Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of

Policy Statement on International
Accounting Rate Reform

POLICY STATEMENT

Adopted: January 31, 1996; Released: January 31, 1996

By the Commission:

INTRODUCTION

1. The global communications market has experienced significant changes in recent years. To respond to these changes, communications regulations need to be reformed. This Policy Statement charts new regulatory alternatives better suited to tap the power of digital technology and seize the opportunities created by the emergence of privatization and competition in other national markets.

2. We believe that our accounting rate policies, including the International Settlements Policy,[1] should be updated to directly address the dilemmas posed by the changing character of the world market. In many countries, a monopoly supplier, or a supplier with significant market power, still provides telecommunications services. We must continue to safeguard against this situation leading to anticompetitive behavior favoring one correspondent U.S. carrier at the expense of its U.S. competitors. In other countries, however, competition is emerging. Our policies should enable us to embrace and encourage competition as it emerges. They should not impede innovations that would lower prices and create new ways of organizing the supply and distribution of international communications services. This Policy Statement realigns our policies to encourage competition and technological innovation.

3. In a time of rapid technological innovations, policy makers ought not prescribe a single method for the supply and pricing of international services. Rather, policy makers should consider policies which embrace major reorganizations of the market that will increase efficiency and competition. Many countries, including the United States, recognize that competition in telecommunications is not only possible but is indeed an effective way to provide high quality, innovative and affordable telecommunications services to the public. This process would be greatly accelerated if the World Trade Organization's Negotiating Group on Basic Telecommunications succeeds in reaching agreement on further market liberalization -- a goal which the U.S. Government, including this agency, strongly supports.[2]

4. This Policy Statement establishes our openness to new approaches to providing international services. It also significantly strengthens our ability to curtail market distortions under our current regulations. As a way of encouraging a more efficient international market this Policy Statement specifically endorses:

1) Increasing regulatory support for new services that encourage arbitrage in the international market;

2) Tailoring our accounting rates policies to reflect diverse national market structures:

a) In monopoly markets, take stronger measures to reduce accounting rates with countries making little progress toward significant reform of these rates;

b) In competitive markets, consider major alternatives for providing international services, including the option of end-to-end service by a single supplier without the use of accounting rates; and

c) In the case of developing countries which agree they must reform their accounting rates and introduce competition, consider mechanisms to assist with periods of transition.

3) Improving our ability to monitor progress.

BACKGROUND

5. Historically, international telecommunications services have been provided largely by national telephone monopolies. FCC policy adopted a regulatory tradition, originated in Europe, that international telecommunications were supplied through a bilateral correspondent relationship between national monopoly carriers. At the time, apart from the United States, almost all communications systems were government-owned. Markets were clearly delineated, customers were captive, and service offerings were homogenous.

6. Over the past decade, however, global telecommunications markets have begun to shift from the traditional model to a more competitive market structure of multiple national carriers and international alliances. Ownership arrangements and market structures are becoming more heterogenous as governments privatize publicly-owned communications enterprises and allow entry, including foreign entry, in different segments of their national communications markets.

7. This Commission's regulatory policy has also evolved. Our primary goal is to advance the public interest by promoting effective competition in the U.S. telecommunications service market, particularly the market for interna-

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[1] *See infra* ¶ 11.

[2] *See* U.S. Government Submission to the World Trade Organization's Negotiating Group on Basic Telecommunications, *Pro-competitive Regulatory and other Measures for Effective Market Access in Basic Telecommunications Services* (Feb. 9, 1995).

tional services.[3] Competitive international markets will provide incentives for further market entry both in U.S. and foreign markets. Competitive markets will also stimulate even more technological innovation by U.S. suppliers of information technology. The result for U.S. consumers will be a broader range of service options at lower prices.

8. In our view, the traditional system of bilateral correspondent services and above-cost accounting rates[4] has slowed progress toward competitive markets. This system unnecessarily restrains the development of competition in the supply of services and their pricing. This is especially true in a digital world where technological advances are rapidly reducing the costs of providing service, yet above-cost accounting rates prevent consumers from getting the full benefit of these reductions.

