Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Verizon Communications Inc. and	)	WC Docket No. 05-75
MCI, Inc. Application for	)	
Approval of Transfer for Control	)	

RESPONSE OF VERIZON TO THE COMMISSION'S MAY 26, 2005, INTERNATIONAL DOCUMENT AND INFORMATION REQUEST

MASTER INDEX OF RESPONSE OF VERIZON
TO THE COMMISSION'S MAY 26, 2005,
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SPEC.	NARRATIVE	EXHIBITS
1. Submarine Cable Ownership and Capacity		
1(a)	3	1(a)-1 – CONFIDENTIAL 1(a)-2 – CONFIDENTIAL
1(b)	MCI ONLY	-----
1(c)	MCI ONLY	-----
2. International Telecommunications Services		
2(a)	4-5	2(a)-1 – CONFIDENTIAL 2(a)-2 – HIGHLY CONFIDENTIAL 2(a)-2A – HIGHLY CONFIDENTIAL 2(a)-3 – HIGHLY CONFIDENTIAL
2(b)	MCI ONLY	-----
2(c)	6-7	2(c)-1 – CONFIDENTIAL
3. Global Telecommunications Services		
3(a)	8-12	-----
3(b)	13-14	-----
3(c)	15-18	-----

RESPONSE OF VERIZON
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June 10, 2005

Verizon provides the following narrative answers in response to the letter dated May 26, 2005 from James Ball, Chief, Policy Division, International Bureau of the Commission and the attached International Document and Information Request. The narrative answers respond to each specification applicable to Verizon, and provide requested data both within the applicable text and as identified in exhibits. As noted where applicable in the narrative, Verizon's submission reflects agreements with Commission staff as to the scope and meaning of individual specifications. Verizon has provided responsive, non-privileged information, and data. Verizon is providing information that is kept in the ordinary course of business, and in the form in which it is normally kept. In some instances, in an effort to assist the Commission in its review, Verizon is also providing additional information it has been able to glean from public sources. This is especially true with respect to information about competitors; the best source of such information is the competitors themselves but Verizon has attempted to compile information from publicly available sources in an effort to be of assistance. As requested, Verizon has also provided a master index of the specifications and responses.

In light of the information and data sought by the Commission, some of the appendices contain material that is extremely sensitive, from a commercial, competitive and financial perspective, that Verizon would not, in the normal course of its business, reveal to the public or its competitors. Where appropriate, therefore, such material is being submitted on a confidential basis pursuant to the First Protective Order and Second

Protective Order in this proceeding.[1] The confidential, unredacted submission is marked "*CONFIDENTIAL INFORMATION – SUBJECT TO PROTECTIVE ORDER IN WC DOCKET NO. 05-75 before the Federal Communications Commission"* and *"HIGHLY CONFIDENTIAL INFORMATION – SUBJECT TO SECOND PROTECTIVE ORDER IN WC DOCKET NO. 05-75 before the Federal Communications Commission."* A version of the narrative answers redacting the confidential information and available to the public is being filed electronically in the Commission's ECFS system.

Consistent with the Protective Orders, Verizon expects prompt notification of any "Acknowledgment of Confidentiality" submitted by any person seeking access to the confidential, unredacted material. Verizon also requests the return of all confidential material at the conclusion of this proceeding.

[1] *In re Applications of Verizon Communications Inc. & MCI, Inc.*, WC Dkt No. 05-75, Order Adopting Protective Order, DA 05-647 (rel. Mar. 10, 2005); Order Adopting Second Protective Order, DA 05-1538 (rel. May 25, 2005).

1. Submarine Cable Ownership and Capacity.

(a) For any cable segment landing in the United States, consistent with section 1.767(a)(11)(i) of the rules, please identify, on a segment-specific basis, the ownership interests held by MCI and its affiliates collectively and Verizon and its affiliates collectively, as set out in each cable's C&MA. On the U.S.-Dominican Republic and U.S.-Venezuela routes, please specify all whole and matched half-circuits held by the applicants and their U.S. and foreign affiliates.

