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COMSAT CORPORATION

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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

Re: Ex Parte Notification
Direct Access to the INTELSAT System
IB Docket No. 98-192

Dear Ms. Salas:

On July 15, 1999, representatives of COMSAT Corporation ("COMSAT") and the Commission's Office of Plans and Policy ("OPP") participated in a conference call regarding the above-referenced proceeding. Taking part in the conference call were Howard Polsky, Theodore Boll and Keith Fagan of COMSAT; Dr. Jerry Green of Harvard University; Johannes P. Pfeifenberger of The Brattle Group; Dr. Howard Shelanski, Chief Economist of the FCC; and Marilyn Simon of OPP.

During the conference call, the above individuals discussed with FCC personnel some of the reasons why direct access to INTELSAT prior to privatization would not serve the public interest. It was pointed out that:

- Direct access would create an unlevel playing field for competitors because INTELSAT is tax-exempt. INTELSAT (unlike COMSAT) would not pay taxes in its role as a facilities-based supplier. As users became direct access customers of INTELSAT, this would not only cause a loss of revenue for the U.S. Treasury (in effect creating a U.S. taxpayer subsidy to INTELSAT), but would also give INTELSAT an artificial cost advantage. Thus, direct access would create economic distortions in a market that is already competitive without it, thereby decreasing rather than increasing competition.

- Direct access would lead to uneconomic bypass, even with a surcharge, because the structure of the INTELSAT Utilization Charges (IUCs) does not reflect the structure of market prices. In particular, the IUCs underprice short-term services because INTELSAT, as a cooperative, does not need to encourage its users (who are also its owners) to make long-term commitments. Allowing users who are not owners to obtain access at the IUCs would give them the opportunity to cherrypick these underpriced

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services -- which explains in large part why U.S. carriers are so eager to obtain direct access. Superimposing a flat surcharge on the IUCs would not solve this rate structure problem. Moreover, even if the Commission were to adopt individual surcharges for each IUC (a daunting task), it would only be substituting administratively-determined access rates for the real market prices that COMSAT already charges as a non-dominant carrier. Given the near-term privatization of INTELSAT, this temporary regulatory program with its attendant costs would be wasteful of FCC resources.

• Direct access would harm COMSAT because it would oust COMSAT from its existing retail business. Even in the absence of "fresh look," direct access would deprive COMSAT of any reasonable opportunity to compete effectively for growth or renewal traffic. The only way to compensate COMSAT for such harm (even assuming, contrary to fact, that the IUCs provide a market-compatible rate structure) would be to impose a fully compensatory surcharge on the IUCs. That would eliminate uneconomic windfalls -- and, with them, any perceived "benefits" that direct access would produce. In other words, the only way direct access can lead to any "savings" for customers is by inviting cherrypicking based on an inappropriate rate structure and/or by shortchanging COMSAT on the level of the surcharge.

• Direct access would delay and distort the privatization process in at least two ways. First, it would allow foreign Signatories to gain access to the U.S. market through the INTELSAT system without requiring INTELSAT to privatize first. That could undermine other Signatories' support for privatization by providing what would be (for them) an attractive alternative. Second, it would create a whole new set of INTELSAT stakeholders, including the U.S. carriers, whose interest would lie in maintaining direct access windfalls, rather than maximizing INTELSAT's competitive potential through rapid privatization.

In accordance with Section 1.1206 of the Commission's Rules, the original and one copy of this letter are being submitted to the Office of the Secretary.

Sincerely,

Keith H. Fagan

Keith H. Fagan

cc: Don Abelson
Howard Shelanski
Marilyn Simon