9. U.S. consumers are the largest users of international telecommunications services. For virtually all countries, a greater number of calls originate in the United States than are terminated here. Because originating carriers make settlement payments to terminating carriers, U.S. carriers pay substantial sums to foreign carriers. To the extent that accounting rates exceed the actual cost of terminating an international call, this payment is a substantial subsidy. Between 1985 and 1994, U.S. carriers paid $26 billion in settlement payments to foreign carriers; as much as one half of these payments may have exceeded the actual costs of terminating calls.[5] This subsidy adds significantly to the cost of providing service and results in higher U.S. calling prices. Moreover, as national carriers become global carriers, this subsidy boosts the revenues of foreign carriers at the expense of U.S. carriers.

10. Historically, the Commission and U.S. carriers have addressed these problems within the traditional accounting rate regime by advocating cost-based, non-discriminatory and transparent accounting rates. We pursued this goal in four ways: First, we developed an International Settlements Policy for international telephone service to prevent foreign monopoly carriers from discriminating among competing U.S. carriers. Second, we encouraged services which bypass the traditional settlements process (*e.g.* private line resale) and thus put downward pressure on accounting rates. Third, we worked with the Executive Branch in international fora such as the International Telecommunication Union (ITU) and the Organization of Economic Cooperation and Development (OECD) to encourage global accounting rate reform. Fourth, we established progress reports and benchmark guidelines to measure progress towards our goal of cost-based accounting rates.

11. Our International Settlements Policy (ISP) supports competing U.S. carriers in their bilateral accounting rate negotiations with monopoly foreign carriers. This policy requires: (1) the equal division of accounting rates; (2) non-discriminatory treatment of U.S. carriers; and (3) proportionate return of inbound traffic.[6] The ISP prevented foreign monopolies from using their market power to obtain discriminatory accounting rate concessions from competing U.S. carriers (*i.e.,* "whipsawing").

12. To further reduce accounting rates, we have also actively promoted methods of providing or accessing services which vary from the traditional correspondent relationship. For example, we have allowed resale of international private lines to provide switched service,[7] call-back,[8] switched hubbing,[9] and country direct services.[10] These alternative routing practices have put downward pressure on accounting rates and on foreign calling prices, which lessens the U.S. traffic imbalance over time. Yet they also point to the problems of the existing system. For example, country direct benefits U.S. consumers but inflates the settlements deficit by converting foreign-originated traffic into U.S.-billed calls. U.S. carriers nevertheless embrace this service not only because it enhances their service offerings, but also because it may increase their market share of outgoing traffic and entitle them to a larger flow of lucrative incoming traffic under our proportionate return rules.

13. In addition, we have worked with the Department of State and the National Telecommunications and Information Administration in international fora such as the ITU and OECD to promote accounting rate reform on a global basis. These efforts encouraged the ITU's adoption of Recommendation D.140 in 1992 which calls upon countries to adopt non-discriminatory and cost-oriented accounting

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[3] *See Market Entry and Regulation of Foreign-affiliated Entities, Report and Order,* FCC 95-475, ¶ 17 (Nov. 28, 1995) (*Foreign Carrier Entry Order).*

[4] An accounting rate is a negotiated price between a U.S. facility-based carrier and a foreign carrier. The accounting rate reflects an agreed upon amount for handling one minute of international telephone service by the two carriers. In almost all cases in the United States, one-half of the negotiated accounting rate is used to calculate a net settlement payment, and this rate is referred to as the settlement rate.

[5] *Regulation of International Accounting Rates,* CC Docket No. 90-337, *(Phase II), Second Report and Order and Second Further Notice of Proposed Rulemaking,* 7 FCC Rcd 8040, 8043 at ¶ 18 and note 40 (1992).

[6] *See Implementation and Scope of the International Settlements Policy for Parallel Routes,* CC Docket No. 85-204, Report and Order, 51 Fed. Reg. 4736 (Feb. 7, 1986) (*ISP Order), modified in part on recon.,* 2 FCC Rcd 1118 (1987) (*ISP Reconsideration), further recon.,* 3 FCC Rcd 1614 (1988). *See also Regulation of International Accounting Rates,* 6 FCC Rcd 3552 (1991), *on recon.,* 7 FCC Rcd 8049 (1992).