(b) – (c) In accordance with the Commission's Instructions, these specifications apply only to MCI.

RESPONSE TO SPECIFICATION 1(a):

Exhibit 1(a)-1 provides the ownership interests, by segment, held by Verizon and its affiliates collectively for each cable segment that lands in the United States.[2] Exhibit 1(a)-2 provides the whole and matched half-circuits on the U.S.-Dominican Republic route and on the U.S.-Venezuela route held by Verizon and its U.S. and foreign affiliates.

[2] Verizon has not included information for the HAW-5 cable which is retired, and which, in any event, does not land outside the United States. Similarly, Verizon did not include HAW-5 on the list of Pacific Ocean Region cables in which it had an ownership interest that attached to the Lack/Pilgrim declaration. *See* Lack/Pilgrim Decl. Exhibit 1. However, the Total Capacity shown on that chart, which was taken from the Commission's 2003 Circuit Status Report, does include HAW-5. If HAW-5 had been excluded, the Total Capacity would be 12,725,370. Verizon's ownership as a percentage of total capacity would increase by 0.00021%. That change would be too small to affect Verizon's ownership percentage shown on the chart.

2. **International Telecommunications Services.**

(a) For Verizon and its U.S. affiliates, please provide, for reporting year 2003 and for the most recent year, the following information: (1) the number of minutes of international traffic that Verizon (i) carried over its own facilities and (ii) provided as a pure reseller; (2) the resale minutes and revenues for pure resale traffic, on a route-by-route basis for all destination markets; (3) the underlying carriers Verizon (and its U.S. affiliates) uses when it provides international resale services, and the relative number of minutes of international resale minutes carried by each underlying carrier.

RESPONSE TO SPECIFICATION 2(a):

Exhibit 2(a)-1 provides, for calendar year 2003 (which is the same as reporting year 2003) and for calendar year 2004 for Verizon's U.S. affiliates[3] in the aggregate (excluding Verizon Airfone and Verizon Wireless) (i) the number of minutes of international traffic carried over Verizon's own facilities (this includes traffic that an affiliate carried over its own facilities, if any, and traffic provided by reselling services of another Verizon affiliate); and (ii) the number of minutes of international traffic provided as a pure reseller (traffic provided by reselling services of a carrier that is not a Verizon affiliate). For each type of traffic, and based on the categories and definitions in the Information Request, the Exhibit provides information about traffic that originates in the United States and terminates in a foreign country.[4]

Exhibit 2(a)-2 provides the resale minutes and revenues for pure resale traffic (traffic provided by reselling services of a carrier that is not a Verizon affiliate) on a

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[3] Information to respond to this Specification was provided by Codetel International Communications Inc., Verizon Pacifica, Puerto Rico Telephone, Verizon Enterprise Solutions, Verizon Global Networks Inc., Verizon Global Solutions Inc. (including Verizon Hawaii International Inc.), Verizon Long Distance, and Verizon Select Services Inc. In accordance with the Commission's Instructions, and by agreement with staff, information for Verizon Wireless and Verizon Airfone Inc., respectively, is not included.

[4] The Exhibit also includes some minutes and revenues for 800 calls that originated in a foreign country and terminated in the United States.

route-by-route basis for all destination markets. Verizon is providing available data, but certain affiliates were unable to provide complete information for 2003 and one affiliate did not have complete information for 2004.[5] The Exhibit provides information about traffic that originates in the United States and terminates in a foreign country.[6]

Exhibit 2(a)-3 provides a list of the underlying carriers Verizon's U.S. affiliates (except Verizon Airfone and Verizon Wireless) use when they provide international resale services, and the relative number of minutes of international resale minutes carried by each underlying carrier.

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[5] The exhibit includes minutes for Verizon Global Solutions Inc. (which includes Verizon Hawaii International Inc.), but does not include revenues for these affiliates, because they are not tracked on this basis. VGSI and VHI have reported route-by-route revenue information to the Commission for 2003 and 2004 under parts 43.61 and 63.10 of the Commission's rules, and those reports are attached as Exhibit 2(a)-2A. These reports encompass mixed traffic that is not exclusively pure resale as defined in this specification.

