CURRENT TELECOM DEVELOPMENTS®

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**LIBERTY MEDIA INCREASES INVESTMENT IN NEWS CORPORATION**

Liberty Media, which is 100% owned by AT&T, has agreed to become the second largest stockholder in News Corporation in a multilayered transaction that should boost the valuation of News Corp.’s Sky Global prior to its estimated $40 billion initial public offering scheduled for later this year, and improve News Corp.’s chances of bidding successfully for Hughes Electronics’ Direct TV, should GM decide to sell it or seek a strategic partner. News Corp.’s purchase or alliance with Direct TV would complement its broadcast satellite holdings in England, Asia and Latin America. Under the deal, John Malone’s Liberty Media Corporation will swap its 21% stake in Gemstar-TV Guide for equity in News Corp. and Sky Global. Mr. Malone will also invest $500 million in Sky Global once it goes public, resulting in a total stake of nearly 6% in the satellite subsidiary. The deal leaves Sky Global with a 43% stake in Gemstar-TV Guide, which was recently formed by the merger of TV Guide and Gemstar, a developer and operator of VCR programming codes. Mr. Malone would end up with an 18% stake in News Corp., making him the largest single shareholder outside Rupert Murdoch’s family. In addition, Mr. Malone may well end up with a seat on News Corp.’s Board of Directors.

**ACeS LAUNCHES SINGLE SATELLITE TELEPHONE SERVICE IN ASIA**

Asia Cellular Satellite System (ACeS) of Indonesia has launched a new regional telephone network that relies upon one geostationary satellite – manufactured by Lockheed Martin – and strategically placed ground stations for coverage throughout Asia. ACeS antenna design will allow for signals to be directed to ground stations best equipped to handle traffic. The GSM (Global System for Mobile Communications) phones are being manufactured by Ericsson and will cost about $1,000. Voice quality in many instances is expected to be equivalent to cellular service, with the possibility of delays and/or dropped calls. Concerns over the cost of the phones and quality of service are likely to be offset by the low cost of service: between 35 cents-75 cents per minute. The service has the potential to reach 3 billion people from Korea to India, although no agreement has been reached to allow for service in China. Service will begin in the Philippines in October and Taiwan in January. The $700 million partnership is headed P.T. Pasifik Satelit Nusantara of Indonesia and includes Jasmine International of Thailand, Lockheed Martin Global Telecom and Philippine Long Distance Telephone. A similar system called **Thuraya** has been developed by Hughes Space and Communications and is scheduled for deployment in the Mideast in October.

**FEDERAL TRADE COMMISSION AND EUROPEAN COMMISSION CLEAR BOEING ACQUISITION OF HUGHES SPACE AND COMMUNICATIONS**

The Federal Trade Commission (FTC) approved a consent agreement with Boeing that would allow Boeing to acquire Hughes Space and Communications, a subsidiary of General Motors, for $3.75 billion. The consent agreement: prohibits Boeing from providing systems engineering and technical assistance services to the Defense Department for a classified program; prohibits Boeing’s launch vehicle division from gaining access to nonpublic information that its satellite division receives from competing suppliers that launch Boeing satellites; prohibits Boeing’s satellite division from gaining access to nonpublic information that its launch vehicle business receives from competing satellite suppliers; and requires Boeing to provide all necessary satellite interface information, which is used to make satellites compatible with launch vehicles, to all other launch vehicle suppliers. FTC Competition Bureau Director Richard Parker acknowledged the FTC’s close cooperation with DOD and the European Commission (EC) during the course of the investigation and settlement. The EC simultaneously cleared the acquisition, noting that the
investigation “dismissed earlier doubts that the operation could significantly strengthen Hughes’ position in commercial geostationary communications satellites, as well as the concern that the parties might induce Hughes’ satellite customers to procure launch services from Boeing.” Boeing estimates that the market for information and communications services, of which satellites makes up a substantial part, is $40 billion-$60 billion, and is expected to grow to $120 billion by 2005, and for launch vehicles $4 billion to $6 billion annually. Hughes has a 35%-40% share of the commercial satellite market.

SBC JOINS BCI AND TELMEX IN LATIN AMERICA VENTURE

SBC Communications of the U.S. has joined Bell Canada International (BCI) and Telefonos de Mexico (Telmex) to develop and provide wireless and broadband operations to large corporations and under-served small and medium-size enterprises located in South America. SBC will take an 11.4% stake in the venture in exchange for its interest in Brazilian mobile phone company Algar Telecom Leste, while Telmex and BCI each will hold a 44.3% interest. The venture will hold interests in Brazilian and Colombian mobile phone operators; broadband wireless firms in Venezuela and Argentina; and a Brazilian telephony and broadband cable operation providing pay TV and high-speed Internet access. The three companies are contributing $2.2 billion in assets and $1.8 billion in cash with which to make further acquisitions and bid on wireless licenses in Venezuela and particularly Brazil, which is due to auction cellular telephone operating licenses next year. The venture faces strong competition from Spain’s Telefonica, U.S. Bell South and Telecom Italia.

