THE WHITE HOUSE

WASHINGTON

December 12, 1983

MEMORANDUM FOR FRED F. FIELDING

FROM: JOHN G. ROBERTS JGR

SUBJECT: Letter to Craig Fuller Requesting Meeting to Discuss the Orion North Atlantic Project

In response to your inquiry, the Executive branch position on the Orion FCC application will be decided at a meeting of the Cabinet Council on Commerce and Trade scheduled for tomorrow. Quaal has asked Karen Hart if the Orion people could meet with Fuller, not to discuss their pending case but the cabinet council process. I advised her to say no.

THE WHITE HOUSE

WASHINGTON

December 8, 1983

MEMORANDUM FOR FRED F. FIELDING

FROM: JOHN G. ROBERTS

SUBJECT: Letter to Craig Fuller Requesting Meeting to Discuss the Orion North Atlantic Project

Orion Satellite Corporation has pending before the FCC a very controversial application to provide satellite communications service to the North Atlantic area. If Orion is permitted to proceed with its plan it would be the first breach in the profitable Intelsat monopoly. The FCC is awaiting an Executive branch position before issuing a decision; that position is still in utero.

Ward L. Quaal, a "friend of the President" and Mr. Deaver, called Craig Fuller's office to arrange a meeting between Orion officials and Fuller. Karen Hart suggested that the officials put their request in letter form, which they have now done. Fuller has asked for a draft response.

Pursuant to our established policy, White House staff members should not meet with private petitioners to discuss a case pending before the FCC, an independent regulatory agency. I have drafted a response for Fuller's signature advising the Orion officials of this policy.

Attachment

THE WHITE HOUSE

WASHINGTON

December 8, 1983

MEMORANDUM FOR CRAIG L. FULLER
ASSISTANT TO THE PRESIDENT
FOR CABINET AFFAIRS

FROM: FRED F. FIELDING Orig. signed by FFF
COUNSEL TO THE PRESIDENT

SUBJECT: Letter to Craig Fuller Requesting Meeting to Discuss the Orion North Atlantic Project

You requested a draft response to the letter you received from officials of the Orion Satellite Corporation, requesting a meeting to discuss their pending application before the FCC. A draft denying their request is attached.

FFF:JGR:aea 12/8/83
cc: FFFielding/JGRoberts/Subj/Chron

THE WHITE HOUSE

WASHINGTON

December 8, 1983

Dear Sirs:

Thank you for your letter of November 28, requesting a meeting to discuss the Orion North Atlantic project. That letter referred to Orion's pending application before the Federal Communications Commission for a license to provide satellite communications services in the North Atlantic.

I must advise you that established White House policy does not permit members of the White House staff to meet with private parties to discuss cases those parties have pending before an independent regulatory agency, such as the Federal Communications Commission. This policy is based on a concern to avoid even the appearance of interference with the independence of the regulatory agency. Accordingly, it will not be possible for me to accede to your request for a meeting.

I trust that you will understand the reasons for this position.

Sincerely,

Craig L. Fuller
Assistant to the President
for Cabinet Affairs

Mr. Thomas K. McKnight
Mr. Christopher J. Vizas, II
Orion Satellite Corporation
2000 L Street, N.W., Suite 200
Washington, D.C. 20036

CLF:JGR:aea 12/8/83
bcc: FFFielding/JGRoberts/Subj/Chron

THE WHITE HOUSE

WASHINGTON

December 8, 1983

MEMORANDUM FOR CRAIG L. FULLER
ASSISTANT TO THE PRESIDENT
FOR CABINET AFFAIRS

FROM: FRED F. FIELDING
COUNSEL TO THE PRESIDENT

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Assistant to the President
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Mr. Thomas K. McKnight
Mr. Christopher J. Vizas, II
Orion Satellite Corporation
2000 L Street, N.W., Suite 200
Washington, D.C. 20036

CLF:JGR:aea 12/8/83
bcc: FFFielding/JGRoberts/Subj/Chron

ID # 190319 CA

OFFICE OF CABINET AFFAIRS
ACTION TRACKING WORKSHEET

Action resulting from:

- [x] Document (attached)
- [ ] Telephone call
- [ ] Meeting (attach conference report if available)

Date Received: 83 / 11 / 28

Document Date: 83 / 11 / 28

From: Thomas K. McKnight
+
Christopher J. Vizas, II

SUBJECT: Letter to Fuller requesting meeting to discuss the Orion North Atlantic project.

ACTION CODES:

A - Appropriate Action	D - Draft Response	R - Direct Reply w/Copy
B - Briefing Paper	F - Furnish Fact Sheet	S - For Signature
C - Comment/Recommendation	I - Info Copy Only/No Action Necessary	X - Interim Reply

ROUTE TO:

Date Sent	Name	Action Codes	Date Due	Action Taken
WS 83 / 12 / 04	I. Fred Fielding	A/D	83/12/09	
83/12/06	OVAT 18	D	83/12/09	
/ /			/ /	
/ /			/ /	
/ /			/ /	
/ /			/ /	

COMMENTS: WS 1. These people were referred to [redacted] Fuller by Ward Quaal (a "freind" of the Pres.) by a phone call to Karen Hart. Mr. Quaal asked for meeting + Hart told him to have them write. Fuller doesn't think he should see them — what do you advise? Please provide draft response for Fuller ASAP. Quaal will call again this week for status of request.

ORIGINATOR: ☐ Anderson ☐ Clarey ☐ Faoro ☒ Fuller ☐ Gibson ☐ Gonzalez ☐ Hart ☐ Herbolsheimer

Keep this worksheet attached to the original incoming material and when the assigned action is complete, return to:

OFFICE OF CABINET AFFAIRS
Attention: Karen Hart (x2823), West Wing/Ground Floor

1983 DEC

The Ward L. Quaal Company

401 North Michigan Avenue
Suite 3140
Chicago, Illinois 60611

Ward L. Quaal
President

Telephone
312/644-6066

190319

November 28, 1983
Dic. 11/25/83
Los Angeles, Ca.

12/4
Fred —
(this is just FYI so you'll see what we're dealing with)
can you believe it?
Karen

The Honorable Karen Hart
Assistant to the General Counsel
The President's Cabinet
The White House
1600 Pennsylvania
Washington, D. C. 20505

Dear Karen:

By this time, you have heard from Orion Satellite Corporation, and given sufficient "fill in" regarding the matter that I would like to bring to the attention of Mr. Fuller.

Please know how much I appreciate your interest in this matter and your assisting me as I attempt to arrange a meeting involving Messrs. McKnight, Vizas and me. I promise you, Karen, that this will not take a great amount of Mr. Fuller's time.

This matter definitely involves the Cabinet level because of the international aspect of the proposal that has been prepared by Orion and submitted to the Federal Communications Commission, and about which there are hearings current on the Hill.

Best wishes and thank you so much, Karen, for your kind cooperation.

Very sincerely,

Ward

Ward L. Quaal

WLQ/smj

ORION SATELLITE CORPORATION
Suite 200
2000 L St., N.W.
Washington, D. C. 20036
(202) 466-7700

November 28, 1983

The Honorable Craig Fuller
General Counsel and Secretary
to the Cabinet
The White House
Washington, D.C. 20500

Dear Mr. Fuller:

As you know from your recent telephone conversation with Mr. Ward Quaal, a key advisor to the Orion Satellite Corporation, Orion has proposed the creation of a private user-owned communications satellite system between North America and Europe.

About eighteen months ago, Orion identified an unserved market in North Atlantic communications. After considerable developmental work, it applied in March, 1983 to the Federal Communications Commission for a license to serve the market. Currently, the application is under review at the Departments of Commerce and State and the Office of the United States Trade Representative. The FCC is awaiting Executive Branch comments before it makes its final decision.

Executive Branch review is being coordinated through the Senior Interagency Group that is concerned with international communications and is chaired by Ambassador Dougan. We understand, however, that the final decision on the Executive Branch recommendation probably will be made in the Cabinet Council on Commerce and Trade. We also understand, from recent congressional testimony by Assistant Secretary Markey of NTIA and by Ambassador Dougan, that the agency review will be completed soon.

On the advice of Mr. Quaal, we request a meeting with you to discuss the Orion North Atlantic project and its policy implications at your earliest convenience. Recognizing both the press of your work schedule and of the season, perhaps a short meeting the week of December 12 would be ideal. We and Mr. Quaal will be happy to accommodate to your needs.

To better acquaint you with Orion, enclosed is a brief outline of the North Atlantic proposal and the policy issues surrounding it, as well as several recent press clippings about the project.

We look forward to your reply.

Cordially,

Thomas K. McKnight

Christopher J. Vizas, II

cc: W. Quaal

ORION SATELLITE CORPORATION
Suite 200
2000 L St., N.W.
Washington, D.C. 20036
(202) 466-7700

- What is Orion?

Identifying an unserved market in North Atlantic communications, Orion Satellite Corporation was formed last year and applied to the FCC in March, 1983 for a license to create a two satellite system over the North Atlantic--an electronic bridge for television transmission and major businesses between the U.S. and Europe. The system is unique in several ways:

-Orion will be the first transatlantic satellite system developed by private enterprise.
-Orion will be the first satellite system (domestic or international) specifically designed to meet the needs of a particular group of users, broadband and high volume corporate users (e.g., television, natural resource companies, banks).
-Orion will be the first international communications system (satellite or undersea cable) to be truly private--its transponders owned by the businesses that use them and used exclusively for internal business communications.
-Orion will provide its owner/users with the cost and design flexibility, particularly on the ground, that permits business judgments on trade-offs between cost and quality in service and equipment; trade-offs impossible in a public telecommunications system.
-Orion will employ a technical design that better conserves the orbital arc and spectrum resources than any previous satellite communications system.
-Orion will bring the benefits of low-cost earth stations, developed in the highly competitive U.S. domestic satellite market, to international satellite communications.

- What is the current market situation?

The North Atlantic has a monopoly provider of satellite communications: INTELSAT. INTELSAT is a government-owned commercial consortium of 109 nations, although the U.S. monopoly participant is a private company, Comsat. While the North Atlantic is still a monopoly market for INTELSAT (originally conceived as a "single global commercial system"), in most other markets of the world INTELSAT has competition from regional systems (Arabsat, Eutelsat, Palapa, etc.).

In terms of the specific user market Orion plans to serve, INTELSAT

-cannot sell portions of its system for private use; its charter requires it to offer only public telecommunications services.
-does not have any portions of its system with the appropriate technical design to meet many of the specialized needs of high volume transatlantic users.

-cannot (because it is providing public services) provide high volume users the operational flexibility and supply assurance vital to efficient business operations.

Who opposes Orion?

INTELSAT and Comsat have voiced the only opposition at the FCC or to the executive branch (State, Commerce, USTR). Their arguments focus on economic damage from loss of the North Atlantic monopoly and U.S. obligations under our 11-year old executive agreement.

-The economic damage argument is difficult to sustain because Orion plans to serve a market which INTELSAT admits it currently does not serve and has not developed the technical capacity to serve.
-Even under the broadest reading of INTELSAT's charter, Orion does not violate it. Orion will not offer public telecommunications services. It will not divert current INTELSAT revenues, but it will serve the needs which are currently unserved.

What are Orion's needs?

While its application is pending before the FCC, the comments of three executive branch agencies--State, Commerce, and the Trade Representative--will be the critical element in the FCC decision. Congressional influence on this process will be substantial. Orion's concerns about the executive and congressional process are two:

-To ensure fairness. Both INTELSAT and Comsat seek to create an image that Congress views them as privileged enterprises with special status--both for executive branch and foreign government consumption. Orion seeks to be treated on the same footing as the existing monopoly in this decision-making stage; the FCC has treated Orion this way. Orion's concern is that Congress and the executive branch do the same.

-To promote a rapid decision. Proposals for foreign competition already exist (in the U.K. and in France), additional foreign proposals can be expected. Given the long lead time needed after licensing before a satellite can be launched, a "rapid" decision is in the interests of the United States to ensure that the U.S. may fairly compete as alternative systems to INTELSAT emerge. Otherwise, foreign organizations who do not face our public decision making process can begin construction and be operational long before Orion, which had the original idea but must await its license before it can begin construction.

The Orion question is, in its simplest form, the question of continued U.S. leadership in international communications. We led the world in helping to create INTELSAT; we should again lead the world in the next step, toward alternatives--but we appear to be falling behind.

ORION SATELLITE CORPORATION
Suite 200
2000 L St., N.W.
Washington, D. C. 20036
(202) 466-7700

Orion Satellite Corporation

In The News

ORION SATELLITE CORPORATION
Suite 200
2000 L St., N.W.
Washington, D. C. 20036
(202) 466-7700

EMBARGO: Not to be released until after 6:00 P.M. E.S.T. on Thursday, March 10, 1983

PRESS RELEASE

March 11, 1983

Orion Satellite Corporation today filed an application with the Federal Communications Commission to construct, launch and operate two Ku band communications satellites to be used for private transatlantic communications. The satellites complement the existing INTELSAT system and will be located in geosynchronous orbit, roughly 22,300 miles above the equator and positioned at 37.5 and 50 degrees west longitude. They will amply illuminate Western Europe and the eastern portions of the United States and Canada such that video signals could be sent up to the satellites on 7.7 meter uplinks and received from the satellites on 3.5 meter downlinks. With strengthened transmit and receive facilities, it is expected that communications may be possible as far east as Egypt and as far west as Houston, Texas. Each satellite has 22 transponders, and there will be capabilities to deliver high definition television. An

unusual disposal plan is featured and the orbital slots can be used for southern hemisphere communications on the same frequencies.

