

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554**

_____)	
In the Matter of)	
)	
International Settlements Policy Reform)	IB Docket No. 02-324
)	
International Settlement Rates)	IB Docket No. 96-261
_____)	

REPLY COMMENTS OF NTT DOCOMO, INC.

Tatsushiro Shukunami
David Jeppsen
NTT DoCoMo USA, Inc.
Suite 450
1399 New York Avenue, N.W.
Washington, DC 20005
(202) 639-9377

Joseph P. Markoski
Douglas L. Povich
Mark D. Johnson
Squire, Sanders & Dempsey L.L.P.
1201 Pennsylvania Avenue, N.W.
P.O. Box 407
Washington, DC 20044-0407
(202) 626-6600

Its Attorneys

February 19, 2003

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SUMMARY

The parties to this proceeding have identified significant disparities between wholesale foreign mobile termination rates and the retail surcharges paid by U.S. consumers on calls to mobile telephones in other countries. The Commission should investigate the extent of, and reasons for, these disparities. The Commission should also consider ways of ensuring that, as wholesale foreign mobile termination rates continue to decline, U.S. consumers receive the full benefit of these reductions. If the carriers' past practices with respect to reductions in international settlement rates are any indication, they cannot be relied upon to voluntarily pass these savings along to consumers. The commenting parties have also demonstrated that there is no need for the Commission to take action to lower foreign mobile termination rates. The comments make clear that mobile termination rates have been declining, and continue to decline, in major markets throughout the world. By contrast, those parties that have urged the Commission to address foreign mobile termination rates have failed to identify any reasons why Commission action is necessary and what measures the Commission could productively take – other than reducing U.S. carrier surcharges to the level of foreign mobile termination rates – that would produce tangible benefits for U.S. consumers. Such measures as these parties have proposed are ill conceived and lack any credible factual support in the record.

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To: The Commission

REPLY COMMENTS OF NTT DOCOMO, INC.

NTT DoCoMo, Inc. (“DoCoMo”), by its attorneys, hereby replies to the comments that were filed in response to the Commission’s Notice of Proposed Rulemaking (“*Notice*”) in the above-captioned proceeding on January 14, 2003.¹

As set forth more fully below, the parties to this proceeding have identified significant disparities between wholesale foreign mobile termination rates and the retail surcharges paid by U.S. consumers on calls to mobile telephones in other countries. The Commission should investigate the extent of, and reasons for, these disparities. The Commission should also consider ways of ensuring that, as wholesale foreign mobile termination rates continue to decline, U.S. consumers receive the full benefit of these reductions. The commenting parties have also demonstrated that there is no need for the Commission to take action regarding foreign mobile termination rates. Those parties that have urged the Commission to act have failed to identify any reasons why Commission action is necessary and what measures the Commission could

¹ *International Settlements Policy Reform; International Settlement Rates*, IB Docket Nos. 02-324, 96-261, Notice of Proposed Rulemaking, 17 FCC Rcd 19954 (2002) (“*Notice*”).

productively take – other than reducing U.S. carrier surcharges to the level of foreign mobile termination rates – that would produce tangible benefits for U.S. consumers.

I. THE COMMISSION SHOULD INVESTIGATE, AND CONSIDER WAYS OF ELIMINATING, THE DISPARITIES BETWEEN WHOLESALE FOREIGN MOBILE TERMINATION RATES AND THE RETAIL SURCHARGES PAID BY U.S. CONSUMERS

A. The Commission Should Investigate the Extent of, and Reasons for, the Disparities Between Wholesale Foreign Mobile Termination Rates and the Retail Surcharges Paid by U.S. Consumers

In its initial comments, DoCoMo identified the ways in which the charges assessed by foreign mobile operators for terminating calls on their networks differ from the surcharges assessed by U.S. carriers for placing calls to mobile telephones in other countries.² As DoCoMo explained, mobile termination rates are wholesale, per second interconnection rates paid by interconnecting carriers, both foreign and domestic, to terminate calls on a mobile operator’s network.³ In many countries, these mobile interconnection rates are subject to regulation, and in some cases prescribed, by the national telecommunications regulatory authority.⁴ Surcharges, by contrast, are retail, per minute charges assessed by U.S. carriers and paid by U.S. consumers on calls to mobile telephones in other countries. These surcharges have heretofore not been actively regulated by the Commission.