[6] The Exhibit also includes some minutes and revenues for 800 calls that originated in a foreign country and terminated in the United States.

(b) In accordance with the Commission's Instructions, this specification applies only to MCI.

(c) For (1) Verizon and its U.S. affiliates that provide international service through prepaid calling cards, and (2) MCI and its U.S. affiliates that provide international service through prepaid calling cards, please provide information on the revenues and minutes associated with the calls placed using those prepaid calling cards. Please describe how (1) Verizon and its U.S. affiliates and (2) MCI and its U.S. affiliates, market those prepaid calling cards.

RESPONSE TO SPECIFICATION 2(c):

Exhibit 2(c)-1 provides, for Verizon and its U.S. affiliates that provide international service through prepaid calling cards, the revenues and minutes associated with international calls placed using the prepaid calling cards. The information provided includes all revenues and minutes for international calls placed using the prepaid calling cards, including calls that originated in the United States and terminated in foreign countries, calls that originated in a foreign country and terminated in the United States, and calls between foreign points, if placed using the prepaid calling card.

Four Verizon affiliates provide international service through prepaid calling cards. We describe below how those affiliates market their prepaid calling cards.

CIC: CIC distributes its Prepaid Calling Card products via wholesalers who in turn utilize smaller distributors to sell the products to local outlets and markets where they are sold to end users. Until January 31, 2004, CIC prepaid calling card activities were carried out through a Joint Marketing Agreement with IDT. Under that agreement, the cards were branded "Codetel International Communications," but IDT was responsible for aggregating calls and delivering the traffic to carriers for completion. CIC does not have information concerning the minutes or revenues placed using those prepaid calling cards.

Pacifica: Pacifica sells some cards directly in the company's own facilities. It also uses a wholesale distribution mechanism in which wholesalers purchase the cards at a discount, which they resell to retail outlets. All this marketing occurs within the Commonwealth of the Northern Mariana Islands and Guam.

PRT: PRTC distributes its prepaid calling cards through authorized wholesalers. These wholesalers order cards from CIC and receive a discount based on volume. The authorized wholesalers deliver the calling cards to their distributors, who sell the cards to customers.

VSSI: Currently, Verizon markets prepaid calling cards to end users on a retail distribution basis through a single retail outlet, 7-Eleven. Promotional distribution of Verizon's long distance prepaid calling cards is limited to groups within Verizon.

3. **Global Telecommunications Services.**

(a) Please describe the services that are bought and sold in the GTS market, as well as the appropriate unit of measurement for measuring GTS services (e.g., 64 equivalent lines served, revenue, etc.), and explain whether there are also stand-alone regional telecommunications services markets (e.g., continental or hemispheric markets), consisting of different services, suppliers or customers than those in the GTS market.

RESPONSE TO SPECIFICATION 3(a):

To Verizon's and MCI's knowledge, the FCC has not defined or recognized a Global Telecommunications Services ("GTS") market. Nor is it clear that the existence of such a market is relevant to the FCC's analysis of this transaction.[7] The FCC has examined the effects of certain mergers on the provision of "global seamless services." These services have generally been considered in the context of transactions between two carriers that each have a significant global presence, and where at least one carrier's "home" market is outside of the United States.

GTS is a concept that the European Commission ("EC") has used in considering certain mergers. As used in EC proceedings, GTS is commonly understood to refer to the provision of largely customized bundles of services to multinational corporations (with trans-continental service requirements), usually obtained through a bidding or tendering process. This is similar to the FCC's definition of global seamless services.[8]

Customers that the EC might consider to be GTS customers are typically what the FCC would refer to as large enterprise customers. As MCI and Verizon explained in their Public Interest Statement, large enterprise customers typically operate nationally or

[7] *See, e.g., SPRINT CORPORATION Petition for Declaratory Ruling Concerning Section 310(b)(4) and (d) and the Public Interest Requirements of the Communications Act of 1934, as amended*, Declaratory Ruling and Order, 11 FCC Rcd 1850, ¶ 84 (1996) ("*Sprint Order*"); *BT/AT&T* (14 FCC Rcd 19140 (1999).