Orion intends to sell transponder capacity on its satellites to large users of telecommunications such as government agencies, video networks, financial institutions, and multinational corporations. Since Orion will not operate as a common carrier, the earth stations in the United States could be owned and operated by the users of the satellites. Access to the satellites in Europe would be through facilities or services authorized or operated by the various foreign governments. While the company has reserved launch dates on the NASA Space Shuttle, other launch alternatives, including the European Ariane, are being considered.

"As international telecommunications has matured, the market has begun to demand the diversity of services and facilities internationally that are available within national systems," according to Thomas K. McKnight, one of the founders and President of Orion Satellite. McKnight noted that, "Critical to that diversity are private communications facilities for major users. Orion Satellite Corporation plans to offer the first such private international facilities. Just as private systems complement common carrier networks within a country, the Orion facilities will complement the

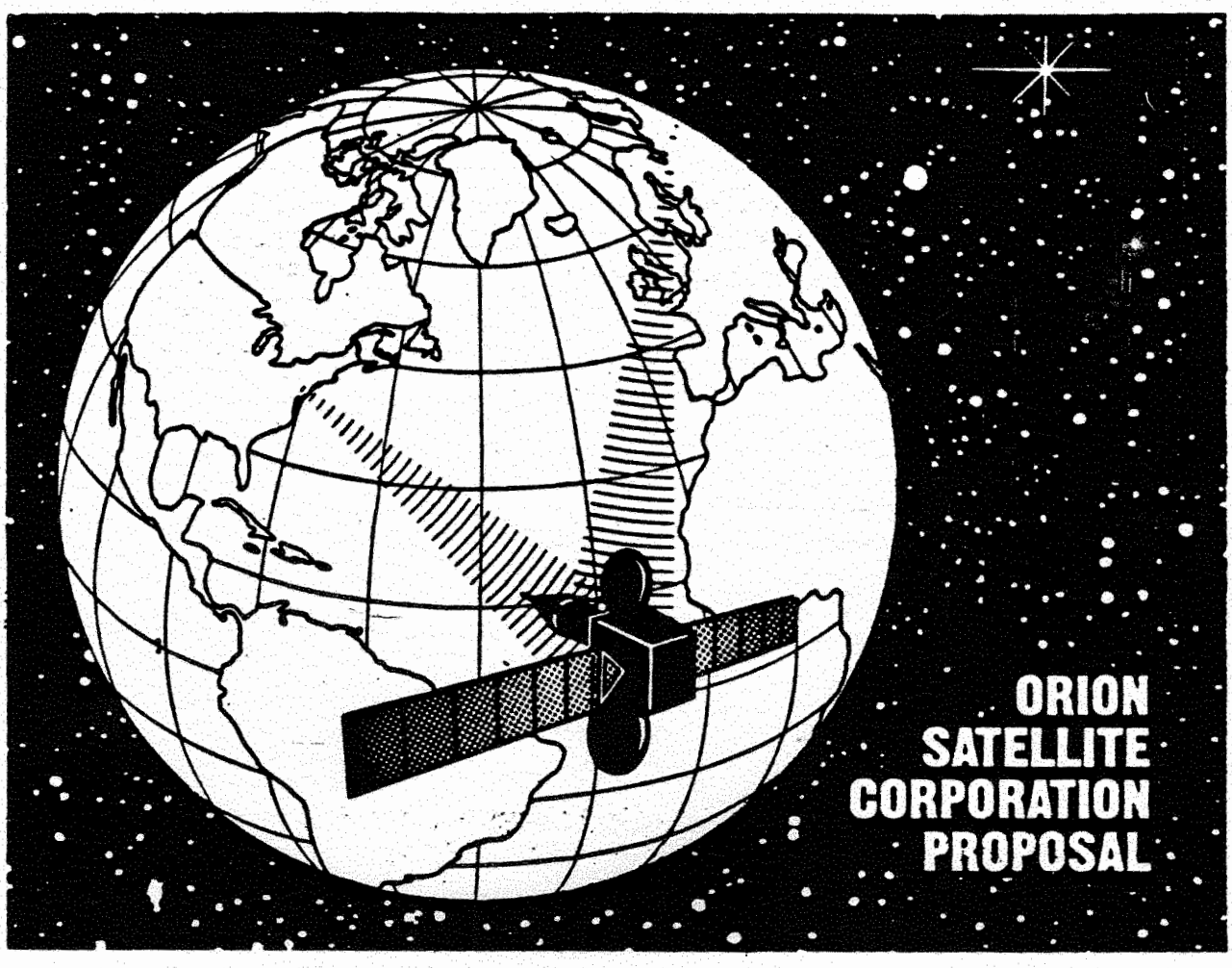
global INTELSAT satellite network and the carrier owned submarine cable links."

The company was founded by the principals of Orion Telecommunications, Ltd., a Washington, D.C. based consulting firm specializing in telecommunications business and regulatory strategy. Engineering work for the company's satellite facility was performed by the Communications Center of Clarksburg, headed by Mr. Walter L. Morgan. Financing for the venture has been arranged with The Centennial Fund, a venture capital limited partnership specializing in telecommunications ventures. Legal representation is provided by Verner, Liipfert, Bernhard & McPherson of Washington, D.C.

Inquiries should be addressed to Thomas K. McKnight, President, Orion Satellite Corporation, Suite 200, 2000 L Street, N.W., Washington, D.C. 20036. Telephone: (202) 466-7700.

USA Today, Friday, March 11, 1983 at page B1

WASHINGTON, D.C. — **Orion Satellite Corp.** filed an application with the Federal Communications Commission to build, launch and operate two communications satellites. They would be the first satellites used for private, transatlantic data and video communications between 16 European countries and the eastern USA.



By Gail McCrory—The Washington Post

New Washington-Based Firm

2 Private Satellites Planned

By Michael Schrage
Washington Post Staff Writer

Hoping to tap into the lucrative international telecommunications market, a new Washington-based company yesterday requested Federal Communications Commission permission to launch two transatlantic satellites to serve private customers in the United States and Europe.

The system proposed by Orion Satellite Corp. would enable banks, television broadcasters and multinational corporations to buy satellite capacity to create their own international communications networks. The companies would set up their own earth stations and use Orion's satellites as their pipeline.

The proposal places Orion in direct conflict with Intelsat—the International Telecommunications and Satellite organization—a consortium of 108 countries that operates a global satellite network. Intelsat carries two-thirds of the world's telephone and computer-data traffic and virtually all international TV broadcasts. As a common carrier, it is open to all users.

Thomas K. McKnight, Orion's co-founder and president, said, however, "We will complement the Intelsat service." The satellite service is intended primarily for the transmission of video and computer-data traffic rather than telephone calls, and "we don't see where Intelsat can cope with the increased demand in video traffic," McKnight said.

Pending FCC approval, Orion hopes to have its satellites launched by 1987. They are being pre-sold to potential customers like pieces of prime real estate in outer space. "We're treating the [communications] transponders like condominiums," McKnight said. He claims that Orion already has letters of intent from several Fortune 500 com-

See ORION, B2, Col. 1

New Washington Firm Plans Satellite Venture

ORION, From B1

panies. McKnight estimates the system will cost $230 million. The company has filed a launch application with NASA.

"What is being undertaken on the international level is the equivalent of what is being done domestically," said Gustave M. Hauser, formerly head of Warner-Amex Cable and now an Orion director, referring to the spread of private satellite communications systems in this country. Hauser said that the willingness of European countries to begin deregulating their telecommunications systems makes the kind of service Orion hopes to offer both politically and commercially feasible.

According to McKnight, Orion is negotiating for access with several European PTTs (the government telecommunications agencies) and is close to a deal with Mercury Inc., a British version of MCI Inc., a Washington-based long-distance, low-cost telephone service. McKnight also says that several European and American video companies are intrigued by the idea of transatlantic television programming. He is a lawyer who used to work with the White House Office of Telecommunications Policy.

The real obstacle to Orion appears to be regulatory rather than technical. "Orion is presenting an interesting proposal, and we will look at it with the overview of its consistency with the Intelsat agreement," says Willard Demory, assistant chief of the FCC's Common Carrier bureau. Article XIV of the agreement effectively prohibits the creation of independent satellite services that would interfere with the technological or financial health of the existing Intelsat consortium. Sources said that Intelsat members would consider Orion a threat to the status quo.

However, several British companies hope to launch Unisat, a private service similar to Orion's, by 1985. Britain is a major member of Intelsat. Comsat, America's representative on Intelsat, issued a statement saying "it would be premature to take a position" about the Orion proposal.

Wall Street Journal, March 14, 1983, Page 14.

Permission to Launch Satellites for TV Use Sought by New Firm

By a WALL STREET JOURNAL *Staff Reporter*

WASHINGTON — Orion Satellite Corp. said it filed with the Federal Communications Commission for permission to launch several satellites that primarily would be used to distribute television programming material.

Thomas McKnight, a Washington attorney who heads newly formed Orion, said the proposed system wouldn't compete with the Intelsat satellite communications network serving 106 member nations but would supplement that network's services.

Officials of Communications Satellite Corp., which owns 24% of Intelsat, couldn't be reached for comment over the weekend. But sources said the company could be expected to oppose the Orion application on the ground that Intelsat was established to serve as the sole world-wide telecommunications network.

Assuming that the application is approved, Mr. McKnight said he has "reasonable assurances" from several sources that they will be able to raise the nearly $230 million necessary to start the new system. Mr. McKnight said he has several important backers in the project, including Gustave Hauser, former chairman of Warner-Amex Cable Communications Inc., a joint venture of Warner Communications Inc. and American Express Co. Mr. McKnight has a background in cable television and, before establishing Orion, was vice president of telecommunications development for Gannett Satellite Information Network, a unit of Gannett Co.

Mr. McKnight said Orion hopes to launch its first satellite at the end of 1986 to serve most of Western Europe and the East Coast of the U.S. Customers could include broadcasting companies, multinational companies and others interested in transmitting data.

Multichannel News, March 14, 1983 at Page 1

New Satellite System To Link U.S., Europe

By Lucy Huffman
Washington Bureau Chief

WASHINGTON, D.C.—A satellite firm here with backing from well-known cable TV executives announced plans last week to establish a satellite link between the U.S. and Europe for use by large business and video entertainment customers.

The company, Orion Satellite Corp., said it would apply to the Federal Communications Commission for permission to launch two high-powered, high-capacity birds beginning in late 1986. To be positioned over the Atlantic Ocean, transponders on the satellites would be available for sale or lease to large private users on a non-common carrier basis. Start-up costs for the system are pegged at $230 million, but there are no estimates yet on how much the service will cost customers.

According to company officials, the system is intended to compete directly with Intelsat, the only global satellite consortium whose chief sponsor is the U.S. If the Orion system is approved, users needing an international satellite connection will no longer have to contract with Comsat, the U.S. representative in Intelsat, to make an overseas link.

Among the company's backers is former Warner Amex Cable chief executive Gustave Hauser, who said the idea for the system was prompted in part by a developing European market for American TV programming. That market is expected to take off as European governments relinquish control over television and as privately owned and programmed cable systems are established.

"The system will be for satellite programmers who want to send MTV to Europe, to name one of my favorites," said Mr. Hauser. Other typical customers, he said, might include "an IBM or GE" with large overseas communications needs.

Discussions with major users are underway, he added. "If the FCC says yes, there'll be customers."

President and founder of Orion Satellite is Thomas McKnight, a Washington consultant. Investors include John Saeman, chief executive of Daniels & Associates, Frank Drendel and John Puente of M/A-COM, and Orion partner Chris Vizas. The Centenial Fund, a Denver venture capital partnership set up by Daniels, is financing the venture.

According to Orion, the satellites will be powerful enough to reach from eastern U.S. and Canada to Western Europe using 7.7-meter uplink antennas and 3.5-meter receive antennas. □

Washington Report

Arthur Hill
Washington Bureau

Comes The Hunter

Suddenly, after months of comparative inactivity on the satellite communications front, Washington has become a battleground over who will dominate the lucrative communications link between the United States and Europe. At issue is whether the FCC (and the U.S.) should allow private carriage of satellite communications over a space segment whose capacity will be sold to users. At stake, some believe, is the continued financial integrity of the world's primary satellite communications system, Intelsat.

Last March, the principles on a here-to-fore small telecommunications consulting firm headed by a former Ford White House staffer sprung a surprise on the FCC by submitting what is believed to be the first application for an international, privately-owned satellite system. The company, Orion Satellite Corporation, applied for Commission approval to construct and operate a private international satellite system linking Western Europe and the eastern half of the U.S. The owner of the three satellite, 66-transponder system will sell capacity, presumably to the highest bidders.

Tom McKnight, president of Orion, indicated in his application and in an interview that interest in the European community for his proposed service is strong. In addition to attracting the interest of major U.S. backers, he has received conditional commitments from major financial concerns in England. The British government at this point is preparing to authorize construction of major new cable and DBS systems.

Perhaps surprisingly, McKnight says his proposed service will likely become a major conduit for video entertainment services — not only from the U.S. to Europe, as most might suspect — but the other way around. "In Europe, we see a programming hole," he says. "There is the suggestion that television is beginning to awaken to the medium of plenty there."

But McKnight adds that programmers on the Continent see in Orion the opportunity to gain access to the demonstrably lucrative North American market. These interests lust for the 83 million American homes with over-the-air television, as well as DBS, cable, and other new forms of media.