[7] This Commission permits U.S. carriers to provide switched services over resold U.S. international private lines to countries that we find offer equivalent resale opportunities. *See generally, Regulation of International Accounting Rates, CC Docket 90-337, Phase II First Report and Order* 7 FCC Rcd 559, 560 (1992). *See also Foreign Carrier Entry Order,* FCC 95-475, ¶ ¶ 157-161.

[8] Call-back enables a customer in one country to access a dialtone in another country and carriers to bill customers at the latter country's collection rate. *See generally, Via USA, Ltd. et al.,* 9 FCC Rcd 2288 (1994); *on recon.,* 10 FCC Rcd. 9540 (1995) (*Order on Reconsideration).*

[9] Switched hubbing refers to the routing of U.S. switched traffic over U.S. international private lines, whether resold or facilities-based, that terminate in equivalent countries and then forwarding that traffic to a third, non-equivalent country by taking at published rates and reselling the international service of a carrier in the equivalent country. *Foreign Carrier Entry Order,* FCC 95-475, ¶ 169.

[10] Country direct enables international calling card holders traveling in a foreign country to call an international toll free number and gain direct access to an operator and the calling prices of their home country.

rates. In addition, the OECD has produced economic analyses confirming the benefits of more liberal, open market, and competitive policies.[11]

14. Finally, we also established objective, public criteria for measuring progress towards a cost-based accounting rate system. In 1991, we established benchmark ranges of reasonable settlement rates.[12] When we first adopted these benchmarks, only 2 out of 86 countries were within the benchmark ranges; today 24 out of 86 are. We also required U.S. carriers to file progress reports on their accounting rate negotiations with foreign administrations. These progress reports identified those countries which resisted moving toward more cost-based accounting rates.[13] In addition, we have long published U.S. accounting rates.

15. These policies have resulted in reduced U.S. accounting rates. For example, the average U.S. accounting rate has declined steadily from $1.29 per minute in 1985 to its current level of $0.83 per minute. Rates for many countries have fallen even more dramatically. For example, the rate with Deutsche Telekom (Germany) has fallen from 1.2 Special Drawing Rights (SDR) ($1.32) in 1985 to 0.26 SDR ($0.39). The U.S.-Australia accounting rate has fallen from 1.5 SDR ($1.65) to 0.4 SDR ($0.60), and the accounting rate with British Telecom (United Kingdom) has fallen from $1.06 (0.8 SDR) to 0.25 SDR ($0.38) during this period.

16. Despite this progress, accounting rates remain significantly above the cost of originating and terminating international telephone calls.[14] Moreover, the ever-increasing number of U.S. originated calls and the growing disparity between U.S.-and foreign-billed minutes have resulted in a dramatic increase in U.S. net settlement outpayments. Since 1985, the net settlement outpayment has quadrupled, reaching over 4.3 billion dollars in 1994.[15] While we recognize a competitive global market might still yield a net U.S. deficit, our concern is that a substantial part of the current settlements outpayments is the result of economically inefficient accounting rates and monopoly pricing practices for consumers in foreign markets. We believe a new approach to accounting rates will better enable us to address these problems.

DISCUSSION

A New Accounting Rate Policy

17. We believe that two forces will continue to drive changes in the market place: the emergence of competition and the emergence of new technologies. The emergence of competition has encouraged suppliers to utilize existing technologies in new ways. This has changed both the types of services available and the pricing structure of the communications market. For example, competitors have responded to the discrepancy between U.S. and foreign collection rates by introducing call-back and country direct services. Such services allow these carriers and their customers to take advantage of U.S. collection rates. International private line resale has provided yet another option to traditional correspondent International Message Telephone Service (IMTS), focusing competitive pressure on both collection charges and accounting rates. These types of services have greatly benefited U.S. and foreign consumers.

18. Today, new technologies are emerging that offer even greater benefits, both to U.S. consumers and to the global economy. Advances in digitization and routing technology can potentially revolutionize global communications. New routing software and hardware increase a sender's ability to determine instantaneously the most cost-efficient method of providing service. And digital technology enables voice as well as data to be transmitted in the same form -- as a ubiquitous "bit." Digital technology also opens the way to practices that go beyond call-back and resale and may some day significantly erode the effectiveness of ISP safeguards.

