	**P1**	**P2**	**P1**	**P2**
	TPC 4				
	(Canada - Japan)	0	0	0	0
	(US - Japan)	0	0	0	0
	(Canada - US)	0	0	0	0
	TPC 5 (with WDM)	0	0	0	0
	(US - Japan)	0	0	0	0
	(Japan - Guam)	0	0	0	0
	(US - Guam)	2	0	0	0
	(US - Hawaii)	0	0	0	0
	(Hawaii - Guam)	0	0	0	0
	(Hawaii - Japan)	0	0	0	0
	TASMAN 2 (Australia - NZ)	0	0	0	0
	Thai - Vietnam - Hong Kong	0	0	0	0