Using the proven U.S. market as a lever to provide programming services to Europe is a strategy which Orion is betting will appeal to European programmers. He believes they will use U.S. dollars to help underwrite startup costs for sales and distribution throughout nations across the Atlantic.

Perhaps more importantly, however, is the approval for his project which McKnight — at least for the moment — expects to receive from European governments, which have also commited their resources to the development of Intelsat. Competition for the lucrative Atlantic routes is not new for the major international carrier, which is currently contending with Great Britain's proposed Unisat system.

But for reasons unknown, Orion's proposal seems to have struck a particularly raw nerve with Intelsat and with its American Signatory, Comsat. Shortly after Orion submitted its application to the FCC, Comsat's President, Joseph Charyk, told the press the proposal "could seriously economically harm developing countries and their ability to have communications at an economically affordable cost." Later, Intelsat's Joseph Pelton, a spokesman for the normally reticent international consortium, fired a far more angry shot. "Based on the information we have, it would be in violation of the Intelsat treaties."

But would it? The treaties say that for purposes of developing international communications, entities proposing to offer **common carrier** space facilities must seek international approval to determine whether the proposed system would cause economic or technical harm to Intelsat. The key here is common carriage. Orion is **not** applying for approval as a common carrier. It is a private system which proposes to sell, not lease, its capacity.

The Orion application, then, appears to be taking advantage of a loophole which developed as a result of an expanding technology and industry. The FCC's initial response? "Cute," a spokesman said.

But even if the Orion application survives on a technicality, McKnight believes his system will not provoke a new kind of space wars. "We're not cream skimming," he says in answer to arguments that the Atlantic market, because of high usage, helps underwrite the less-travelled sections of the globe. "European governments are going to own the transmission links on the ground. "They could tariff our use of it."

Another option is for Intelsat, which up to now has borne all of the costs of constructing and launching its own satellites, could simply buy the capacity on Orion's birds. McKnight only smiles at this option. Intelsat has no comment.

Ultimately, however, McKnight believes Orion's entry into the marketplace will expand the international video market for satellite communications users. He may be right. Experience with deregulation of the telephone and cable industries has shown that the marketplace tends to expand to meet increased capacity. In telecommunications, there may be no bounds on the need to reach out and touch someone.

Worried about the price of a plane ticket to Montana? Well, your next worry might be the cost of a phone call to Chad.

Competition comes to Comsat

By Pamela Sherrid

REMEMBER THE HOTTEST stock of 1964? Communications Satellite Corp. went public at $20, and buyers who ordered 100 shares received only 3. A unique creation of Congress, the Washington, D.C.-based company enjoys a commercial monopoly on satellite communications with foreign countries. Within two years Comsat shares had risen to $71 on a price/earnings multiple that defied gravity.

Unfortunately, the riches that early investors anticipated never really came. Though Comsat remains a conceptual favorite, its stock recently sold for just $68, down from an all-time high of $92 last fall. The recent slide began shortly before the company announced plans to sell $78 million worth of stock, its second-ever equity offering.

Joseph Charyk, chief executive of Comsat Corp.
How long will his monopoly game last?

Comsat netted $43 million last year on sales of $410 million, but it needs more money for a bold expansion plan that has lots of shareholders worried. Joseph Charyk, an aeronautical engineer who has run the company since its birth, is committed to two costly endeavors: Satellite Business Systems, a partnership with Aetna and IBM that provides communications services to large corporations, and a scheme to use satellites to beam television programming into homes.

Sure, these diversifications are risky and already losing money. But by focusing on them, analysts miss more troubling problems in Comsat's basic business. Historically, Comsat's main worry was to keep its rate of return *down*—below 20% in recent years—to avoid arousing the Federal Communications Commission. But new technology makes Charyk's international satellite business look a lot less like a natural monopoly.

The AT&T settlement, meanwhile, resolved many domestic telecommunications issues, and Reagan Administration deregulators are looking for new reforms. Comsat is a tempting target. "The international scene looks like the domestic one ten years ago, when MCI was getting started," says one industry expert.

To understand what's at stake, you need to know more about Comsat's history. The company was granted its monopoly as part of a Kennedy Administration plan to set up a global communications network called Intelsat. It is now a consortium of 109 countries, praised as one of the few successful multinational organizations. Ownership in Intelsat is proportional to use, and Comsat owns 24%. That means the company actually depends on two monopolies: its own U.S. access to Intelsat and Intelsat's position as the only international satellite network outside of the Soviet bloc.

First things first. Comsat's customers, carriers like AT&T, ITT and RCA, have never been happy about its privileged position. No wonder. Look at the $390 a month that Intelsat charges Comsat for a satellite circuit, vs. the $1,125 a month that Comsat charges them. There are earth station and other costs in that gap, but "That's still a heck of a markup," says Frank DeRosa, executive vice

president at RCA Communications.

Last August the FCC changed the rules by allowing Comsat to become more than a "carrier's carrier" and to market directly to end-users. While Charyk isn't interested in selling to the man in the street, he might want to serve big customers like the Pentagon. The bad news for Comsat, however, is that the FCC usually follows a tit with a tat.

Charyk is gearing up to protect his turf—especially satellite capacity, his most profitable business. For one thing, Comsat argues that multiple access to Intelsat satellites runs contrary to an international agreement. But that case is weak. Already the U.K., one of the few countries to share the U.S.' pro-competition attitude toward telecommunications, has authorized competing Intelsat service.

What about competition to Intelsat? Regional satellites are already up over Southeast Asia, and Arabsat and Eutelsat are on the way. "Intelsat hasn't dared to reject these proposals for fear it would face open defiance," says one consultant. But a private Japanese study of a network linking Japan and the U.S.' West Coast has finally stirred strong language. "That would be the first step toward a balkanizing of the world's communications," says Joseph Pelton, assistant to Intelsat's director general.

Diplomatic pressures may limit such government initiatives. But they may not be able to stop eager entrepreneurs, such as those at newly founded Orion Satellite Corp. It hopes to raise $230 million for private satellites to link North America and Europe *(see p. 110)*. Orion's proposal brings up issues similar to those involving AT&T's monopoly by offering rate cuts of up to 50% for big customers. "That would be detrimental to the system as a whole and especially to developing countries," says Santiago Astrain, the Chilean who is Intelsat's director general.

If the diversification works, Charyk will look doubly smart: He got Comsat's money out of the international satellite business while the getting was good.

This sounds a lot like the folks in Montana who worry about reduced air schedules and rising telephone bills. Remember that the U.S. set up Intelsat's cross-subsidizing system to help the Chads and Upper Voltas of the world. On the other hand, the State Department is already looking at that policy in light of rival regional networks. "We don't want to support Intelsat and suddenly find that the other industrialized countries throw in the towel on it," says one official.

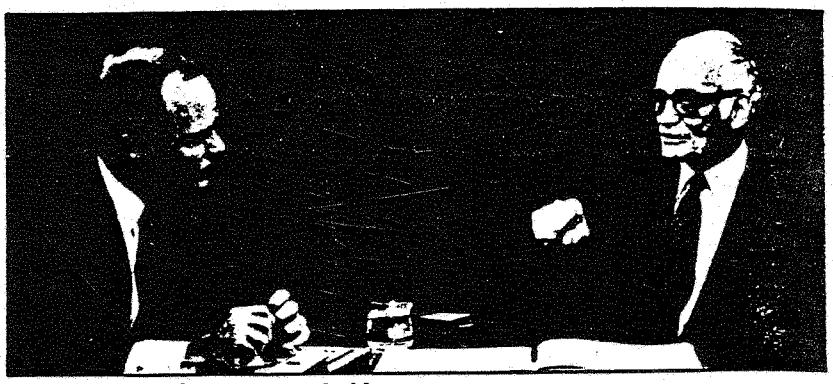
How will all these conflicting pressures be resolved? Some experts think the writing is already on the wall. "Given the proliferation of regional systems and technological advance, the Comsat-Intelsat monopoly is just not sustainable," says Eli Noam, a telecommunications economist at Columbia University.

With those prospects, Comsat's diversification looks even more ambitious. Most of its $200 million contribution to Satellite Business Systems, the joint venture with IBM and Aetna, came from retained earnings and is already out the door. But Comsat is counting on cash flow from its basic business later in this decade to help pay for its heavy commitment to distributed broadcasting. Even if Comsat succeeds in finding a 50% partner, the burden could come to $300 million.

That money may be hard to come by, if communications price wars break out in the skies. Then again, if Comsat's diversification works, Joseph Charyk will look doubly smart: He got Comsat's money out of the international satellite business while the getting was good. ■

Goldwater defends cable bill

Arizona senator foresees approval of S. 66 and television proposal



Craig Leddy

Brian Lamb and Sen. Barry Goldwater

WASHINGTON—Sen. Barry Goldwater (R-Ariz.), appearing on an April 25 C-SPAN call-in show, said he hopes the full Senate will approve his cable bill, S. 66, within two weeks. He also predicted that the Senate would be televised within six months.

Regarding a Senate vote on S. 66, Goldwater said, "I would hope we could have that legislation up within two weeks." Goldwater said the bill was not designed to cater to the interests of the cable industry or the cities, but that it would enhance the growth of cable television service. "It was written to help the American television viewer to get a better opportunity to see what's going on in the country," he said.

In an interview with *CableVision* following the program, Goldwater said efforts by dissenting city cable administrators to amend or thwart the bill would have little impact. "We spent six months working with the cities and working with the cable industry," the senior Arizona senator said. "We reached what I would call a gentlemen's agreement, but some of these groups are not acting like gentlemen."

Regarding the cable bill's chances of success on the House side, Goldwater noted that House Telecommunications Subcommittee Chairman Tim Wirth initially was apprehensive about city/cable legislation. But, he said, "I think Tim will come along."

Goldwater told C-SPAN viewers that he had opposed the idea of televising the Senate until he found that the *Congressional Record* had altered one of his speeches. "When I found the *Record* was not honest, I said, 'Let's let the American public see us.' "

Goldwater, 74, acknowledged that he is an avid cable viewer and a fan of C-SPAN. "I get a kick out of cable," Goldwater said, adding that it allows him to watch bullfights, boxing matches and other favorite sports. He also watches House proceedings on C-SPAN. He said, with a smile, "I can only stand it so long, but I like that it's available."

Goldwater has cable at his home in Scottsdale, Ariz. When C-SPAN President Brian Lamb asked if he owned a satellite dish, the senator said he was building one, "but my wife is raising all sorts of Cain because it's too big. I'm making another one but my wife doesn't know it yet."

Orion responds to critics

Red tape multiplies as separate agencies begin independent inquiries

WASHINGTON—Orion Satellite Corp.'s hopes for the construction of a privately owned trans-Atlantic satellite link have hit what appears to be an expanding wall of red tape. In the past few weeks, ComSAT, the Communications Satellite Corp., filed with the Federal Communications Commission a petition to deny Orion's request for permission to extend private satellite link-up service from the U.S. to most of Western Europe. In addition, AT&T Long Lines and RCA Global Communications filed comments, which essentially questioned, without directly challenging, the Orion petition on policy grounds and asked for a notice of proposed rule-making to be initiated. Also, the Orion plan has come under scrutiny by a panel of representatives from 14 separate federal agencies, including the State Department, the Department of Defense and the National Telecommunications and Information Administration, to advise the FCC as to whether the Orion proposal conforms to national security and foreign policy concerns.

Now awaiting a report from the so-called Senior Interagency Group on International Communications and Information Policy, Orion has filed the first in what promises to be an extremely long series of reply comments, responding initially to ComSAT, AT&T and RCA.

One of the principal arguments espoused by ComSAT in opposing the Orion petition is that the proposal, in fact, duplicates services already provided by INTELSAT and that the Orion application should be denied as being "inconsistent with the U.S. commitment to the INTELSAT system."

At the same time though, ComSAT says, "We recognize that Section 102(d) of the Satellite Act leaves open the possibility of the creation of additional communications satellite systems. But by its terms, Section 102(d) permits additional systems only if required to meet unique governmental needs or if otherwise required in the national interest. We submit that any application to provide international satellite communications service separately from INTELSAT must, as a threshold matter, meet this statutory standard."

According to Tom Keller of the Washington law firm Verner, Liipfert, Bernhard and McPherson, representing Orion, the company can meet that test and, in fact, show that the services to be rendered by Orion are complementary to and not competitive with ComSAT and INTELSAT. As Keller explained, the benefits of privately owned communications systems already have been demonstrated to the FCC, at least domestically. In the FCC's recent transponder sales decision, for example, the commission itself articulated specific public benefits that would flow from the opportunity of users to own transponders.

"Orion's position," Keller said, "is that if that kind of opportunity is in the national interest with respect to domestic users, it follows logically that it is in the national interest for the same opportunity to be available for international users."

One question that this provokes, however, is the possible impact Orion's proposal will have on INTELSAT—if the proposal is successful or if it's not. Concern over the continued viability of INTELSAT was voiced, for example, by AT&T, which, in its comments, said Orion "should be expected to bear the full entrepreneurial risks and rewards associated with the success or failure of its proposal. If it grants Orion's application, the commission should make it clear that Orion's venture must succeed or fail on its own merits. Specifically, the commission should state clearly that if Orion's perceived market does not develop as Orion expects, the commission will not entertain any request by Orion to compel common carriers to use any spare capacity in its system. To do otherwise would be to insulate Orion from the risks of its proposed business venture."