19. These trends suggest that the fundamental assumption of the traditional system (*i.e.*, services provided jointly by two carriers) may not be the best way to organize new global services in the future. Indeed, these new technologies offer new and improved forms of communication and should thus be encouraged. Development of these technologies would be advanced by a new, more flexible regulatory framework providing greater economic incentive to invest in and use the infrastructure necessary to support these technological innovations. Such a framework should be able to accommodate fundamentally different ways of organizing the supply and pricing of services.

20. Thus, recent changes in national market structures, technological innovations, and the success of alternative services such as call-back and resale have caused us to rethink our approach to international accounting rate issues. These developments convince us that an exclusive reliance on the traditional accounting rate system is no longer appropriate. We believe that greater regulatory flexibility is needed to create or replicate market-based incentives and prices for both suppliers and consumers of international service.[16] Thus, we believe we can best assist the continued development of competitive market structures and technological innovations by refocusing our accounting rates policy in three ways. First, we intend even more actively to encourage and promote alternative services which will bring about both lower accounting rates and collection rates. Second, we will tailor our accounting rate policies, including the ISP, to reflect the diversity of national market structures. Third, we will more actively pursue measures to encourage accounting rate reductions.

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11 *See The Benefits of Telecommunications Infrastructure Competition*, (DSTI/TISP/(93)/Rev.1), p. 23, February 1994.

12 *See supra* note 5.

13 *Id.*

14 For example, AT&T has estimated that a cost-based accounting rate for the United Kingdom is 0.08 SDR. *See* AT&T Comments, *BTNA Application for Authority Under Section 214 of the Communications Act to Provide International Resale Services as a Nondominant Common Carrier*, File No. I-T-C-93-126 (filed Mar. 22, 1995). The current accounting rate with the United Kingdom is .25 SDR.

15 *See* FCC Common Carrier Bureau Report, *1994 Section 43.61 International Telecommunications Data*, Figure 1, No. 61154 (rel. Jan. 19, 1996).

16 *See Interconnection Between Local Exchange Carriers and Commercial Mobile Radio Service Providers; Equal Access and Interconnection Obligations Pertaining to Commercial Mobile Radio Service Providers, Notice of Proposed Rulemaking*, CC Docket Nos. 95-185 & 94-54, FCC 95-505, ¶ 4 (released Jan.11, 1996)(*CMRS Interconnection Order)* (Policies that reflect market-based incentives should maximize consumer choice).

A. ***A Further Commitment to Alternative Services and Facilities***

21. Our experience has shown that services that are provided in a way which differs from the traditional correspondent IMTS can serve the public interest by providing increased competition in U.S. and foreign markets. These services include switched resale, resale of private lines to provide switched service (or international simple resale (ISR)), country direct, call-back, and switched hubbing. Some of these services are provided by new market entrants and some use new routing technologies to access traditional services. They all take advantage of price arbitrage opportunities to offer new, innovative services to consumers. Many offer additional value to consumers, such as itemized billing.

22. These types of services offer many benefits when offered consistent with safeguards like our equivalency policy which we have imposed to protect against monopoly market power. By increasing competitive pressures in foreign markets, these services place significant downward pressure on foreign IMTS collection rates. These reductions stimulate additional foreign-originated traffic, which should in turn have the beneficial effect of reducing the U.S. traffic imbalance, U.S. net settlement payments, and U.S. carriers' average net settlement cost per minute.[17] Such services also enable competitors to provide cost-effective service to their customers on a global basis. In addition, these services stimulate market entry by enabling the creation of specialized offerings.

23. We continue to encourage U.S. carriers to provide these types of alternative services, consistent with legal obligations. In addition, we will support U.S. carriers which develop additional innovative services and construct cost-effective new facilities which provide similar competitive pressure. We also note that our recent *Foreign Carrier Entry Order*[18] opens the door to foreign firms to enter the U.S. market and provide telecommunications services and facilities. We believe that new entrants and creative offerings of services and facilities will encourage further innovation and competitive pricing that will accelerate the development of effectively competitive markets around the world.