² Comments of NTT DoCoMo at 3 (“DoCoMo Comments”).

³ *Id.*

⁴ See Comments of Asociación Hispanoamericana de Centros de Investigación y Empresas de Telecomunicaciones at 9 (“AHCIET Comments”); Asociación Nacional de Industrias Electrónicas y de Telecomunicaciones at 3 (“ANIEL Comments”); Comments of GSM Europe at 5 (“GSM Europe Comments”); Comments of Orange SA at 3 (“Orange Comments”); Comments of PCCW Limited at 7 (“PCCW Comments”); Comments of Telecom Italia at 8 (“Telecom Italia Comments”); Comments of Telefónica at 9 (“Telefónica Comments”); Comments of Vodafone Americas, Inc., Vodafone Americas, Inc. – DC, Vodafone Group, Plc. at 14 (“Vodafone Comments”).

DoCoMo also pointed out that there does not appear to be any direct or consistent relationship between the level of foreign mobile interconnection rates and the U.S. carriers' surcharges. Indeed, the information available to DoCoMo indicated that the surcharges paid by U.S. consumers are higher and, in some cases, significantly higher than the interconnection rates assessed by mobile operators in other countries.⁵ In this regard, DoCoMo noted that U.S. carrier surcharges on U.S.-originated calls to mobile telephones in various countries in Western Europe and in Japan ranged from 131.8 to 238.6 percent of the mobile termination rates in those countries.⁶

Other parties raised similar concerns. A study accompanying the comments filed by Vodafone indicates that the surcharges assessed by U.S. carriers on calls to mobile telephones in other countries are substantially higher than the carriers' actual termination costs.⁷ The study, prepared by Ovum, indicates that the surcharges paid by U.S. consumers are 141 to 227 percent of the U.S. carriers' actual termination costs.⁸ The Ovum study also notes that U.S. consumers are disadvantaged by the U.S. carriers' practice of assessing per minute surcharges when the carriers themselves pay foreign mobile operators on a per second basis for terminating calls.⁹

Telecom Italia pointed out that the rates charged by U.S. carriers for calls to mobile telephones in Italy reflect not only the termination rates "paid to the foreign mobile operators but

⁵ See DoCoMo Comments at 3-4.

⁶ *Id.*

⁷ Vodafone Comments, Annex C – Ovum Report, *The Fixed Retention On Calls To Mobiles*, December 2002 ("Vodafone Annex C"), at 30.

⁸ *Id.*

⁹ *Id.*

also the mark-up applied by the U.S. carrier to the termination costs.”¹⁰ According to Telecom Italia, two U.S. carriers mark up mobile termination rates on calls to Italy by more than \$0.10 per minute, which is substantially more than the extent to which they mark up their fixed termination costs.¹¹ The Asociación Nacional de Industrias Electrónicas y de Telecomunicaciones also noted that U.S. carriers appear to mark up the mobile termination rates which they pass on to U.S. consumers in the form of surcharges.¹² Although not addressing the extent to which the U.S. carriers currently mark up their mobile termination costs, Cable & Wireless expressed a concern about the ongoing relationship between the carriers’ surcharges and the mobile termination charges that these carriers actually incur.¹³

In its initial comments, DoCoMo suggested that the Commission investigate the reasons for the disparity between foreign mobile termination rates and the surcharges paid by U.S. consumers.¹⁴ The data presented by other commenting parties confirm these disparities and provide further reason for the Commission to conduct such an investigation. Consistent with its commitment to reasonable international calling rates for U.S. consumers, the Commission should therefore investigate the extent of, and reasons for, the disparities between foreign mobile termination rates and the higher surcharges paid by U.S. consumers.¹⁵

¹⁰ Telecom Italia Comments at 10-11.

¹¹ *Id.* at 11.

¹² *See* ANIEL Comments at 3.

¹³ *See* Comments of Cable & Wireless USA, Inc. at 20 (“Cable & Wireless Comments”).

¹⁴ *See* DoCoMo Comments at 6; ANIEL Comments at 3.