The Orion project, introduced in March of this year, proposes the private sale and lease of transponder space on a non-common-carrier basis.

—Gary Witt

BusinessWeek
AUGUST 1, 1983 A McGRAW-HILL PUBLICATION

File Orion Clippings

A STORM THAT COULD SNAP INTELSAT'S MONOPOLY

ORION'S MCKNIGHT AND VIZAS WANT TO LAUNCH TWO SATELLITES OVER THE ATLANTIC

From the beginning, overseas communications via satellite have been controlled under treaty by the International Telecommunications Satellite Organization (Intelsat), a consortium of 109 nations. Now, Intelsat's 18-year monopoly—and U.S. international telecommunications policy in general—is being challenged by two U.S. companies. At issue is whether the U.S., which is opening much of its domestic communications market to competition, should be allowed to export that competition.

The controversy started in March, when a pair of communications lawyers, Thomas K. McKnight and Christopher J. Vizas, founded Orion Satellite Corp. and asked the Federal Communications Commission for permission to launch two satellites over the Atlantic that would relay signals between the U.S. and Europe. And in July, TRT Telecommunications Inc., an international carrier owned by United Brands Co., said it will ask the FCC this month for permission to place two satellites over the Atlantic.

HEARINGS DUE. A quick resolution is unlikely. The White House has told the FCC to hold up its decision until an Administration position is formulated. The satellite monopoly needs to be reevaluated because of the explosion of new technology in satellite communications since the creation of Intelsat in 1965 and since the treaty was ratified by the Senate in 1971. But because no single official is responsible for U.S. policy in international communications, a top-level interagency committee headed by the State Dept. has been formed to advise the FCC. And Senator Charles H. Percy (R-Ill.), chairman of the Senate Foreign Relations Committee, plans a round of hearings on the issue in early fall.

Intelsat obviously wants to keep things as they are. All 109 of its members—including the Communications Satellite Corp. (Comsat), the U.S. partner—have voted to oppose the proposed maverick systems. One reason is that the Intelsat monopoly is so lucrative. Intelsat's 16 satellites brought in $310 million last year, and revenues are expected to hit $600 million by 1985.

'SKIMMING CREAM.' Comsat also has a big stake in blocking Orion and TRT. It owns 24% of Intelsat and derived $250 million of its $409 million operating revenues last year from resale of Intelsat phone circuits. Comsat Chairman and Chief Executive Joseph V. Charyk says that the Orion plan is "designed to skim the cream" off the transatlantic communications business.

The big U.S. communications carriers, although said privately to favor competition for Comsat and Intelsat, are not taking sides publicly on the Orion application. But William G. McGowan, chairman of MCI Communications Corp., favors giving the proposed rivals the go-ahead, saying that "they would make the other suppliers [Comsat and Intelsat] be more competitive."

RESTRICTIONS. Both Orion and TRT officials contend that their systems would not be in conflict with U.S. international telecommunications policies. McKnight and Vizas think they can squeeze their two-satellite plan through by not competing directly with Intelsat. Instead, Orion would sell privately its 22 transponders, letting the owners determine their use. Orion would merely make sure that the satellites worked properly. McKnight, Orion's president, claims that he already has more than enough potential buyers to make the $230 million deal profitable. "We've had expressions of interest from almost every video organization," he says.

Even if the FCC approves the Orion and TRT systems, however, the agency could impose restrictions that would, for example, limit the uses to which the satellites could be put. "I'm optimistic we will get approval," says Vizas, "but the critical question is what kind of restrictions will be imposed on us."

The possibility of new competition already appears to be shaking up Intelsat. In January the consortium will begin offering a new International Business Service designed to permit companies to set up their own private international communications networks. Whether or not the two competitors are launched, H. William Wood, the consortium's deputy director general for operations and development, maintains that "Intelsat is going to become aggressive in the services it will offer." ■

CBS/BROADCAST GROUP

CBS Inc. 51 West 52 Street
New York New York 10019
(212) 975-8828

Roger D Colloff Vice President
Policy and Planning

Dear Mr. Tricario: August 8, 1983

CBS has reviewed the Orion Satellite Corporation applications for authority to construct three satellites, two of which would be lauched and injected into geostationary orbit at points which would permit spot beam illumination of portions of the North American Continent and Western Europe. Of particular note is Orion's proposal to operate the system as a private communications facility and to sell transponder capacity.

Based upon current and projected satellite capacity requirements for transAtlantic delivery of news and program material, CBS has entered into a five year, full period lease of Intelsat transponder capacity for transmission of video and associated audio signals between the United Kingdom and the United States. However, due to current transponder capacity limitations in the Intelsat system, that leased service is fully preemptible by Intelsat. In addition, projected growth in voice and data traffic will seriously limit the Intelsat capacity available for wide band video and associated audio transmissions at affordable prices in the future. Indeed, there is no assurance that the Intelsat system will have sufficient transponder capacity to accommodate the growing wide band requirements of users like CBS as the five-year leased service expires. The Orion proposal addresses that problem, offering a reasonable alternative for the future. In fact, the Orion system may well reduce the capacity requirements of Intelsat and permit greater efficiencies for Intelsat and the users of international satellite circuits as well. For these reasons, CBS believes that the Orion Satellite application has merit and that it deserves serious consideration by the Commission.

Very truly yours,

Honorable William J. Tricarico
Secretary
Federal Communications Commission
1919 "M" Street, N.W.
Washington, D.C. 20554

bcc: P. Jones, J. Parker, G. Vradenburg, D. White

Turner
BROADCASTING SYSTEM, INC.
1050 TECHWOOD DR., N.W.
ATLANTA, GEORGIA 30318

TERENCE F. McGUIRK
VICE PRESIDENT
SPECIAL PROJECTS

(404) 898-8718

March 17, 1983

Mr. Thomas K. McKnight, President
Orion Satellite Corporation
2000 L Street, N.W.
Suite 200
Washington, D.C. 20036

Dear Mr. McKnight:

Cable News Network (CNN) understands that Orion Satellite Corporation (Orion) intends to file an application with the Federal Communications Commission for authority to construct, launch and operate communications satellite facilities for communications between the United States and Europe. It is our further understanding that the target launch date is late 1986, and that Orion will operate the system on a non-common carrier basis by means of transponder sales or similar arrangements for the exclusive use of the space segment by users. Access to the transponders will be through user-owned earth stations.

We believe that Orion's proposed system will offer significant advantages that will be highly beneficial for CNN in terms of our projected international communications needs. Accordingly, CNN would be interested in purchasing one or more of Orion's transponders. To this end, CNN agrees to enter into negotiations with Orion for purposes of reaching a definitive agreement regarding the purchase of one or more transponders. Such an agreement would encompass all relevant factors regarding CNN's purchase of transponder capacity, including, but not necessarily limited to, price, signal standards, preemptibility, down payment, system maintenance fees, payment terms, etc., and would be expressly conditioned upon Orion's receipt of all necessary authorizations to construct, launch and operate its system.

We look forward to further discussions with you.

Very truly yours,

CABLE NEWS NETWORK

By Terence F McGuirk

BANK OF AMERICA

INTERNATIONAL INFORMATION TECHNOLOGIES

LLOYD R. ISAACS
Vice President

August 24, 1983

Mr. William J. Tricarico
Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Dear Mr. Tricarico:

Bank of America, a leader in worldwide banking, requires considerable amounts of international telecommunications capacity, and we expect that our needs will grow significantly over the next decade. Effective, efficient international financial services depend on effective and efficient telecommunications. Without a range of available facilities, both cable and satellite, the movement of information would be critically hampered. During the next decade, the role of telecommunications in international banking will become even more critical. New techniques and facilities will offer important advantages, particularly to heavy users.

Bank of America has extensive experience with both international cable and satellites. Each does a creditable job. Current developments in United States domestic satellite telecommunications, however, demonstrate the limitations of existing international cable and satellite offerings. Satellite telecommunications can be far more effective and responsive to user needs than the services provided by the existing international telecommunications structure. One such alternative is embodied in the proposal by Orion Satellite Corporation. Orion would offer Bank of America the opportunity to own ground and space equipment for telecommunications to and from Europe. It will permit the bank to communicate directly with its offices and facilities through user-owned, on-premises facilities, relieving administrative burdens and providing unprecedented flexibility and reliability. Naturally, for a variety of reasons, we would continue to use the public network services provided by existing undersea cables and satellite facilities.

Bank of America supports the concept of competitive offerings in the international arena. Recognizing that telecommunications is a resource upon which other, and ultimately more important, economic

activity depends, it is important to ensure that diversity and alternatives in facilities and services are promoted for the benefit of a wide and varied range of users. For that reason, the Bank believes it important to enable heavy users to expand their telecommunications capabilities.

Sincerely yours,

Lloyd Isaacs

ORION STUDY CHALLENGES INTELSAT CLAIM THAT HEAVY-ROUTE TRAFFIC SUBSIDIZES THIN-ROUTE

Orion Satellite Corp. has submitted to the Federal Communications Commission and the State Department copies of a consultant's report challenging the claim by International Telecommunications Satellite Organization officials that, under Intelsat's rate averaging policies, heavy-route traffic, such as that across the Atlantic Ocean, subsidizes thin-route traffic.

The Orion study by Dale N. Hatfield Associates of Boulder, Colo., is based only on public documents, such as Intelsat annual reports and publications, reports to stockholders by the Communications Satellite Corp., Comsat reports to the executive branch and Congress, and articles in the trade press. Its authors note that the public information allowed "reasonable, if not definitive, analyses of the subsidy issues" and that a definitive analysis would require route-by-route comparisons of Intelsat cost and revenue data to which they do not have access.

By extrapolating from the public data available, and making several admittedly arbitrary assumptions about such matters as the distribution of Intelsat's net investment among the three ocean regions it serves, the consultants conclude that "the analyses failed to substantiate the claims Intelsat has made regarding inter- and intraregional subsidies," and that access to more detailed data probably would not change their conclusion.

Specifically, the report concludes that all three ocean regions' revenues exceed their expenses and depreciation on plant and equipment "by a wide margin," and that a subsidy, therefore, could only be in the form of differential rates of return on investment among the regions. Using 1981 Intelsat reports of a 13.9% return on net investment, the report calculates regional rates of return of 12.7% for Atlantic, 12.9% for the Indian, and 46.2% for the Pacific, and concludes the Pacific region was subsidizing Atlantic by 1.2% and Indian by 1%.

The preceding analysis depends on one critical assumption--that almost all of Intelsat's depreciation of space segment investment for 1981 should be allocated to Atlantic because service to Indian and Pacific regions in 1981 "was provided primarily by older satellites, and in the case of the Pacific, by four satellites which had reached the end of their design lives." The depreciation figures used are: Atlantic--$252,540,000; Indian--$52,340,000; and Pacific--$2,400,000.

An alternative analysis, using figures allocating net investment on an original book cost basis for usable plant and equipment, generated returns on capital of 15.8% for the Atlantic, 16.4% for Indian, and only 6.8% for Pacific--which the study says yields interregional investment return subsidies of 7.1% to the Pacific. On an annual basis, the study says, that percentage amounts to $13,700,000, or "just under 5.5% of Intelsat revenues for 1981."

In a more general discussion of possible subsidy factors, the report suggests that "users that are subsidized may not need to be" and that "signatories that may warrant a subsidy may not be receiving one. In this regard, signatories with low traffic loads typically utilize standard B earth stations which require the payment of a 50% surcharge for every circuit leased. Yet, these signatories often are disadvantaged nations, which, arguably, are most deserving of a subsidy."

On intraregional subsidies, the study says that data on spectrum utilization and the incremental costs of satellite use necessary for an analysis "are, by and large unavailable." In a general discussion, however, it points out that claims of large users subsidizing small users could be supported by Intelsat's practice of charging only by individual circuits, rather than transponders, because transponders devoted to multicarrier use may provide only as few as 336 circuits, while single-carrier transponders may have a capacity of 900 circuits.

The report goes on to conclude that no basis for a large user-to-small user subsidy claim exists, however, because no spectrum scarcity situation is present, and thus no alternate users for the multicarrier transponders exist. "If orbit spectrum is scarce," the report asserts, "it is probably due to Intelsat's restrictions on the users of its capacity and not on the availability of its capacity.

"Of the 15 in-orbit satellites in 1981, only two were devoted exclusively to international use, the remainder being used for a combination of domestic and international service, or domestic service alone. In addition, there were six other satellites, as of December, 1981, which were not providing service for various reasons, including relocation and use as spares. With all of this capacity not used for international service, the existence of a significant opportunity cost driven by inherent spectrum scarcity has to be questioned. . .

"By allowing carriers to lease capacity on a per-circuit basis only, a number of commercial applications are effectively precluded. . .If Intelsat were to market transponders for international use, by lease or sale, an entirely new source of revenue may be opened up. Or allowing users to bypass a host country's signatory representative by transmitting to a satellite directly may stimulate additional traffic by lowering costs."

-End-

AT&T SEEKS ONE-WEEK EXTENSION OF COMMENT DEADLINE ON ESOC OWNERSHIP SHARE DISPUTE

The American Telephone & Telegraph Co. has asked for a week's extension of the comment deadline, from Sept. 9 to Sept. 16, on a Federal Communications Commission notice of a disagreement between the Communications Satellite Corp. and RCA Global Communications on the manner by which a member of the Earth Station Ownership Committee may adjust its capital investment in ESOC to reflect more closely its actual use of ESOC facilities.