B. ***Regulatory Flexibility to Reflect Diverse Markets***

24. Competitive markets and technological advances do not develop simultaneously in all countries. Some governments have not embraced private ownership and competition. Additionally, economic conditions vary among countries; for example, cost characteristics, facilities, and resource endowments differ. We believe our approach to accounting rates should be flexible enough to recognize different market conditions throughout the world. Our analysis suggests that future policies should address at three least different conditions: (1) traditional monopoly or highly concentrated markets; (2) effectively competitive markets; and (3) developing countries.

(1) *Monopoly/Highly Concentrated Markets*

25. In most countries, suppliers with significant market power still provide international switched telephone service. To increase profits, the foreign carrier may use its market power to maintain high accounting rates and collection rates and "whipsaw" competing U.S. carriers. These profits may then be used to hold down domestic charges or to thwart attempts by new suppliers to enter the carrier's international market. In such countries the need to ensure that foreign carriers do not abuse their market power in negotiations with U.S. carriers is unchanged.[19]

26. In such market conditions, we must continue to rely on the existing accounting rate system, including the ISP. The ISP has proven to be an effective method for preventing discrimination by safeguarding multiple U.S. carriers from the exercise of foreign carriers' market power to extract financial concessions, andpromises to remain viable for the foreseeable future.

27. We will also continue to advocate more cost-based accounting rates, and support U.S. carriers in their pursuit of lower accounting rates. Despite recent progress, accounting rates are still far above cost. We anticipate seeing significant, additional movement toward more cost-based accounting rates, particularly with monopoly carriers.

28. If we do not see substantial progress toward accounting rate reform, we will take stronger measures to reduce accounting rates. U.S. industry and consumers can no longer be required to bear the burden of above-cost accounting rate payments to foreign carriers. The measures we contemplate may include: supporting U.S. carriers which refuse to continue to pay high accounting rates when existing agreements expire, or tying reductions in accounting rates to growth in net settlement payments. We invite U.S. carriers' suggestions regarding what additional measures would be appropriate. These suggestions should take into consideration the broader goals of increased competition and greater market efficiency. Proposals should not inadvertently produce inefficient barriers to market entry or inhibit efficient, competitive pricing.

29. Finally, we recognize that, even in some highly concentrated markets, regulatory barriers to entry are being reduced. Limited entry is occurring at the margins of the market. The rate at which additional entry occurs will depend, at least in part, on the legal and regulatory framework, conditions of entry, economies of scale, consumer preferences, and the efficiency of the incumbent. In circumstances where a carrier's ability to abuse its market power is constrained by its market position or market conditions in general, a partial relaxation of the ISP, combined with some limited reliance on market forces and appropriate safeguards, may facilitate new forms of competition and cause further progress towards competitive markets. Thus, we encourage U.S. carriers to submit for our approval alternative settlement arrangements which may necessitate waivers of certain portions of the ISP, even for markets that are not yet effectively competitive. We will review these requests based on their ability to achieve more market-oriented pricing and competition strategies while precluding abuse of market power. We will monitor the

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[17] The net settlement cost is the difference between settlements owed by U.S. carriers for U.S.-billed service and settlement payments owed to U.S. carriers for foreign billed service.

[18] *See supra* note 3.

[19] We have faced similar concerns in considering domestic interconnection issues, where we determined that an entity with market power may have the incentive and the ability to set interconnection rates at excessive level. This can result in the restriction of entry and a reduction in demand and excessive prices. See *CMRS Interconnection Order*, FCC 95-505, ¶ 12.

results of these arrangements via measures like average net settlement per minute, and will intervene if we discern significant negative trends.

(2) *Effectively Competitive Markets*

30. An increasing number of countries are choosing to change from the traditional model of correspondent national monopolies to a fully competitive market. These countries are currently adopting the regulatory and economic reforms necessary to enable competition to emerge, as the United States has done over the last decade. New suppliers are entering the international telecommunications market, and competition among suppliers is now less frequently restricted to isolated or niche markets. As in the United States, some foreign incumbents' large share of the market appears to be declining, and there are indications that this trend will continue as new firms enter and recent entrants solidify their market positions. Where such entry is occurring, and the incumbent firms' ability to exercise market power is effectively constrained, we believe that our policies should promote continued development of competitive market structures.