[8] *See, e.g., Sprint Order* ¶ 84; BT/AT&T ¶ 28.

internationally and require sophisticated telecommunications services provided over networks capable of connecting many nationwide or worldwide locations. Large enterprise customers also typically demand nationwide or global service, seek out more than one service provider and generate significant revenues, providing incentives for carriers to compete for their business. These are virtually the same product characteristics that the EC uses to define GTS customers. GTS or global seamless services, therefore, are merely services offered to a subset of large enterprise customers – those that are multi-national and operating on multiple continents.

Because enterprise customers that purchase services in more than one country are rarely able to satisfy their telecommunications needs exclusively with standardized products and services purchased "off-the-shelf," each package of services must be tailored to the specific needs of each customer. The range of services purchased by such customers includes:

- Private networks, including virtual private networks ("VPNs");
- Voice communications services (including international freephone numbers) for local, national and international calls;
- Domestic (almost always in multiple jurisdictions) and international data communications services, provided over any one of a range of platforms or using any one of a range of protocols including ATM, Frame Relay and IP;
- Enhanced voice and data services, including messaging services and calling cards;
- Retail end-user access services (both dedicated and on-demand), to facilitate the provision of the voice, data and other services, over both public networks and private networks (*e.g.,* intranets, extranets, Internet access and VPNs);
- Equipment (including CPE);
- Security/authentication, firewalls and intrusion protection;
- Web hosting;

- Managed Network Services;
- Private IP, Private Line;
- Private Line Ethernet;
- X.25;
- Calling cards;
- VoIP;
- Access, including dedicated access, DSL, IP Access, ISDN and Remote Access;
- Data centers;
- Scanning services;
- Content delivery;
- Image port fax;
- Internet multicast services;
- Mobility services.
- Audio and videoconferencing services (including net conferencing); and
- Call centers.

Almost all of these services can also be supplied as distinct stand-alone services. However, large enterprise customers tend to require advanced or enhanced functionality and a degree of customization, either in terms of the services themselves or the management and integration of multiple services. As a result, as noted above, these customers typically procure services by issuing requests for proposals that cover a wide range of products and services. Further, it is unusual for enterprise customers that are buying integrated communications services in multiple countries to acquire individual services under service-specific supply contracts. For example, while many contracts for services in multiple countries include the provision of some form of international voice telephony services, it is unusual for enterprise customers to issue a stand-alone request for proposal for international voice telephony services. In addition, many enterprise customers seek to ensure redundancy and increase flexibility by using more than one vendor to supply their service on a global basis.

The most appropriate mix or combination of services for any particular customer depends on a range of factors, including speed/bandwidth requirements (and any variations between sites), security requirements, coverage, level of management required, legacy assets, functionality requirements and the need for access to private and public networks. The services required by, and supplied to, customers have evolved, and are likely to continue to evolve, with customers' requirements. For example, the number and functional range of private IP-based services has grown over the last five years.

Given the heterogeneous nature of the services provided, revenues are the most appropriate means of measuring services bought on a multinational basis and, to the extent that analysts have reported on these services, that is generally their basis for measurement.

To the extent the Commission decides to examine the provision of services to this subset of large enterprise customers separately, a defining characteristic is that the services are "global" – that is, they are provided to multinational corporations with requirements for service on two or more continents. This is consistent with the FCC's statement that global seamless services are worldwide in geographic scope. *Sprint Order* at ¶ 84. While multi-sourcing means that some contracts for services to customers operating on multiple continents are entered into on a regional basis (*e.g.*, a contract for the provision of services to a customer's Asian-based locations), most customers consider offers for service solutions in multiple countries from suppliers irrespective of the geographic region where the potential supplier originates. By definition, the provision of services across multiple continents requires suppliers to provide services "out-of-region" (*i.e.*, on more than one continent). All suppliers are, therefore, in the position of provisioning in countries and regions in which they might have perceived strength, together with countries and regions in which they do not enjoy any such advantage, in virtually every contract for services provided on a global basis.