¹⁵ *International Settlement Rates*, IB Docket No. 96-261, Report and Order, 12 FCC Rcd 19806, 19809, ¶ 5, 19930-31, ¶ 271 (1997) (“*International Settlement Rates R&O*”).

B. The Commission Should Consider Ways of Ensuring That U.S. Consumers Receive the Benefits of Declining Foreign Mobile Termination Rates

As explained above, the parties to this proceeding have identified what appear to be significant disparities between foreign mobile termination rates and the surcharges paid by U.S. consumers. Given the size of these disparities, it is somewhat difficult to understand the basis for the claims advanced by the Competitive Telecommunications Association and certain of its members that U.S. carriers are being harmed by foreign mobile termination rates.¹⁶ Rather than being harmed by foreign mobile termination rates, it appears that U.S. carriers have used these charges as a vehicle to enhance their profitability at the expense of U.S. consumers, through inflated surcharges on calls to mobile telephones in other countries. Indeed, the analysis conducted by Ovum suggests that, because U.S. carrier surcharges have not been reduced to reflect declining foreign mobile termination rates, these surcharges have generated ever-increasing profits for the carriers.¹⁷

In this regard, the carriers' practices with respect to surcharges appear to mirror their response to declining settlement rates. Notwithstanding the Commission's admonition – shared by other policymakers – that U.S. consumers should receive “the full benefits of settlement rate savings,”¹⁸ the U.S. carriers appear to have retained much of those savings “to significantly

¹⁶ Comments of Competitive Telecommunications Association at 1 (“CompTel Comments”).

¹⁷ Vodafone Annex C at 30.

¹⁸ *International Settlement Rates R&O*, 12 FCC Rcd at 19930-31 & n.451 (citing Letter from Tom Bliley, Chairman, John Dingell, Ranking Democratic Member, W.J. “Billy” Tauzin, Chairman, Subcommittee on Telecommunications, Trade and Consumer Protection, Michael G. Oxley, Chairman, Subcommittee on Finance and Hazardous Materials, Committee of Commerce, U.S. House of Representatives, to Reed E. Hundt, Chairman, Federal Communications Commission, dated January 29, 1997 (“The Commission’s work to reduce settlement rates to cost is vitally important to U.S. consumers . . . [t]herefore, we intend to monitor whether settlement rate reductions are resulting in consumer price reductions.”)).

increase their profits.”¹⁹ In the years since 1997, during which time the global number of mobile subscribers has increased nearly four-fold (and presumably the mobile termination charges of which the U.S. carriers now complain),²⁰ the U.S. carriers’ global international settlements payments to foreign carriers have declined by 45 percent in the years since 1997.²¹ During this same period, the U.S. carriers’ retained revenues generated by international calling declined by only 24 percent. The disparity between what the U.S. carriers have paid and what they have retained is similarly striking with respect to traffic between the United States and developed countries. Whereas the U.S. carriers’ settlement payments to carriers in Western Europe and Asia²² declined by approximately 45 percent and 44 percent, respectively, between 1997 and 2001, the carriers’ share of revenues on these routes declined by just 22 percent and 24 percent, respectively.²³ Put more graphically, if the U.S. carriers had flowed through to U.S. consumers

¹⁹ Telefónica Comments at 5-6 (noting that the “margin for international carriers (difference between average retail price and international accounting rate, not including other operational costs) has significantly increased from 48% to 58% between 1997 and 2001”); AHCIET Comments at 5-6; Vodafone Comments at 15.

²⁰ See International Telecommunication Union, Table: “Key Global Telecom Indicators for the World Telecommunication Service Sector,” (updated Jan. 7, 2003), available at http://www.itu.int/ITU-D/ict/statistics/at_glance/KeyTelecom99.html.

²¹ Compare 1997 Section 43.61 *International Telecommunications Data*, Table A1 (Dec. 1998) with 2001 *International Telecommunications Data*, Table A1 (Jan. 2003) (as summarized in the Appendix accompanying these Reply Comments).

²² In the case of United States-Japan traffic, the U.S. carriers’ payments to Japanese carriers declined by 82 percent, while the carriers’ share of revenues declined by only 31 percent. See *supra* note 21.

²³ See *supra* note 21.