31. The ISP was designed for a world characterized by bilateral negotiations between carriers with market power. Where markets are becoming competitive, the ISP, with its requirements of an equal division of accounting rates, proportionate return of traffic, and uniform accounting rates, may impede competitive behavior and the development of effectively competitive markets.

32. For example, our policy of requiring return traffic to be allocated proportionately among U.S. carriers may deter U.S. terminating carriers from offering innovative pricing and supply arrangements. The ISP also retards carriers from negotiating alternative commercial contractual arrangements for handling international telephone service. For example, some carriers may find it more efficient to terminate U.S.-originated traffic abroad by bypassing the incumbent international gateway carrier and interconnecting directly to the domestic long distance network of the foreign country. This has the advantage of terminating traffic at an access charge which is likely to reflect competitive prices in the domestic market, not the traditionally high, above-cost accounting rates. Moreover, it allows the U.S. carrier to pick up international traffic from specialized domestic networks in a foreign country.

33. It is impossible to predict the most effective way of providing international telecommunications service in the future. Where possible, competitive market forces should determine the allocation of resources. Therefore, in markets where the legal, regulatory, and economic conditions support competition, we believe that we should allow U.S. carriers the flexibility to negotiate alternative settlement or payment arrangements with their foreign correspondents, without necessarily being bound by the ISP. For example, in a future proceeding, we anticipate modifying our rules so that carriers may negotiate termination fees for international interconnection into domestic networks on the same terms and conditions as rates available to domestic carriers. This approach is consistent with our approach to interconnection pricing in the domestic U.S. telecommunications market. Domestically, we have recognized that in the absence of market power or other distortions, efficient forms of interconnection may develop through private negotiation.[20]

34. Such alternative payment arrangements would be subject to FCC approval, and to approval by the correspondent carrier's government. We shall work with U.S. carriers to facilitate such agreements where appropriate. Additionally, we will monitor the results of these arrangements via measures like U.S. carrier progress reports and average net settlements per minute.

35. In a Public Notice issued contemporaneously with this Policy Statement, the International Bureau invites interested parties to file supplemental comments in *In the Matter of Regulation of International Accounting Rates*, CC Docket No. 90-337, (Phase II) Second Further Notice of Proposed Rulemaking, 7 FCC Rcd 8040 (1992). We will consider the framework for alternative payment arrangements in that proceeding.

(3) *Developing Countries*

36. Developing countries receive a large and growing share of the net settlement payments transmitted by U.S. carriers to foreign carriers. Approximately seventy percent of the payments by U.S carriers go to carriers in developing countries.[21] In 1994, these payments totalled approximately $3 billion. The above-cost portion of these payments places a highly disproportionate, economically inefficient financial burden on U.S. industry and consumers.

37. We also recognize, however, that the changing global telecommunications market presents particular challenges for the communications needs of developing countries. Settlement payments received from U.S. and other foreign carriers have often been a source of hard currency available for the purchase of facilities and equipment necessary to improve communications networks. Curtailment of these funds may, therefore, disrupt plans to make communications service more widely accessible to a larger portion of the people in these countries.

38. International settlement payments, however, are not the only source of funding for such upgrades. More conventional sources of investment capital can provide the necessary currency for infrastructure improvements, and are a more economically efficient method of financing. Accounting rates which are artificially inflated far above costs are a form of distorted pricing that restricts market entry and hurts more than helps the creation of a sound economic foundation for network development. Moreover, settlement funds are not always used to improve communications networks, but are allocated to other activities.[22]

39. Greater emphasis should be placed on creating competitive market structures in developing countries. Competition, private investment (including foreign invest-

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[20] *CMRS Interconnection Order*, FCC 95-505, ¶ 11 ("In the absence of market power or other distortions, efficient forms of interconnection may develop through private negotiation").

[21] *See* Section 43.61 *International Telecommunications Data*, Common Carrier Bureau, Industry Analysis Division, Federal Communications Commission (various years). The World Bank defines "developing countries" as countries where the annual income per capita is below $8,356.