(b) Please identify the overall size of the GTS market, and, insofar as possible, all GTS customers (not just U.S. customers) and the amount of the GTS market each of their demand comprises. In particular, please list each of Verizon's GTS customers and MCI's GTS customers.

RESPONSE TO SPECIFICATION 3(b):

MCI and Verizon are not aware of any source providing an estimate of the overall size of the "GTS market," as that term is used by the EC. A recent study, *"MNC providers in Europe – 2004"* (Ovum, October 2004) ("Ovum Study") provides estimates of revenues generated by the business services divisions of selected providers. The study estimates that the revenues generated by these providers amount to approximately $85 billion. The Ovum Study, however, does not necessarily provide a good indication of the size the demand for global services. For example, the Ovum Study does not cover all the entities that provide such services. Further, the revenue figures quoted in the report are drawn from public sources and may reflect revenues generated from services outside of what are generally considered to be "GTS," in some cases, while they do not include revenues for what would be considered "GTS" in other cases. For example, the Ovum Study cites MCI revenue for 2003 of approximately $15 billion, which includes revenues from all of MCI's non-residential customers. Even using the most expansive estimates, MCI's 2003 revenue from customers that buy services in multiple countries were less than 25% of this sum. Further the Ovum Study's estimates include total enterprise revenues from some providers, such as MCI, while excluding revenues generated by other operators that are omitted from the study entirely such as NTT, Deutsche Telekom, SingTel, and others.

It is not possible to provide an exhaustive list of all existing "GTS customers." SBC and AT&T have estimated that there are at least 6,600 GTS customers.[9] As SBC and AT&T explained, that estimate is conservative and focuses on a "U.S.-centric customer profile."[10] MCI and Verizon agree that this figure likely understates the actual number of enterprise customers worldwide with global service needs. Generally speaking, each company that requires customized telecommunication services in more than one continent could be considered a potential "GTS customer."

Verizon does not serve any customers that it considers "GTS customers." Although Verizon's customers include many multinational corporations, it provides only a *de minimis* amount of services to these customers on a multi-country or multi-continent basis.

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[9] Letter from Gary L. Phillips, SBC, and Lawrence J. Lafaro, AT&T, to Marlene Dortch, FCC, dated June 2, 2005, *In the Matter of SBC Communications Inc. and AT&T Corp. Transfer of Control Applications*, WC Docket No. 05-65, at 5.

[10] *Id.*

(c) Please identify, insofar as possible, all suppliers (not just U.S. suppliers) of GTS, and their respective shares of the GTS market, including Verizon's and MCI's market share. Please provide the information sources for the above answers, including sources for the definition of the GTS market, identification of supply and demand, and estimation of supply and demand market shares.

RESPONSE TO SPECIFICATION 3(c):

The suppliers of global services also are suppliers of services to large enterprise and commercial and institutional customers generally. As with the enterprise market generally, the provision of global services to the subset of the largest customers is highly competitive and fragmented. The Ovum Study identifies a large number of providers of global services, including AT&T, BT, T-Systems, Cable & Wireless, Equant, Global Crossing and Colt, as well as MCI. Verizon is not listed in Ovum as a competitor for the provision of these services. The Ovum Study does not purport to, and does not, identify all entities that provide global services, however. Other providers of such services include Sprint, NTT, Deutsche Telekom, SingTel, Level 3, KPN Eurowing, Telefonica, TeliaSonera, Qwest, XO, ANC, and Reliance.

