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Ms. Marlene Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Room TWB-204
Washington, DC 20554

Re: International Settlements Policy Reform (IB Docket No. 02-324)
International Settlement Rates (IB Docket No. 96-261)

Dear Ms. Dortch:

In our meetings with Commissioners' Legal Advisors over the past week, we were asked to confirm that consumer rates for calling foreign mobile phones reflect the input costs incurred by U.S. carriers. MCI includes no mark-up in its mobile surcharges. The points below provide a summary of the arguments made in more detail at pages 21 through 28 of MCI's Reply Comments in this proceeding.

U.S. carrier consumer rates for international calls to mobile networks reflect their input cost for mobile termination:

- U.S. carriers' input costs for terminating international calls are a direct function of the international settlement rate paid to the foreign international fixed line carrier (the "foreign correspondent"). The foreign correspondent then passes traffic destined for any mobile operator in its country to the relevant mobile operator and pays the mobile operator the fixed-to-mobile termination rate.
    - U.S. carriers interconnect directly with foreign mobile operators for U.S.-outbound traffic in only a very few instances.
    - Most mobile operators refuse to interconnect directly with U.S. carriers. In any event, direct interconnection with foreign mobile operators is not economically efficient in most cases.

- Given the above point, a naked comparison between the in-country mobile termination rates charged by mobile operators in foreign markets and the retail mobile surcharges of U.S. carriers is not a fair basis for comparison. The proper comparison is between the mobile settlement rate that a U.S. carrier pays to its foreign correspondent on the one hand, and the retail mobile surcharge that the U.S. carrier charges consumers on the other.

  - Based on a comprehensive comparison of its mobile settlement rates to retail mobile surcharges, MCI has found a differential of less than one cent in most cases between its input costs and the mobile surcharges billed to its U.S. consumers making calls to overseas mobile phones.
  - This small pass-through differential is explained by several cost elements that are incurred by U.S. operators in handling calls to foreign mobile phones, including, among other things, increased costs to monitor and input rate, cost, and routing data associated with specifying different rates for foreign mobile area codes, as well as added customer service, and billing and collection costs associated with differentiating calls to foreign mobile phones from calls to fixed lines.

- There is a lag time inherent in negotiating reductions reflecting nationally-mandated rate decreases with the foreign international correspondent.

  - Even if a foreign mobile interconnection rate is decreased, which is rare, the U.S. international carrier must rely on its foreign correspondent to negotiate a commensurate decrease with the domestic mobile operator for terminating international calls, and for the correspondent to then agree to pass through that decrease in its mobile settlement rate arrangement with the U.S. international carrier.

In sum, U.S. carriers' retail mobile surcharges reflect very closely the additional input costs incurred for calls to foreign mobile phones – the mobile settlement rate paid to U.S. carriers' foreign correspondents. MCI includes no mark-up in its mobile surcharges.

One electronic copy of this Notice is being filed with the Secretary of the Federal Communications Commission in accordance with Section 1.1206 of the Commission's rules. Should you have any questions, please do not hesitate to contact the undersigned.

Sincerely,

Scott A. Shefferman

cc: Sam Feder
Jennifer Manner
Paul Margie
Barry Ohlson
Sheryl Wilkerson