[22] *See* World Telecommunication Development Report, World Telecommunication Indicators, International Telecommunication Union, 1994, pp. 58 & 79.

ment) and sound regulatory practices would encourage private capital markets to meet the financing needs of these countries. If necessary, those measures can be supplemented by an explicit subsidy mechanism targeted at expanding network infrastructure to promote universal access.

40. We recognize this transition may be difficult for many developing countries. Such countries are at different levels of economic and infrastructure development and have different needs. Thus, we may need to tailor our policies regarding the developing world.[23]

41. We will soon consider alternative ways for U.S. carriers to work with foreign governments and carriers to facilitate the transition to lower accounting rates. In the meantime, we will maintain our current policies when dealing with foreign carriers with market power as described in Section B.1. above. We recognize that foreign carriers in developing countries need to ensure that they derive meaningful benefits from cost-based accounting rates. For those interested in pursuing various alternatives, we will be willing to work with them on achieving solutions.

C. *Measuring Progress*

42. In the past, we have relied on U.S. carrier benchmark settlement ranges and progress reports to measure movement toward cost-based accounting rates. Our benchmarks provided U.S. carriers with estimates of appropriate settlement rates which enabled them to negotiate more effectively with foreign carriers. Additionally, U.S. carrier progress reports helped us to identify foreign carriers reluctant to move toward cost-based accounting rates. These objective criteria are valuable measures of accounting rate progress. We intend to modify and update our settlement benchmark ranges, and we invite U.S. carriers to update and expand their progress report submissions.

43. We believe that our benchmark ranges should reflect recent technological improvements, their associated cost reductions, and the market structure changes occurring in the global telecommunications markets. Accordingly, in establishing new benchmarks, we will investigate factors such as (1) whether the recent changes in global market structure suggest that our benchmark categories should be based on other than geographic criteria (*e.g.*, developing/developed world, high density routes vs. low density routes), and (2) whether our benchmarks should be adjusted annually to reflect technological changes and productivity advances. Our modified benchmark levels should also reflect the cost components for providing the facilities necessary to terminate an international call set forth in Annex A to ITU resolution D.140. Regional information on the cost of these components would greatly assist our efforts in establishing new benchmark ranges.

44. Finally, we invite AT&T, MCI Telecommunications Corporation, Sprint Communications Company L.P., and LDDS Communications, Inc. to submit updated progress reports. We are particularly interested in U.S. carriers identifying those foreign administrations most resistant to lowering accounting rates, and an empirical analysis of the factors that contribute to the settlements deficit. An updated list of those foreign carriers that are reluctant to reduce accounting rates will enable us to identify those countries which should be the focus of our efforts. Additionally, information on the factors contributing to the settlements deficit will help us to focus our efforts. Relevant information could include identification of the relative impact on the settlements deficit of U.S.-billed services such as call-back and country direct, international private line resale, availability or absence of closed user group services, international audiotext services, the disparity between U.S. and foreign calling prices, and currency fluctuations.

CONCLUSION

45. We believe that the accounting rates reform we have described in this Policy Statement will better enable us to actively promote competition and technological innovation. We look forward to working with U.S. industry and consumers as well as foreign governments and carriers to develop a more effective accounting rate policy.

PROCEDURAL MATTERS; ORDERING CLAUSES

46. IT IS ORDERED that, pursuant to Sections 1, 4, 201-205, 211, 215, 218-220, and 303 of the Communications Act of 1934, as amended, 47 U.S.C. Sections 151, 154, 201-205, 211, 215, 218-220, and 303, this Policy Statement is ADOPTED, and is effective upon publication in the Federal Register.

47. The notice and comment and effective date provisions of the Administrative Procedure Act do not apply to this Policy Statement. 5 U.S.C. §§ 553(b)(A),(d)(2).

FEDERAL COMMUNICATIONS COMMISSION

William F. Caton
Acting Secretary

[23] *Cf. CMRS Interconnection Order*, FCC 95-505, ¶ 5 (Where we recognized in the context of the U.S. market that specific programs may be necessary to advance universal service in areas and for individuals where special needs exist).