The FCC sought comment on the disagreement and the advisability of reallocating ESOC ownership shares on the basis of earth station capacity usage. AT&T said the issues relate to the docket 82-540 earth station ownership policy proceedings and Comsat's proposal for restructuring ownership (TR, Sept. 5), and that it needs "adequate time to study these complex issues."

-End-

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TRT TELECOMMUNICATIONS CORP. HAS ASKED THE FEDERAL COMMUNICATIONS COMMISSION to reject tariff revisions by Western Union Telegraph Co. (transmittal 8154) under which WU seeks to allow Infocom and Infomaster 300/1200 customers to transmit international telex messages without paying the telex tariff domestic rate component. TRT noted that the bureau already rejected a similar tariff revision, and that the bureau chief had refused a WU request for reconsideration (TR, Aug. 15). "Western Union has filed the current revisions, nonetheless, in the face of the rejection order," TRT said.

-End-

ternational Telecommunication Union's consultative committee on telegraph and telephone (CCITT). In August 1982, the U.S. sent an early version of NAPLPS to the CCITT as an "attachment" to its position. Following national approvals next month, the NAPLPS would be forwarded to the CCITT as final positions of the U.S. and Canada.

Separately, an international CCITT study group of videotex experts, meeting this summer in Tokyo, agreed to recommend that the CCITT develop a worldwide unified standard to facilitate interworking between the videotex systems of different nations. According to a cable sent to the State Dept. from the U.S. embassy in Tokyo in July, the July meeting "officially recognized that videotex services have been implemented in different countries and regions using regional data syntaxes referred to as Captain (Japan), CEPT (Europe) and NAPLPS (North America) which have an equal basis."

The international panel agreed that different countries should not be prevented from using different systems and that the amount of transcoding or conversion necessary between regional standards should be kept to a minimum, according to the cable. "It is important that the introduction of new functionalities, which may be identified as enhancements of videotex in the future, must remain possible," the cable said.

The conclusions of the experts panel will be considered next week at a meeting of a CCITT working party in Ottawa.

Generally, the U.S., Canada and Japan have pushed strongly for a system of interworking between various regional videotex standards. European administrations earlier suggested a single interworking data syntax.

INTELSAT RECONFIGURES TRANSPONDERS TO ENSURE OLYMPIC COVERAGE TO CUBA

Intelsat will satisfy Cuba's demand for transponder capacity to enable viewing of the 1984 Los Angeles Olympics, Intelsat announced last week. Intelsat reconfigured transponder usage (between telephone and video channels) to come up with the extra capacity, a spokesman said. Previously, Wold Communications had asked the FCC and the Treasury Dept. for permission to provide video channels for Olympic coverage via a domestic satellite based on the fact that Intelsat originally could not guarantee the coverage to Cuba (CI 9/2, p.11).

INTELSAT SUBSIDY OF POOR NATIONS A MYTH, ORION STUDY CLAIMS

A new study performed for Orion Satellite Corp. contends that Intelsat does not subsidize small users in developing nations, but in fact receives a "substantial" rate of return on investment in each region it serves -- Pacific, Indian and Atlantic Ocean regions. In particular, the study concluded that Intelsat's rate of return on investment for the Pacific region was almost 50% in 1981 and that there is no subsidy from Intelsat users in the Atlantic region to users in the Pacific and Indian regions.

Last March, Orion applied to the Federal Communications Commission for authority to construct and operate a private trans-Atlantic satellite system (CI Special Report, 3/11). Intelsat has vigorously opposed the Orion plan, arguing that it would "cream-skim" on Intelsat's lucrative routes, thereby forcing de-averaging and higher rates on thin routes in less-developed areas.

But the Orion study contends that Intelsat's rate of return on investment in 1981 was 12.7% for the Atlantic region; 12.9% for the Indian region; and 46.2% for the Pacific region.

Key factors, according to the study, are: Intelsat's practices of employing its most advanced equipment in the Atlantic region and its "older, technologically inferior plant and equipment" in the other regions; the possibility that the common practice of moving satellites can alter the space segment investment in a region, thereby shifting subsidies; and Intelsat's 50% surcharge to users with small traffic flows, who use inexpensive Standard B earth stations.

On the last point, the study noted that "many of the countries paying this surcharge are the disadvantaged nations to whom a subsidy should be directed. Assessment of the surcharge may well offset any subsidy that may exist because of Intelsat's

average pricing structure."

The study was sent by Orion to the FCC and the State Dept. In an accompanying letter to State's Coordinator for International Communications Policy Diana Lady Dougan, Orion Vice President Christopher Vizas accused Intelsat of embarking on new services in the North Atlantic that "may not represent the best allocation of Intelsat's resources." Vizas added that a more detailed analysis of Intelsat's route-by route costs and revenues should be undertaken. That information has not been made available by Intelsat or Comsat, he noted.

One Intelsat official offered an initial reaction to the study: "The study itself discussed its own arbitrary cost allocations between the regions. We believe that in a cooperative system....(where Intelsat members make various capital contributions) it's almost impossible to determine the existence of subsidies." Intelsat doesn't argue that one region is supposed to be subsidizing another region, but simply that thick-route competition will result in raising costs over the rest of the system, he added.

FCC UNCOVERS MORE INTELSAT DOCUMENTS IN REVIEWING M/A-COM FOIA REQUEST

The Federal Communications Commission this week partially granted a request by M/A-COM for access to all documents concerning the 1982 Intelsat Assembly of Parties meeting. M/A-COM originally made the request in October 1982, after which the FCC and the State Dept. released three documents: the report of the Intelsat Board of Governors to the Assembly of Parties; the reports of the meeting of signatories to the Assembly of Parties; and a report of the Intelsat Board of Governors concerning coordination of the Eutelsat system with Intelsat.

In April 1983, M/A-COM asked the FCC and the State Dept. to review their decisions, charging that the FCC had not responded to its initial Freedom of Information Act request in a timely fashion and that both agencies were withholding further documents.

In its recent review, the FCC found that although it had originally made "a reasonably thorough search" of its records, a second search "has uncovered 23 additional documents that are responsive to M/A-COM's FOIA request." Those documents, however, can only be released by the State Dept., the FCC said.

COMSAT TELEPORT EARTH STATION PLAN CREATES NUMEROUS POLICY QUESTIONS FOR FCC

Comsat's application to the Federal Communications Commission to construct and operate an international earth station at Teleport in New York City has begged the question of whether the facility should be considered as an earth station with a special purpose or one designed to access Intelsat's multi-faceted international business services, according to interviews conducted by CI last week. While the commission has considered special purpose earth stations as dedicated to one type of communications service, according to an attorney representing international communications users, the prospect of Intelsat's IBS will require the commission to reconsider that definition.

Another question is how the FCC should treat Comsat's application in light of the current earth station ownership proceeding (CC 82-540), according to an FCC source. In the past, Comsat has always asked the FCC for section 214 authority to build earth stations that would be jointly held by the Earth Station Ownership Committee. Now, however, Comsat wants to build the first earth station it will solely own and operate, the FCC source said. The FCC source added that, first, the commission is not sure whether it must entertain Comsat's application under the ESOC policy, and second, whether it must entertain applications to build earth stations at Teleport submitted by other international carriers.

The pressure to resolve this, and the other questions, may grow as other cities around the country contemplate building facilities similar to New York's Teleport in a bid to attract or retain information-intensive businesses. Already, Boston is busy planning a municipal "satellite uplink" facility, according to an official in the city's cable office. Later this month, the economic benefits to municipalities of

Washington Report

Arthur Hill
Washington Bureau

International Sat Wars Heat Up

"You better listen, Mel, you might learn something," Intelsat's Joe Pelton fired from the podium. "Not from you, Joe," retorted Mel Barmat, a leading figure in the latest bid to bring private enterprise to international space communications. The scene was a roundtable discussion on regional space systems, one of the SCUC panels which added a new dimension to corridor conversations about how hot it was in St. Louis last August.

The rare public outburst was only a small indication of how intense the battle for the lucrative trans-Atlantic space route has become in recent months. As of this writing, the struggle by private interests to compete with Intelsat has attracted the attention of Washington power centers which transcends by far the usual circle of regulatory and legislative interests.

Already, the U.S. Department of State has entered the fray, due in part to the review of international treaties which the applications for private satellite systems has prompted. State Department bureaucrats, as well as international specialists at the FCC and NTIA, must react especially carefully, however, in light of the attention the issue is receiving from no less a figure than the chairman of the Senate Foreign Relations Committee.

In a letter sent to Secretary of State George Schultz early last summer, Senator Charles Percy (R-Ill.) expressed his concern that fast-paced developments in the private sector could lead to a "breakdown in the international consensus" which has been a benchmark in the development of a viable global communications network. Percy also wondered in his letter whether U.S. and international bureacracies were inhibiting the effort of private development of telecommunications networks, not only in this country but especially in developing nations.

Percy said he wanted the State Department to conduct a major review of this country's international telecommunications policy, reviewing such important issues as whether Comsat ought to continue representing the U.S. at Intelsat and whether the treaty creating the International Telecommunications Union is still in the best interests of the U.S. While the Percy request gave no hint of his own views, it clearly plays into the hands of companies such as Orion Satellite and Barmat's newer International Satellite Inc., both of which have proposed private, trans-Atlantic systems. Both stand to gain from the governmental furor which such a review precipitates, although it might delay for months or even years the date on which either company could begin operations.

Meanwhile, Intelsat officials continue to be dismayed as to why the United States, which pioneered the concept of a single, global entity to promote, construct, and operate a satellite system for communications, seems now to have soured on the idea. "It was a brilliant and bold concept," Pelton said. "Intelsat can be and, indeed has been, favorably compared to the Marshall Plan." But just as a modern view of foreign aid is dramatically different from those who implemented the Marshall Plan nearly 40 years ago, so too has the perception of international communications changed. U.S. policy could change to accommodate the special interests of its own entrepreneurs. Such a change could lead to revisions in the treaties to which the U.S. is a party.

These changes in basic policy, however, need not result in a lessening of U.S. commitment to a global telecommunications system. If some nations, particularly those of the "Third World," once regarded telecommunications as a plaything of the affluent, they no longer hold to this view. One had only to listen to the views of Jamaica's Prime Minister, who spoke to the SCUC via satellite from Orlando, to understand that communications can play a vital role in the development of non-industrialized nations.

These views are reflected even in the halls of the World Bank, which has found that investments in telecommunications can measurably enhance national economies. A recently published World Bank book entitled **Telecommunications and Economic Development** concludes, "Internal financial rates of return attributable to . . . 12 recent telecommunications investment projects approved for World Bank support are expected to range between 11 and 35 percent, averaging 18 percent." The report adds that based on World Bank research, "In developing countries there is a large excess demand for telecommunications services, and the measurable rates of return on the investment required to provide those services is relatively high."

What may be emerging in the world today may be a new view of a global telecommunications structure, one which combines entrepreneurial talent with multinational cooperation. What could emerge from such a combination could be increased private investment in developing nations' communications structures led by U.S. private interests. This investment would, in turn, create greater demand for international networks. If such a scenario unfolds, everyone, including INTELSAT, will profit, leading some of us to predict that the debates of today will disappear in the wake of tomorrow's success.

10/22/83 Wash. Post D1

By Bill Snead—The Washington Post
Intelsat President Richard S. Colino is interviewed in his L'Enfant Plaza office.

Intelsat Head Hits 'Narcissism' of U.S.

By Michael Schrage
Washington Post Staff Writer

The next director-general of Intelsat, the global satellite communications organization, has sharply criticized the United States' handling of international telecommunications policy, suggesting that economic ideology was overwhelming foreign policy considerations.

Richard R. Colino, who is set to take over the international cooperative at the end of the year, complained about administration policy that he said encourages competition in international satellite communications, where Intelsat has had a monopoly since its founding 19 years ago.

"That is the narcissism of the United States," Colino said. "Everybody in this town forgets that there are 108 other members in this organization. It's ironical that the United States may be the country that politicizes Intelsat, which has been a triumph of both U.S. foreign policy and technology transfer" to underdeveloped nations."

Colino charged in an interview that the administration's push for increased competition could jeopardize Intelsat's future. "To the extent that people say, 'I have an economic philosophy—don't give me the facts,' we have a serious problem," said Colino.

The 109-nation International Telecommunications Satellite Organization's satellite network carries more than two-thirds of the world's global telephone traf-

See INTELSAT, D9, Col. 5

Intelsat Head Is Critical Of Communications Policy

INTELSAT, From D8

fic and virtually all of its international television transmissions.

In recent months, several companies—most notably Washington-based Orion Satellite Corp. and ISI, a subsidiary of TRT Telecommunications—have petitioned the Federal Communications Commission for permission to launch satellite communications systems for multinational businesses that could be competitive with Intelsat. To the surprise of many, the FCC agreed to consider the applications. Intelsat has vehemently opposed the petitions, saying that granting them would violate the Intelsat treaties signed by the United States.

Intelsat argues that such private services would be "cream skimmers," serving only the most profitable telecommunications routes, while Intelsat is under obligation to serve all nations by subsidizing costs. Colino said that competition would force Intelsat to raise its rates. He conceded that Intelsat's situation is analogous to that of the soon-to-be-divested AT&T in the trade-off between cost-based pricing and "universal service."