“the full benefits of settlement rate savings” in 2001, global international calling rates could have been reduced by more than \$1.4 billion.²⁴

The Commission should therefore consider measures to ensure that, as foreign mobile termination rates continue to decline, U.S. carriers pass these reductions along to consumers.²⁵ If past experience with respect to international settlements is any indication, the Commission cannot rely on the carriers to do so voluntarily.

II. THERE IS NO NEED FOR THE COMMISSION TO ADDRESS FOREIGN MOBILE TERMINATION RATES

There is near universal agreement among the commenting parties that the rates charged by foreign mobile operators for terminating calls on their networks do not discriminate between domestic and international calls.²⁶ As a consequence and as several commenting parties have correctly pointed out, U.S. “commercial, regulatory and political” interests are aligned with

²⁴ Between 1997 and 2001, the carriers’ payments to foreign carriers declined by \$3,739 million, while the carriers’ retained revenues declined by only \$2,317 million. The difference, settlement rate savings of \$1,422 million, was not flowed through to U.S. consumers. *See supra* note 21.

²⁵ Given the Commission’s past interest in ensuring that residential subscribers benefit from reductions in international settlement rates, surcharges merit the Commission’s prompt and special attention. *See International Settlement Rates R&O*, 12 FCC Rcd at 19931, ¶ 273 (expressing “particular concern” about the flow through of savings to residential basic rate schedules); Cable & Wireless Comments at 20 (“[Cable & Wireless] also urges the Commission to monitor the pricing practices of U.S. carriers to see that surcharges for mobile termination rates begin to decrease across the globe as mobile termination rates do.”); Vodafone Comments at 15 (“This is a matter to which the FCC may wish to give further attention in the course of this proceeding.”).

²⁶ *See, e.g.*, AHCIET Comments at 11; ANIEL Comments at 7; Cable & Wireless Comments at 17; Comments of Government of Japan at 2 (“Government of Japan Comments”); Telefónica Comments at 10; Comments of Verizon at 10 (“Verizon Comments”).

foreign “commercial, regulatory and political” interests insofar as foreign mobile termination rates are concerned.²⁷ In other words, they share the same interest in lower rates.²⁸

The situation with respect to foreign mobile termination rates is therefore very different from the situation that the Commission faced when it addressed international settlement rates in 1997. In the latter case, there was no domestic equivalent to the settlement rates which foreign operators charged U.S. carriers; foreign carriers, consumers and regulators thus had little direct economic or political interest in reducing international settlement rates. As a consequence, the Commission faced a situation in which it “could not rely on foreign domestic commercial, regulatory and political forces to ensure reasonable settlement rates.”²⁹ That is plainly not the situation with respect to foreign mobile termination rates.

As the U.S. carriers recognize, regulators in other countries have addressed, and continue to address, the level of mobile termination rates.³⁰ The commenting parties have provided numerous examples of national regulatory authorities in Europe, Asia, Australia and the Americas that are reviewing mobile termination rates in their own countries.³¹ In Japan, the

²⁷ Cable & Wireless Comments at 18; *see* PCCW Comments at 7; Telecom Italia Comments at 9; Vodafone Comments at 9.

²⁸ *See* Cable & Wireless Comments at 7; PCCW Comments at 7 (noting that “intense pressure is now mounting in many countries for lower termination rates”); Vodafone Comments at 9.

²⁹ Cable & Wireless Comments at 18. It was for this reason that the Commission relied on national tariffs in other countries to develop benchmarks for international settlement rates. *See International Settlement Rates R&O*, 12 FCC Rcd at 19839-40, ¶ 67 (noting that the Commission’s benchmarks approach “is equitable because it relies primarily on the tariffed prices carriers charge to their own domestic customers”).

³⁰ *See* CompTel Comments at 4-5; Comments of Sprint Communications Company, L.P. at 17-19 (“Sprint Comments”); Comments of WorldCom, Inc. at 17-19 (“WorldCom Comments”).

³¹ *See* Cable & Wireless Comments at 15-17; Orange Comments at 3; PCCW Comments at 7-8; Telecom Italia Comments at 8-9; Telefónica Comments at 8; Verizon Comments at 9-10;

Telecommunications Business Law was amended in 2001 to extend dominant carrier regulation to wireless operators, providing the national regulatory authority with additional oversight functions.