The increasing importance of integration of different networks and systems, coupled with growing demand for managed services has led to an increase in the amount of services provided to global customers by Systems Integrators over the last four to five years.[11] Systems Integrators, carriers, equipment and application providers, and other providers of global services compete directly to provide services to large enterprise customers with global service needs. Systems integrators are moving into networked

[11] *See*, *e.g.*, Gartner's "Updated 2004 Network Service Provider Magic Quadrants", 10 December 2004, page 1.

environments to facilitate remote management and communications,[12] while traditional communications services providers are adding new computing services to their offerings.[13] Analysts predict a continued trend toward competition between entities with well-established IT services activities and communications service providers.[14]

These new competitors include IP-based providers such as SAVVIS Communications, Broadwing, and Global Crossing; systems integrators and managed services providers such as Vanco, Interoute, Atos Origin, EDS, IBM, Accenture, Hewlett Packard, Cap Gemini, Siemens, Fujitsu, CSC, Logica CMG, Northrop Grumman, General Dynamics, and Lockheed Martin;[15] and equipment vendors and application providers such as Nortel, Lucent, Cisco, NextiraOne, Presidio, Sycom, Dimension Data, Shared Technologies, Savant, and Coleman Technologies.

Verizon and MCI lack the information necessary to calculate the market shares of the various competitors that serve business and wholesale customers, either generally or with respect to the provision of global services to a subset of the largest enterprise customers. First, only competing carriers themselves have access to the kind of data that

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[12] Systems integrators acquire communications services (usually from a range of providers, to allow them to drive pricing as low as possible) and/or build their own facilities (*e.g.*, we understand that Level 3 has built a network for EDS connecting EDS' data centers). As a result, it is possible that a systems integrator acquires wholesale services from a network operator in relation to a request for proposal in which it bids against a retail entity affiliated to the same network operator.

[13] *See*, *e.g.*, *"MCI The Path Forward"*, Michael D. Capellas, President and CEO, MCI, Needham Growth Conference, January 11, 2005. Such services provided by MCI include MCI's Net Meeting, IP Contact Centre and VPN Network Gateway services.

[14] *See*, *e.g.*, *"Riding the new wave"*, David Molony, Total Telecom Magazine, October 2004, at page 32 and *"IT pays to partner"*, Julian Bright, Total Telecom Magazine, October 2004, at page 36.

[15] *See "IT pays to partner"*, Julian Bright, Total Telecom Magazine, October 2004, at page 36.

would be required for the Commission to analyze market share in the manner described. Second, what limited information is publicly available is difficult to compare on an apples-to-apples basis. In addition, as noted above, "GTS" is not relevant to this proceeding. Nonetheless, MCI has used the revenue data reported in the Ovum Study to calculate the following global shares for the competitors that Ovum defined as GTS providers: AT&T (33% worldwide); MCI (18.5%); T-Systems (17%); BT (15.5%);[16] Cable & Wireless (5%); Equant (4%); Global Crossing (4%); Colt (2.5%); and Vanco (1%). As noted above, the Ovum Study is likely to overestimate MCI's share. The Ovum Study makes clear that it does not, and was not intended to, consider all, or even the largest, entities active in providing global services. In addition, Ovum has confirmed that the entities profiled were selected using a range of criteria, including the adoption of innovative business strategies. As a result, the study excludes major providers of global services such as NTT, Deutsche Telekom, SingTel, Telefonica, TeliaSonera, and Qwest, to cite just a few examples.

Further, the revenue figures quoted in the report are drawn from public sources and may reflect revenues generated from non-global services. For example, as noted above, the Ovum Study cites MCI revenue for 2003 of approximately $15 billion, while MCI's 2003 global revenues for the services covered by the Ovum Study were less than 25% of this sum. It appears that the revenue overstatement is unlikely to impact on all identified operators equally. For example, entities such as Equant and Colt generate a large portion of their revenues through global activity. As such, the inclusion of all of their non-residential revenues does not overstate the proportion attributable to global

[16] These figures include the Infonet market shares.

service in the same way that it does for MCI. At best, then, market shares derived from the Ovum revenue data can be understood as providing an upper limit on MCI's share of services sold to customers with requirements on more than one continent.