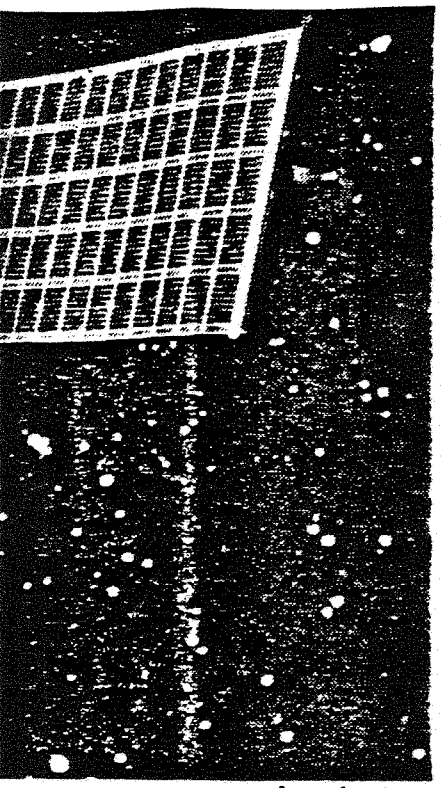
A State Department task force is exploring whether such private services are permissible under the treaties.

According to Colino, the problem is that the United States is trying to extend its stated policy of domestic telecommunications deregulation as supervised by the FCC into the international sphere. "We know what the predilections of the chairman are," said Colino, referring to FCC Chairman Mark Fowler's efforts for 'unregulation,' "and perhaps many of those ideas are exportable. But many of these discussions are taking place in the absence of a clear policy statement.

"... I would show interest in that deregulatory philosophy and that approach if its proponents really understood what Intelsat is doing—and they don't."

Colino argues that Intelsat is capable of offering all the satellite services its proposed competition could provide and that it recently began offering a new service tailored for businesses. "Intelsat could be totally responsive to those things down the road," he said. "We're trying to find new service categories and price accordingly."

"This should not be characterized as a 'competition versus Intelsat' situation," said Ambassador Diana Lady Dugan, who oversees the State Department international telecommunications task force. "They would like to see it cast in such a stark way that is, perhaps, inappropriate."



European Space Agency

dcasting; its center is 3.5 meters high
eters from tip to tip of its solar arrays.

International Satellites: Monopoly Under Attack

By Jonathan Miller

WASHINGTON — The global satellite-communications monopoly is under attack. For 20 years, the International Telecommunications Satellite, called Intelsat, has exercised virtually total control over international space communications.

Those communications have become very big business: Intelsat generates revenues of $400 million a year and carries two-thirds of all international telephone calls and almost all international television transmissions.

Nobody has questioned Intelsat's technical virtuosity, and many have admired the cooperative spirit in which Intelsat has conducted its affairs. But the organization is now in flux.

In recent months, several organizations seeking a segment of the growing international satellite market have challenged the monopoly of the U.S.-created Intelsat.

Earlier in October, the 109 member governments of Intelsat met in Washington where they confirmed an American, Richard Colino, as the new director-general of the organization. Mr. Colino has pledged to resist assaults on Intelsat's monopoly. The Intelsat governments also unanimously passed a resolution affirming a "single global satellite system." But there seems little doubt that major change is coming. The resolution by the top decision-making body may preserve Intelsat as the only system with global coverage — but it does not seem to inhibit the development of separate regional systems.

Strains in Intelsat have been developing for some time. One year ago, members of Intelsat disagreed sharply over the establishment of the European Telecommunications Satellite Organization, or Eutelsat.

The United States opposed this creation of Europe's national communications monopolies because it would compete with Intelsat for international traffic. The United States argued that such competition was incompatible with the basic Intelsat agreement, which the United States claimed established Intelsat as the sole global satellite carrier.

The dispute was settled with a compromise that allows Eutelsat to operate within Europe for five years, with possible extensions.

Additional challengers have threatened to try to compete directly with Intelsat in its most lucrative North Atlantic basin.

Two announced prospective competitors to Intelsat in the United States are the Orion Satellite Corp., a creation of several entrepreneurs from the cable television industry, and International Satellites Inc., primarily owned by TRT Communications, a subsidiary of United Brands.

There also are strong indications that British and Japanese industrial interests are interested in competing with Intelsat on both Atlantic and Pacific routes.

U.S. officials have not yet developed a clear position. "We do not think it would be appropriate to get into a protracted discussion [of Intelsat competition] at this time," said Ambassador Diana Dougan, director of international communications policy at the State Department.

Privately, other U.S. government officials complain that they have little evidence on which to base a policy. A Commerce Department official complained that economic analysis of the possible economic harm to Intelsat was lacking and said: "What we need are facts. So far, we haven't got very many."

The stakes are high. The international market for satellite communications services are expected to more than double to $10 billion annually by 1990.

Gauging likely economic harm to Intelsat is made complicated by unique characteristics of Intelsat's capital and tariff structures. But there is no question that membership in the Intelsat club is a good deal for the 109 national communications operators who participate. Most of the investment, $332 million in 1982, comes from the biggest countries, in relation to an ownership share based on each country's use of the system.

On the revenue side, Intelsat operates as a cooperative, charging satellite use rates to cover costs and to produce a return on investment to those who finance the system. In 1982, return on investment was 15.9 percent. Given growth in international communications (telephone circuits more than doubled between 1978-1982), some analysts believe that by 1987, Intelsat could be handling two billion telephone calls a year in addition to television and other leased services, and be producing a return on investment of almost 30 percent.

Intelsat's direct revenues account for only a fraction of the total expenditures on international communications links. By far the biggest component is derived from charges for circuits of national carriers. These markups can increase the price to end users of international circuits to 10 times the fee charged by Intelsat.

Multinational corporations in particular favor diversity of international facilities. Some of the biggest boosters of Orion and similar projects have been big U.S. banks and broadcasting organizations. Traditionally heavy users of international communications, they expect to depend even more heavily on such links in the future to tie together new generations of computers and to transport programs for new television services.

National prestige also is on the line. The Europeans and Japanese want to encourage their own space and communications industries. They see competition to Intelsat as providing an expanded market for their hardware. Some Europeans and Japanese want to end what they see as U.S. domination of the global communications infrastructure.

Potentially the biggest loser is the Communications Satellite Corporation, Comsat, the U.S. commercial participant in Intelsat. Comsat owns 24 percent of the global system and enjoys exclusive access from the

(Continued on Page 12)

Havens

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some public officials lack awareness of the broad
tions of such criminality.
danger of computer crime is that very clever people
lack of legislation or a contradiction between two
laws to do something with international implica-

(Continued on Following Page)

Global Satellites: End of Monopoly?

(Continued From Page 9)

'nited States to the Intelsat sys-m, under the terms of the 1962 'ommunications Satellite Act. urrently, virtually all Comsat's rofits are attributable to its inter-ational satellite franchise.

Comsat has been joined in its attle by a large number of com-unications authorities abroad, nown generically as post, tele-hone & telecommunications au-iorities, or PTTs. They see any ncroachment on Intelsat's monop-ly as a potential threat to their wn longstanding national control f communications.

Particularly outspoken in their upport of Comsat have been PTTs rom developing countries that ypically have not allied themselves ith the United States on interna-onal policy issues. The PTTs laim that if Intelsat, with its inter-ationally averaged satellite use ates, is weakened, then they will be orced to pay higher charges for nternational communications cir-uits.

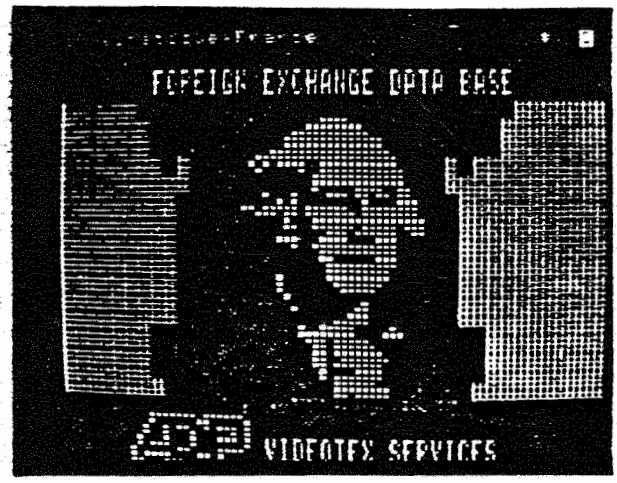
This central argument of the In-elsat supporters is in essence iden-ical to that advanced by American elephone & Telegraph Co. in the ays before it gave up attempting o defend its de facto monopoly on omestic U.S. long-distance com-unications. AT&T's claim was hat if competition were allowed, he competitors would take up lu-rative routes, while abandoning ural and remote communities that ailed to offer attractive profits. ranslated into international erms, Intelsat argues that competi-ors would be happy to serve the nited States, Japan and Europe, hile ignoring the needs of coun-ies like Sierra Leone, Jamaica and Malaysia.

According to Santiago Astrain, ho will retire as Intelsat's direc-or-general at the end of this year, if rion and other competitors are pproved, "the loss of large-stream affic would substantially reduce ntelsat's revenues . . . during a pe-od in which its capital costs would main fixed. The result of such a ourse of action would be the im-airment of Intelsat's ability to conomically provide service to the st of the world." Mr. Astrain's ccessor, Mr. Colino, expressed milar views, telling a recent meet-g of satellite communicators that ou don't need a degree from the ondon School of Economics" to e able to perceive the economic reat to Intelsat.

But Thomas McKnight, president of Orion Satellite, said that the Intelsat case is fundamentally flawed. "If the past is prologue, as it most likely will be, Orion's success will result in actually increasing the use and success of Intelsat." Mr. McKnight said that although AT&T's long-distance market share had declined in the United States with the authorization of competitors such as MCI Communications Corp. and GTE-Sprint, AT&T is carrying more long-distance traffic than ever because the entry of new systems stimulated the demand for communications and resulted in the introduction of new and profitable services. Mr. McKnight promised that entrants such as Orion would benefit users by providing more options and lower costs. He denied that smaller countries would be adversely affected, and said they would actually benefit, because "there's nothing to stop developing countries from taking advantage of these new systems."

Similar sentiments are expressed by some Europeans. In September, at the annual conference of the International Institute of Communications in Aruba in the Netherland Antilles, René Collette, head of the Communications Satellite Department of the European Space Agency, said that Intelsat's monopoly of trans-Atlantic space traffic was no more defensible than would be a monopoly of trans-Atlantic air traffic. And Andrea Caruso, secretary-general of Eutelsat, told satellite industry executives in St. Louis, Missouri, recently that if Intelsat faces economic harm, it will not be because of competitors, but because of Intelsat's own overly grandiose investment program, which now amounts to a cumulative investment in facilities of $2.3 billion.

Meanwhile, massive investments are being made to provide even more sophisticated, capable and economic communications systems. Recently, Intelsat announced a new range of international business services, which will allow users for the first time to gain direct access to Intelsat's satellites from antennas mounted on the roofs of office buildings. AT&T has been moving forward with plans to build an underwater fiber-optic cable between the United States and Europe that will provide the first real terrestrial competition to satellite links.



U.S. Market to Get Vide

By Gary Arlen

WASHINGTON — When Viewtron, Knight-Ridder Newspapers' $30-million plunge into electronic publishing, goes into service in the Miami area late this month, Americans will get their first commercial taste of videotex.

Nearly three dozen tests and market trials of videotex, teletext and similar services have been run in the United States since 1979. The activity mirrors that in Europe, where Britain's Prestel videotex system began operating in the same year.

Viewtron is the first U.S. effort that asks home users to buy a decoder and pay about $28 a month to get a package of information and services, such as electronic home banking and shopping and electronic mail with flashy computer graphics on a specialized home terminal.

Several similar projects are being readied in the United States: Times Mirror Co., another media conglomerate, is to launch its Gateway videotex project near Los Angeles next spring, and Keycom Electronic Publishing, a joint venture of Field Enterprises (a newspaper and television group), Honeywell Computers and Centel (a telephone and cable operating company), will start its Keyfax Interactive Information Service in suburban Chicago in April.

CBS, J.C. Penney, Citicorp and others are fine-tuning their own plans for videotex operations. Dow Jones, IBM, The Source and CompuServe have al business. And, most has established its cer operator, a role expec company.

Knight-Ridder and per publishers to bec eye toward setting up

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Most projects out government commu industrial sectors see ware they develop fo

The term videotex transmission system television sets linked

The writer, president of Arlen Communications Inc., a research firm, is editor and publisher of International Videotex Teletext News and TeleServices Report, newsletters based in Washington, and founder and of the U.S. Videotex Industry Association.

Major Losses Are Forcing Comp

By Theresa Engstrom

BOSTON — Growing revelations in the United States that unauthorized people including groups of teen-agers have gained access to supposedly secure computers have highlighted the issue of computer protection.

Until now, computer security experts said, it has been difficult to convince businesses that they needed to protect their data until a company has had a scare. "It usually takes a major disaster to make them aware of the issue," said Fred Tompkins, chairman of the American Society for Industrial Security.

"The biggest problem is convincing management that information is a commodity, an asset like drums of chemicals or copying machines," said Brian Hollstein, a member of the security group.

The banking and insurance industries are the most concerned. Both industries, with their huge data bases of financial and actuarial information, realize that all their assets may be at stake.

International banks as much as $40 billio electronic funds transfe few cases against bank ed.

"Banks' reputations confidentiality," said Grayson of the Bed International in "You're never going t newspapers that a ban seven-figure loss."