Moreover, as several commenters point out, mobile termination rates have been declining, and continue to decline, in major markets throughout the world.³² GSM Europe, for example, notes that mobile termination rates in Europe have declined by nearly 50 percent between the first quarter of 1998 and the first quarter of 2002.³³ In Japan, mobile termination rates have declined by 78 percent since 1996.

Given the attention being given to mobile termination rates by national regulators, the documented continuing decline in mobile termination rates and, perhaps more important, the alignment of U.S. and foreign interests in reasonable mobile termination rates, there is no need for the Commission to address foreign mobile termination rates in this proceeding. Moreover, as the Government of Japan correctly notes, the setting of mobile interconnection rates is “a domestic issue for each country.”³⁴ The Commission should not act unilaterally and adopt a

Vodafone Comments, Annex B – Overview of Regulatory Interventions in Mobile Termination Rates, November 2002.

³² See C&W Comments at 15-17; GSM Comments at 4-5; Telecom Italia Comments at 8-9; Verizon Comments at 9-10; Vodafone Comments at 10.

³³ GSM Europe Comments at 4-5. Indeed, the national regulatory authority in Germany has recently been reported to have concluded that due to the declining trend of mobile termination rates in Germany, regulatory intervention is not required. Boris Groendahl, *German Watchdog Sees No Need for Mobile Regulation*, Reuters (Feb. 12, 2003), available at <http://www.reuters.com/newsArticle.jhtml?type=topNews&storyID=2216954>.

³⁴ Government of Japan Comments at 2.

decision with extra-territorial effect that could retard, rather than advance, the efforts of other regulators.³⁵

III. THE COMMISSION SHOULD NOT PURSUE THE VARIOUS BENCHMARK PROPOSALS ADVANCED BY THE COMMENTING PARTIES

In their comments, a number of parties have advanced a variety of proposals that would, in one form or another, apply existing or newly developed benchmarks to foreign mobile termination rates. These proposals are ill conceived.

Several of the carriers, for example, have suggested that the Commission apply existing international settlements benchmarks to mobile termination rates.³⁶ Although no one disputes that international settlement rates have declined since 1997, a number of commenting parties have questioned the role of benchmarks in producing these lower rates.³⁷ Whatever the reasons for these past reductions, the Commission's benchmark policies are not now providing U.S. consumers with the full benefit of the decline in international settlement rates. As noted above, in 2001 alone, U.S. carriers retained more than \$1.4 billion in international settlement rate reductions that could have been passed along to U.S. consumers in the form of lower rates.

Rather than benefiting consumers, the Commission's benchmark policies may be having the unintended consequence of dampening the effectiveness of marketplace forces.³⁸ In this regard, AHCIEET points to the carriers' higher retained revenues on international routes where

³⁵ PCCW Comments at 6; Verizon Comments at 10.

³⁶ See Comments of AT&T Corp. at 34-35 ("AT&T Comments"); CompTel Comments at 6; WorldCom Comments at 24.

³⁷ AHCIEET, for example, suggests that it has been marketplace forces, and not benchmarks, that have caused the reductions in international settlement rates. AHCIEET Comments at 4(25); see Telefónica Comments at 4.

³⁸ AHCIEET Comments at 4(25).

competition would otherwise result in lower retained revenues and lower retail rates.³⁹ The Government of Japan has similarly criticized benchmarks as an unwarranted regulatory intrusion into the functioning of a competitive marketplace.⁴⁰ The Commission should therefore be reluctant to extend a regulatory policy having such unwelcome and unintended effects to mobile termination rates, particularly in the face of evidence that reductions in foreign mobile termination rates are not being reflected in the surcharges assessed U.S. consumers.⁴¹

In their comments, several parties have also suggested that the Commission develop benchmarks for foreign mobile termination rates based on the asserted costs of one mobile operator in the United States.⁴² Such proposals are ill founded. The underlying cost structure of wireless networks varies greatly from country to country, region to region, and carrier to carrier. There are differences in technology, differences in terrain and geographic coverage, and differences in regulatory mandates (such as universal service). Even within the United States, there are significant differences in the levels of service quality (*e.g.*, coverage and dropped calls) provided by different operators.⁴³ The Commission therefore cannot draw any conclusions as to

³⁹ *Id.* at 6(25).

⁴⁰ Government of Japan Comments at 1; *see* ANIEL Comments at 5.

⁴¹ *See* Vodafone Comments at 14 (stating that a “meaningful parallel” cannot be drawn between the benchmark settlement rates and a United States response to overseas mobile termination rates).

⁴² *See* Sprint Comments at 18-19; WorldCom Comments at 19-20, 24-25.

⁴³ A recent survey conducted by Consumer Reports indicates that, even within the United States, service level quality – and presumably underlying costs – vary significantly among carriers. The survey was based on 21,944 responses from consumers in six cities who were asked to rate their mobile service provider on the basis of five criteria: overall satisfaction; no service; dropped calls; static; and busy circuits. It is worth noting that the carrier whose asserted costs have been proposed as a global benchmark was ranked lowest in service quality among the six major wireless carriers in the United States. *See* Consumer Reports, Feb. 2003, at 17.

the costs of mobile termination in other countries based on the asserted costs of one mobile operator in the United States, as the carriers have proposed.

In its comments, one of the carriers has also suggested that the Commission establish benchmarks using the costs of terminating calls on fixed networks as a proxy for the costs of terminating calls on mobile networks.⁴⁴ The Commission should reject this suggestion. There are substantial differences in the cost structure underlying fixed and mobile networks, attributable to such things as differences in technology (resulting in higher traffic-sensitive costs),⁴⁵ differences in customer profiles,⁴⁶ differences in traffic levels,⁴⁷ and differences in regulatory (*i.e.*, spectrum) fees.⁴⁸ As recognized by nearly every party addressing the issue in this proceeding, the costs of terminating mobile calls are higher than the costs of terminating fixed calls.⁴⁹

The Commission should therefore decline to pursue the various benchmark proposals advanced by the commenting parties.

⁴⁴ See WorldCom Comments at 25.

⁴⁵ See CompTel Comments at 3; Sprint Comments at 18.

⁴⁶ See CompTel Comments at 3.

⁴⁷ See Vodafone Comments at 7.

⁴⁸ See *id.*

⁴⁹ See CompTel Comments at 3; Comments of European Telecommunications Network Operators' Association at 2; Government of Japan Comments at 2; Orange Comments at 1, 2; Sprint Comments at 18; Telecom Italia Comments at 6; Vodafone Comments at 7.

IV. CONCLUSION

For all of the reasons set forth above, the Commission should investigate the extent of, and reasons for, the disparities between foreign mobile termination rates and the higher surcharges paid by U.S. consumers on calls to mobile telephones in other countries. The Commission should also consider ways of ensuring that U.S. consumers receive the full benefits of declining foreign mobile termination rates. By contrast, there is no need for the Commission to address the level of foreign mobile termination rates or to consider any of the benchmark proposals suggested by the commenting parties.

Respectfully submitted,

NTT DOCOMO, INC.

/s/ Joseph P. Markoski

By: Joseph P. Markoski
Douglas L. Povich
Mark D. Johnson
Squire, Sanders & Dempsey L.L.P.
1201 Pennsylvania Avenue, N.W.
P.O. Box 407
Washington, DC 20044-0407
(202) 626-6600

Its Attorneys

Tatsushiro Shukunami
David Jeppsen
NTT DoCoMo USA, Inc.
Suite 450
1399 New York Avenue, N.W.
Washington, DC 20005
(202) 639-9377

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Appendix

	Years	All Countries	Western Europe	Asia
Payout to Foreign Carriers (\$ millions)	1997	8321.2	842.2	2646.6
	2001	4582.4	462.8	1475.4
Reduction (%)		45	45	44
Retained Revenue (\$ millions)	1997	9815.3	2599.7	1854.2
	2001	7498.7	2020.9	1385.9
Reduction (%)		24	22	25

Source: Federal Communications Commission, *1997 Section 43.61 International Telecommunications Data*, Table A1 (Dec. 1998); Federal Communications Commission, *2001 International Telecommunications Data*, Table A1 (Jan. 2003).