To guard their repu competitive market Grayson said, comp choose not to prosecut

The Economist | Television Digest

connections

world communications report

27 October 1983

Edited by Brenda Maddox and Jonathan Miller

International satellites

PTT daggers drawn for Orion

Intelsat fears that the deregulation contagion could spread from Washington and London to international communications. Its members are taking precautionary predatory steps.

Since the dawn of the satellite age in the 1960s, control of global satellite communications has been exclusively in the hands of Intelsat. This is the cartel of the world's post and telecommunications authorities (the PTTs) and kindred organisations such as the American Communications Satellite Corporation (Comsat) and British Telecom. Intelsat is now ferociously defending the lush monopoly which, on present trends, could generate as much as $10 billion a year in total revenues for its members by the end of the decade.

Enter Orion

The attack on Intelsat's monopoly comes from two American companies. Hoping to push the prevailing American deregulatory philosophy into the international arena, they have asked the Federal Communications Commission (FCC) for permission to put up their own satellites for transatlantic communications. Orion, the creation of well-heeled businessmen from the American cable television industry, asked the FCC first. Then along came International Satellites, primarily owned by TRT Communications, a subsidiary of giant United Brands (né United Fruit). Other competitors are in the wings. If the appropriate approvals are forthcoming, both in Washington and in London, Intelsat could face limited competition by 1986.

But Orion and International Satellites' struggle will not be easy. Intelsat's members will kill it if they can. This month Intelsat announced a new range of international business services which will allow users for the first time to send signals directly to satellites from small antennas on the roofs of office buildings. This is just what Orion proposes. But will Orion be able to

From the editors

This is the first issue of *Connections*, a newsletter to be published every two weeks by The Economist of London and the Television Digest organisation of Washington, DC. We are starting *Connections* because we believe that the deregulation story – the struggle of the world's telecommunications and broadcasting monopolies before the advance of technology – is too big to be confined to our respective publications. It needs space of its own.

Connections will not attempt a review of all the news of world communications (a dreary exercise, even if it were possible). Instead, it will present an international perspective on the main conflicts in policy and in investment which have emerged and show which interests are trying to get away with what. *Connections* will be thoughtful, concise and entertaining. We hope you will enjoy reading it.

Published by The Economist Newspaper Limited, 25 St James's Street, London SW1 1HG. Telephone 01-839 7000. Telex 24344

match Intelsat's prices? The rates Intelsat is asking for its new business services will nowhere near cover the cost of providing them. Of the $250m Intelsat will spend on them between now and 1990, it can expect to get only about $91m back.

The difference will be paid by all the worldwide customers who use Intelsat's existing monopoly services. This is just the kind of cross-subsidising to kill competition that brought about the break-up of the American Telephone and Telegraph Company (AT&T) in the United States. Unfortunately, there is no Judge Greene to cast a cold eye on monopoly in international communications.

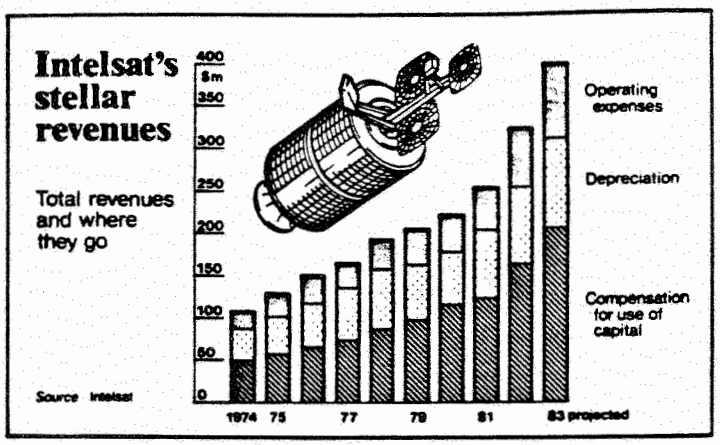
A very good deal

Nobody can argue that Intelsat has been anything but competent. With satellites over the Atlantic, Pacific and Indian Oceans, it has dramatically increased the supply of international circuits while bringing down their costs to the PTTs. And for all the PTTs membership in the cartel has been a very good deal. Most of the investment in the system, $332m last year, comes from the countries which are heaviest users of the system. Its direct revenues (see chart) come from tariffs charged to all users of the system. After expenses, profits are returned pro rata to the investors. And the profits are good. In 1982 Intelsat produced a return on investment of 14.9%, above its target. By 1987 Intelsat's return on investment could approach 30%.

For members, the benefits don't end here. On top of Intelsat's charges for using the satellite, each PTT in its home territory adds a local mark-up. This can increase the price charged to the customer by as much as 10 times and accounts for the bewildering differences in the price of international telephone calls which plague world travellers (who are usually hit still harder by the exorbitant mark-up that hotels pile on).

The case against competition

The defence advanced from Intelsat has a pious ring. Instead of voicing their fears of losing a juicy source of income, the PTTs are claiming that Orion et al are a threat to the Third World, which depends on Intelsat for international communications. For 'Third World' read 'rural poor' and you have the same moan made by the American Telephone and Telegraph Company (AT&T) before it gave up trying to hold its monopoly in the United States.



The attack sounds familiar too. **Mr Thomas McKnight,** president of Orion, argues that even though AT&T's share of the long-distance market in the United States has declined, it is carrying more long-distance traffic than ever. Competitors like MCI and GTE-Sprint have merely stimulated the demand. The same phenomenon could occur internationally. The Third-World countries, just like American consumers, might prefer to have the choice that alternative suppliers offer.

One ocean or three?

Intelsat, like its British and American representatives, may find a way to tolerate competition and dominate it too. The Intelsat Assembly of Parties has just voted unanimously to preserve the ideal of its founders: a single satellite system for the whole world. And its new director-general, **Mr Richard Colino,** has pledged to resist the efforts of competitors to carve a piece of Intelsat's pie. But nothing in the fine print of the resolution rules out Orion. All it does is preserve Intelsat as the only system entitled to have three-ocean, or worldwide, coverage.

The satellite rivals may be blinding themselves to where the true competition of the future lies. AT&T and a consortium of European PTTs are planning to build a transatlantic cable, using fibre optics. This will provide the first cable competition to match a satellite link's high capacity and ability to transmit television. Some people predict that the optic cable could yield communications circuits at a half the cost of equivalent satellite links. Maybe those who want to skim the cream from Intelsat should be looking not up but down.□

Japan

Thoughts of Chairman Shinto

Japan has decided that what's good for AT&T must be good for the Nippon Telegraph and Telephone Company. It plans to privatise NTT, split the local telephone companies from the national network and allow competing networks. NTT's chairman, Mr Hisashi Shinto, told Brenda Maddox why break-up is good for a monopoly.

'If we want to be competitive, we can't avoid it. The monopoly is the biggest hazard for the future development of telecommunications in Japan. We are not afraid of cream-skimmers. Our desire is that we should be reorganised so that we more freely as a huge private company, just like the Shell in London. In a privatised condition, we can diversify freely to utilise manpower. Without kicking out our colleagues (employees), we can help them expect a better life.

'Our prime minister initiated this reorganisation. It is just the same as Mrs Thatcher's. Otherwise, we will become like the Japanese National Railways – in such a bad condition nobody can help and the taxpayer's money is needed in huge amounts. Our service has been based on telephone and telegraph. We need

A Dawson-Butwick Publication

Communications International

An exclusive Washington news report on international communications policy

November 11, 1983

ADMINISTRATION POLICY ON ORION, ISI HINGES ON TRADE v. FOREIGN POLICY

As the expected date for an executive branch decision on the applications of Orion Satellite and International Satellite, Inc. draws near, the federal agencies involved in formulating that position appear to have differences of opinion over how the decision should be made. Substantive differences over the decision also are emerging.

The Senior Interagency Group (SIG) on int'l communications by the end of the year is expected to develop a Reagan Administration policy on whether to allow private international satellite systems that might compete with Intelsat, according to Undersecretary of State for Security Assistance, Science and Technology William Schneider. But some administration sources have indicated that the policy decision may be bucked up to the Cabinet Council on Trade and Commerce, which is chaired by Commerce Secretary Malcolm Baldrige. If the matter is taken up by the Cabinet Council, which is dominated by the Commerce Dept. and the Office of the U.S. Trade Representative, the outcome is more likely to favor Orion and ISI because of the pro-competitive and pro-export leaning of officials at those agencies. The State Dept., which chairs the SIG, has taken an extremely cautious position on Orion and ISI, both publicly and privately, in emphasizing the obligations of the U.S. under the Intelsat treaty. And government sources have sug-

(continued on page 2)

COMMISSION PLANS INQUIRY INTO AWARD PROCEDURES FOR RPOAs, DNICs, AND IRUs

The Federal Communications Commission soon will issue an inquiry on whether and how non-carrier service providers can obtain Recognized Private Operating Agency (RPOA) status, data network identification codes (DNICs), and indefeasible right of user (IRU) interests in international submarine cables. Early this week, the commission approved the issuance of the notice of inquiry, which was spurred by requests for FCC rulemakings by the Assn. of Data Processing Service Organizations (ADAPSO) and Aeronautical Radio, Inc. (ARINC).

The need for RPOA status by non-carrier providers -- particularly enhanced service providers -- results from the FCC's August 1982 decision that Computer II applies internationally. Since Computer II deregulated enhanced services, international enhanced service providers have been confronted with the problem of seeking operating agreements from other nations without the benefit of any stamp of approval from the U.S. government. Awarding RPOAs to enhanced service providers would confer official U.S. operating agency status on the carrier while leaving them unregulated.

Generally, the FCC has only awarded RPOA status to regulated carriers. The International Telecommunication Union defines RPOAs as parties that provide public correspondence or that are capable of causing "destructive interference" to public communications.

IN THIS ISSUE

The inquiry also will explore the procedures for which the FCC awards DNICs -- the four-digit codes that identify data networks. Currently, the four-digit code is used worldwide by switching machines to identify data networks. The inquiry will ask what procedures the commission should adopt if the U.S.'s limited number of four-digit codes becomes exhausted.

Commission staffers said that the FCC's Office of Plans and Policy proposed to emphasize in the inquiry the possibility of allowing market forces to determine how DNICs are awarded. Although staffers would not elaborate on what sorts of "market mechanisms" are possible, they noted that the idea is to avoid having the FCC make the decision of who get DNICs. Currently, they are given out on a first-come-first-served basis.

The inquiry also will deal with the question of whether noncarriers and enhanced service providers can purchase IRUs in international submarine cables. Currently, only carriers can obtain IRUs in overseas cables.

An FCC staffer explained that if the commission allows noncarriers to acquire IRUs, it would have to address special circumstances surrounding companies that are required to have separate subsidiaries for basic and enhanced services. For example, AT&T's enhanced services subsidiary is not allowed to own facilities and would be an exception to a new IRU acquisition policy under Computer II as it now stands, the staffer said. Comsat could also be affected.

TRADE AND FOREIGN POLICY ISSUES KEY IN ORION DECISION...from front page

gested that State Dept. officials have held up an administration decision -- urging cautiousness and careful analysis -- as well as attempted to keep the final decision at the SIG level.

As to the possibility of the Cabinet Council becoming involved, a spokesman for Baldrige confirmed that the Secretary has taken a personal interest in the matter and will review personally a comprehensive study of the competitive satellite proposals being prepared by the National Telecommunications and Information Administration. The spokesman added that Baldrige may choose to intervene in a SIG decision if he does not believe a review by the full Cabinet Council is needed.

The issue has been raised with Cabinet officers by a number of Senators and House members who wrote them last Summer and early this Fall. Those letters, obtained by CI earlier this week, asked Cabinet officers to assure that the executive branch considers the Orion proposal in an even-handed manner. The letters also noted possible benefits of authorizing the system.

At the heart of the conflict over the two proposals, according to a number of Reagan Administration sources interviewed last week by CI, is whether the independent satellite systems would prove enough of a boon to export of services by U.S. companies to outweigh expected foreign policy complications. Both Orion and ISI are expected to substantially undercut the price of comparable Intelsat service. Other concerns include the economic effects of competitive systems on Intelsat, legal obligations of the U.S. government, and national security effects, according to an analyst studying the Orion and ISI proposals for NTIA. An attorney for the Dept. of Defense, for instance, noted that while Orion and ISI satellites would provide U.S. forces with a welcomed increase in trans-Atlantic circuit capacity, the Dept. has a number of national security concerns with the proposals which are "strictly classified."

The proposals for independent international satellite systems seem to have garnered support from the Office of the U.S. Trade Representative. According to a USTR official who frequently participates in the SIG, "Free trade is a wonderful thing. The things that are important (with the proposals) are expanding exports of services and high technology and both proposals merge nicely with that goal.

"From an economic point of view, they're attractive and I think it is fair to say we support that kind of private sector initiative.

"We need someone screaming the free trade line or else the decision (concerning the two proposals) will be made on entirely different grounds."

An official with NTIA also pointed out that authorizing independent satellite systems may produce important benefits to U.S. services companies seeking to export to Europe. Foreign policy considerations and the likely economic affects on Intelsat, however,

are likely to weigh most heavily in formulating an executive branch policy, the official said. The NTIA study of the proposals will cover their trade implications for the U.S.

The State Dept. has focused its public statements on foreign policy concerns and on U.S. treaty obligations to Intelsat. While State officials refused to reveal the Dept.'s position on the two applications to CI, Ambassador Diana Lady Dougan and Schneider recently told the Intelsat Assembly of Parties that the U.S. supports a strong and economically viable Intelsat system. Testifying before a Senate Foreign Relations Committee subpanel, the two reiterated their concerns for U.S. allegiance to treaty obligations of Intelsat.