CERTIFICATE OF SERVICE

I, Mark D. Johnson, hereby certify that on this 19th day of February 2003, I caused copies of the "Reply Comments of NTT DoCoMo, Inc." to be delivered to the following persons and entities by first-class mail, postage prepaid or email as indicated:

Asociacion de Empresas de Telecomunicaciones
de la Comunidad Andina
Ing. Marcelo Lopez Arjona
Secretary General
Calle La Pradera 510 y San Salvador
Casilla Postal 17-1106042
Quito, Ecuador

Asociacion Hispanoamericana de Centros
de Investigacion y Empresas de
Telecomunicaciones
Jorge Manrique 14
28006 Madrid
Spain

Asociacion Nacional de Industrias
y de Telecomunicaciones
Principe de Vergara, No. 74, 4th planta
28006 Madrid
Spain

James J. R. Talbot
Mark C. Rosenblum
Lawrence J. Lafaro
AT&T Corp.
One AT&T Way
Bedminster, New Jersey 07921

Erik Whitlock
Michelle Mesen
Cable & Wireless USA, Inc.
1130 Connecticut Avenue, NW
Suite 1201
Washington, DC 20036

Carol Ann Bischoff
Executive Vice President & General Counsel
Competitive Telecommunications Association
1900 M Street, NW, Suite 800
Washington, DC 20036

Empresa Nacional de Telecomunicaciones –
Telecom
Carmine Amaris Hernandez
division_corresponsalias@telecom.net.co
Bogota,
Colombia

European Telecommunications Network
Operators' Association
Avenue Louise 54
1050 Brussels
Belgium

Isabelle Mauro, Director
GSM Europe
6 – 8 Old Bond Street
London W1S 4PH
United Kingdom

Government of Japan
International Affairs Division
Ministry of Public Management, Home Affairs,
Posts and Telecommunications
2-1-2 Kasumigaseki, Chiyoda-ku
Tokyo 100-8926
Japan

Paul Franklin
Group VP of Carrier Services and Regulatory
Affairs
50 George Street
London W1U 7DZ
United Kingdom

PanAmSat
c/o Joseph A. Godles, Esq.
Goldberg, Godles, Wiener & Wright
1229 19th Street, NW
Washington, DC 20036

Stuart Chiron
Director of Regulatory Affairs
PCCW Limited
40th Floor, PCCW Tower
Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

Kent Nakamura
Richard Juhnke
Sprint Communications Company L.P.
401 9th Street, NW, #400
Washington, DC 20004

Tiziana Talevi
Telecom Italia S.p.A. and
Telecom Italia of North America, Inc.
745 5th Avenue
New York, NY 10151

Sr. Javier Nadal
Telefonica, S.A.
Gran Via 28
7th planta
Madrid 28013
Spain

Kathleen M. Grillo
Verizon
1515 North Courthouse Road
Suite 500
Arlington, VA 22201

Charles D. Cosson
Vice President, Public Policy
Vodafone Americas Inc.
2999 Oak Rd., 10th Floor
Walnut Creek, CA 94597

Richard Feasey
Director, Public Policy
Vodafone Group, Plc.
The Courtyard
2-4 London Road
Newbury, Berkshire
RG14 1JX, United Kingdom

Barbara Phillips
Vice President, Public Policy
Vodafone Americas, Inc.
2300 N Street, N.W., Suite 700
Washington, DC 20037

Kerry E. Murray
Scott A. Shefferman
Julie M. Kearney
WorldCom, Inc.
1133 19th Street, NW
Washington, DC 20036

ORBITEL S.A. E.S.P.
Carrera 43 A#1 Sur-188
Medellin,
Colombia

James Ball
Chief, Policy Division
International Bureau
445 12th Street, SW
Washington, DC 20554
JBall@fcc.gov

Lisa Choi
Senior Legal Advisor, Policy Division
International Bureau
445 12th Street, SW
Washington, DC 20554
LChoi@fcc.gov

Gardner Foster
Attorney, Policy Division
International Bureau
445 12th Street, SW
Washington, DC 20554
GFoster@fcc.gov

Qualex International
445 12th Street, SW
Room CY-B402
Washington, DC 20554
qualexint@aol.com

By: /s/ Mark D. Johnson
 Mark D. Johnson