Also testifying to that subpanel, National Aeronautics and Space Administration chief James Beggs said that competitive satellite communications systems would upset a "harmonious" and "very good" relationship between the U.S. and Intelsat. Beggs cautioned the Reagan Administration to be very careful about trying to infuse competition into the international telecommunications system. He admitted though that competition has produced benefits in some areas.

The FCC is bound to remain silent on the pending applications, but officials there have commented that they will not wait indefinitely for the Reagan Administration to chart a policy directive. As an independent agency, the commission is free to act on the applications, according to FCC sources, but executive branch input is welcomed.

In a letter to Baldrige, Chairman of the House Energy and Commerce telecommunications subcommittee, Rep. Timothy Wirth, D-Colo., wrote, "I believe the (Orion) proposal deserves a fair and reasonable evaluation, especially in light of the important and intimate relationship between U.S. international telecommunications policy and our international economic and trade policy. Communications satellite technology has done much to improve our domestic and international communications capability, thereby enhancing opportunities for growth in the information and service sectors of the nation's economy." Wirth questioned in his letter whether Comsat misrepresented the U.S. view on the satellite policy issue to other nations at the April Intelsat meeting.

In a letter to Malcolm Baldrige, Rep. Edward Markey, D-Mass., said, "The Orion application shows commendable initiative in recognizing an opportunity for the U.S. to take advantage of a large potential international market. Orion's proposal to extend the concept of private satellite facilities for private systems to the international arena strikes me as something we should strongly consider.

"As you are aware, the technological advances in satellite communications combined with unprecedented telecommunications demands from businesses with international interests has undoubtedly set the stage for a growth oriented competitive market outside of Intelsat. It would be most disadvantageous for the U.S. to oppose domestic entreprenuerial efforts to enter that market and compete with foreign initiatives."

In a letter on Orion to Kenneth Dam, Deputy Secretary of State, Sen. Rudy Boschwitz, R-Minn., said, "this proposal raises serious issues concerning our international communications and trade policies and could offer significant benefits both to the user-owners of the communications facilities on Orion's two satellites, and to this country's position in the rapidly developing and economically important field of international telecommunications."

Also writing to Dam, Sen. Richard Lugar, R-Ind., said that in considering the Orion proposal, "I trust that appropriate steps have or will be taken to assure that the particular interests of one company, Comsat, are not mistakenly interpreted to be those of our government, for such a confusion would undesirably limit this country's options."

Participating in the hearings by the Senate Foreign Relations subcommittee, Citicorp Vice President Kenneth Phillips gave a vote of support for a trans-Atlantic system that would compete with Intelsat. "We favor open competition. The presence of alternative domestic and international service providers would not necessarily involve the pattern of cream-skimming" that has been argued by Comsat and Intelsat, he said. Phillips noted that Citicorp, as a user of telecommunications, is currently constrained because its own satellite cannot relay communications outside of the U.S.

NTT READY TO ACCEPT MODIFICATIONS IN PROCUREMENT PACT WITH U.S.

Noting that the trend in purchases by NTT (Nippon Telegraph and Telephone) of U.S. telecommunications equipment is upward, two executives from the Japanese state-owned telecommunications monopoly recently defended their company's role in implementing the

Commerce Dept. reports staggering 25.7 million phone instruments were imported in first 9 months this year, up 586.2% from same 1982 period, and shipment value jumped 278.5% to $528.8 million. Wired handsets provided fastest unit import growth, climbing 613.2% to just under 20.1 million, though value rose comparatively modest 187.9% to 244 million. Imports of cordless phones were up 504.1% to 5.61 million, with value rising 418.2% to $284.8 million. That price competition has hit hardest on wired phones is evident from 52.9% drop in average value paid by importers to just $14.19, from $30.12 in same period last year. Cordless phone prices were less severely impacted, slipped to average of $50.76 from $59.16.

Four Far East countries accounted for 98% of all phone imports. In wired hand sets, Taiwan was runaway leader, accounting for 46.8% of incoming shipments, followed by Hong Kong with 38.3%; Japan placed distant 3rd with just 6.2%. Korea, 4th ranked as wired phone supplier with 6% of imports, was on top in cordless with 32.3%. Taiwan followed with 28.7%, Hong Kong 3rd at 24.6%, Japan 4th at 14.3%.

Imports, of course, reflect only part of market activity, exclude domestic production by Western Electric and other U.S. manufacturers & assemblers, and phone company sales of instruments previously rented. But imports alone far exceed industry consensus forecast, issued just last June by Electronics Industries Assn., that consumers would buy only 15.5 million phones this year, including 11 million wired, 4.5 million cordless.

Protesting Impropriety

INTELSAT DENIES ROLE IN FAILED INTERNATIONAL SATELLITE AMENDMENT

Intelsat Wed. denied that it was behind proposed (and failed) amendment to FCC authorization bill which would have set one-year delay in FCC action on Orion and International Satellite Inc.'s Atlantic satellite applications while establishing inter-agency commission to study "International Satellite Policy." Intelsat External Relations Dir. Jose Alegrett said the denial was issued after he had received several reports from people in Washington alleging Intelsat's involvement in congressional lobbying.

Alegrett said nobody from Intelsat, including Dir.-General-elect Richard Colino, had been involved in move to have Congress pass legislation. Colino himself declined to comment. Alegrett further said: "The impact of the proposed legislation, if it had been introduced and passed, would not, in my view, have been helpful to Intelsat."

Issue arose because of possible impropriety on part of Intelsat, as international organization, participating in any U.S. domestic legislative debates. To this, Alegrett said: "Let me emphasize that Intelsat, as an international organization, cannot and will not attempt to influence the domestic policies of any of its member countries in the manner that has been suggested in the past week... Intelsat did not support this proposal, was not consulted about it and was, in fact, unaware of it until late last week. We are still unaware of its sponsors."

Proposed drafts of amendment issued from Senate Communications Subcommittee. Amendment went through several revisions; final form would have given Commerce secretary, secretary of State, FCC chairman, chairman and ranking minority member of Senate Foreign Relations and Commerce committees and chairman and ranking minority member of House Foreign Affairs and Energy & Commerce Committees and other members of Congress all role in studying international satellite services for one year. Final amendment also said it would in no way affect any application filed with FCC. Still, weakened version of proposal failed to draw sufficient support among legislators.

'No Question of Censorship'

ABC BUILDS COMPLETE CABLE SYSTEM FOR YUGOSLAVIA OLYMPICS

"What you are looking at right now is the headend for a complete cable system," Julius Barnathan, pres. of ABC broadcast operations & engineering, told reporters in Sarajevo.

file w/ orig satellite

3/31 — Asst NTIA sent / all Telecom, state

Markey, Dingell: ltr to FCC Chm Fowler — should not move forward until Admin position drafted + cmpnd

Tom McKnight
W: 466-7700
H: 556-9118

Concern that satellt has access to VA.H. stuff and they do not — satellt has hired Bob Gray.

THE SCHEDULE OF
PRESIDENT RONALD REAGAN

Thursday, December 15, 1983

9:00 am (30 min)		Staff Time	Oval Office
9:30 am (15 min)		National Security Briefing (McFarlane)	Oval Office
9:45 am (15 min)		Senior Staff Time	Oval Office
10:00 am (60 min)		Personal Staff Time	Oval Office
11:00 am (60 min)		Meeting with Prime Minister Trudeau of Canada (McFarlane)	Oval Office/ Cabinet Room
12:00 m (60 min)		Lunch with the Vice President	Oval Office
1:00 pm (90 min)		Pre-Interview Briefing (Gergen/Speakes)	Oval Office
2:30 pm (45 min)		Interview with Time Magazine (Gergen/Speakes)	Oval Office
3:30 pm (15 min)		Meeting with Senator John Danforth (Oglesby)	Oval Office
3:45 pm (45 min)		Personal Staff Time	Oval Office
4:30 pm (30 min)		Personnel Time (Herrington)	Oval Office
5:00 pm (30 min)		Administrative Time 1. Rich Colino of INTELSAT (McFarlane) 2. Gold Medal to Fred Waring (Duberstein) 3. James Fowler, Pres. Lions Int. (Whittlesey) 4. Photo with Rick Eilert, Author of For Self and Country (Whittlesey) 5. Captain Grace Hopper, USNR (Hickey) 6. Presentation of Anniversary Edition of Ladies Home Journal (Gergen/Speakes)	Oval Office Roosevelt Room
5:35 pm	N	Lighting of the National Christmas Tree (Rosebush/Henkel)	Diplomatic Entrance
8:15 pm		Press Christmas Party (Rosebush/Gergen/Speakes)	Residence

12/14/83
4:00 pm

JGR —

For your
Orion Satellite
file.

RBS

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AJ — IT051

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SUBJECT: Rich Colino elected to run international telecommunications org - photo op w/ POTUS

ROUTE TO: / ACTION / DISPOSITION

Office/Agency (Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response	Code	Completion Date YY/MM/DD
DCSITT	ORIGINATOR	83/11/28	PY	C	83/11/28
	Referral Note:				
SCRYAN	A	83/11/28	PY	S	83/11/29
	Referral Note: Admin Time per MKD				
		/ /			/ /
	Referral Note:				
		/ /			/ /
	Referral Note:				

ACTION CODES:		DISPOSITION CODES:	FOR OUTGOING CORRESPONDENCE:
A - Appropriate Action	I - Info Copy Only/No Action Necessary	A - Answered	Type of Response = Initials of Signer
C - Comment/Recommendation	R - Direct Reply w/Copy	B - Non-Special Referral	Code = "A"
D - Draft Response	S - For Signature	C - Completed	Completion Date = Date of Outgoing
F - Furnish Fact Sheet to be	X - Interim Reply	S - Suspended	

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United States
Information
Agency

Washington, D.C. 20547

Director

Bill
Wallace Times

199039 USIA

November 15, 1983

Send to Fred Ryan
Admin Ex

Dear Mike:

Last month an American named Rich Colino was elected to a six-year term by the 109 member nations of INTELSAT to run this international telecommunications organization that provides the world network for satellite communications. He will begin his term in office January 1, 1984.

At a time when discord and acrimony confront the United States in most international forums, it is a remarkable feat that an American has been elected to such an important leadership role.

Quite frankly, I am hard pressed to think of another major international organization which would not view a U.S. candidate with a high degree of suspicion.

The fact that the developing world views this U.S. initiative called INTELSAT with such enthusiasm probably explains why we were able to elect Colino. We were the guiding force behind its creation in the early '60s when the U.S. decided to share its satellite technology with the world.

As you know, the world faces a vigorous challenge to the principle of free flow of information through mechanisms like the New World Information Order. Stressing that an American has been named to administer a crucial delivery system in world communications should help counter the efforts of others to work against our interest and that of our allies to promote, rather than restrict, international communication.

I recommend that the White House consider taking note of Colino's election. A photo session with the President and Rich Colino along with a White House statement of general praise for Colino's election would certainly be appropriate options to consider.

Mr. Michael K. Deaver
Deputy Chief of Staff and
Assistant to the President
The White House
Washington, D.C. 20500

We clearly have reason to be proud of the election of an American to head INTELSAT, and I think we should take advantage of Colino's election to remind the international community that this valued organization called INTELSAT was a creation of the United States.

~~Best~~ Regards,

Charlie

Charles Z. Wick

P.S. For your interest, I am enclosing a fact sheet on INTELSAT.

THE INTELSAT STORY

1. Via the Communication Satellite Act of 1962, the United States determined to create a non-profit international organization (later called INTELSAT) which would take U.S. satellite technology and share it with the developing world by creating a single global satellite system.

2. Today, that U.S. dream for a global satellite system is a reality with INTELSAT boasting 109 member nations who act as owners and 170 nations and territories who are users of the INTELSAT system. Even the Soviets are forced to use the INTELSAT system which they condemned at its creation as a U.S. propaganda ploy.

3. INTELSAT members last month unanimously elected U.S. citizen Richard Colino to head the 109 member organization for the next six years. Colino's election as Director-General demonstrates that INTELSAT has successfully avoided the politization that has plagued most international fora, particularly the ITU, the United Nation's specialized telecommunications agency that tried this time last year to expel Israel.

4. INTELSAT is a non-profit system operating 17 major satellites with 65,000 voice circuits capacity. As a non-profit cooperative, INTELSAT has been able to reduce its cost of service 12 times during its 19 years. Currently, voice circuits are non-discriminatorially priced to each member at $390 per month.

5. The Soviet Union's pathetic response to INTELSAT is Intersputnik. By contrast to INTELSAT's global system, Intersputnik provides approximately 150 circuits among 13 member nations from the Soviet Bloc.

6. INTELSAT provides the link to and incentive for domestic telecommunications infrastructures for many developing nations of the world. For example, the '84 Olympic Games will be carried worldwide via INTELSAT.

7. INTELSAT's procurement policy has favored U.S. corporations who have received in excess of 90% of the $4 billion spent by INTELSAT to build and launch its 17 global satellites.

8. As INTELSAT embarks on its 20th year of service to the developing and developed world with American Rich Colino at the helm, this organization is living proof of the U.S. commitment to help the developing world through telecommunications. Moreover, through the non-discriminatory pricing and access provided by this single global system, INTELSAT is providing a stable and viable pipeline for unfettered worldwide communications.