AOL AND NTT DOCOMO REACH INTERNET ACCESS AGREEMENT

NTT DoCoMo has agreed to pay $100 million for a 42.3% stake in AOL Japan, a joint venture established in 1997 among America Online (AOL), Mitsui and Nihon Keizai Shimbun (Nikkei) with approximately 440,000 subscribers in Japan. The agreement will lower AOL’s stake in AOL Japan to 40.3%, and Mitsui and Nikkei’s combined stake to 17.4%. DoCoMo will provide AOL’s “mail” and “instant messenger” features to its 12 million i-mode subscribers, while gaining access to AOL’s content and other features. The companies will use Japan as test market for new Internet services available on a mobile basis via cellular and digital phones, and on a fixed basis as personal computers. If successful, they will seek to expand their cooperation elsewhere in Asia, Europe and North America -- taking advantage of AOL’s 26 million U.S. subscribers. AOL and DoCoMo also agreed to invest in companies that are integrating fixed-line and mobile Internet businesses.

FCC STUDY OPPOSES INTERNET BACKBONE REGULATION

The FCC concluded in a study entitled The Digital Handshake: Connecting Internet Backbones that there is no need to regulate U.S. Internet backbone providers given that “market forces, including consumer demands, are likely to ensure that Internet backbone providers continue to provide universal connectivity.” The study concludes that “competition, governed by antitrust laws and competition enforcement that can prevent the emergence of a dominant firm can act to restrain the actions of larger backbones in place of any industry-specific regulations, such as interconnection obligations.” According to the report, in a competitive backbone market there may be “legitimate reasons for a backbone provider to not “peer” [an interconnection agreement enabling backbones to exchange traffic with one another at no cost] with another backbone,” opting instead offer “transit” arrangements [an interconnection agreement whereby one backbone pays another backbone for delivering its traffic]. However, the study does not rule out regulation as with other network industries if a dominant backbone provider “emerges through unforeseen
circumstances.” The study rejected suggestions by carriers outside the U.S., particularly in the Asia-Pacific, for international interconnection cost-sharing regulations, preferring instead reliance upon market forces.

**FORCES LINING UP AGAINST HOLLINGS MEASURE THAT WOULD LIMIT FOREIGN GOVERNMENT INVESTMENT IN U.S. TELECOMS**

Three recent developments have conspired to greatly weaken Congressional resolve to approve an amendment to appropriations legislation (H.R. 4690) that would prevent the FCC from transferring licenses to companies more than 25% owned by a foreign government as advocated by Senator Ernest Hollings (D-South Carolina). First, German Foreign Policy & Security Adviser Michael Steiner stated in a September 21 letter to National Security Adviser Sandy Berger that the German government is “fully committed to the full privatization” of Deutsche Telekom (DT), that the government occupies just one of 20 supervisory board seats, has no veto power, and provides DT with no state subsidies. Second, U.S. Trade Ambassador Charlene Barshefsky stated in a September 21 letter to members of Congress that the Administration will “continue and intensify its efforts, including in the WTO and other fora, to encourage our trading partners to privatize their telecom incumbents as expeditiously as possible.” Third, Senate Majority Leader Trent Lott (R-Mississippi) stated on September 26 that despite some reservations, “for us to take this unilateral action and prohibit that type of merger discussion probably should not be done.” Mr. Lott is a co-sponsor of a separate piece of similar legislation, but acknowledges the difficulty of moving the controversial amendment and/or legislation at a time when most members of Congress are seeking to adjourn for the year. Mr. Hollings efforts were precipitated by the pending $45 billion purchase by DT of wireless carrier VoiceStream and possibly other U.S. companies. Mr. Hollings called the Steiner letter an “encouraging development,” but urged that DT demonstrate “real divestment and not dilution.”

**VERIZONSEEKS TO PROVIDE LONG DISTANCE SERVICE IN MA**

Verizon Communications requested FCC permission to provide long distance service in Massachusetts (MA) in an application that Verizon claims is stronger than the one approved by the FCC in 1999 that allowed Verizon (then Bell Atlantic) to provide long distance service in New York. According to Verizon MA President Robert Mudge, the MA market is “irreversibly open” to competition, and Verizon has met “conclusively” each of the 14 checklist items pursuant to Section 271 of the 1996 Telecom Act: (1) competitors provide service to about 700,000 phone lines in the state; (2) Verizon processes about 1,400 local service requests from competitive local exchange carriers each day; (3) Verizon has signed 85 interconnection agreements with CLECs; (4) Verizon has installed more than 290,000 interconnection trunks for CLECs and completed more than 1,600 collocation arrangements allowing CLECs to install equipment in Verizon’s central offices; (5) Verizon has interconnected with about 50 CLEC-owned local switches; and (6) CLECs have obtained 14 million phone numbers. Opponents of Verizon’s application, including AT&T, WorldCom and the Association for Local Telecommunications Services, insist that Verizon prices to lease unbundled network elements are too high, and processing CLEC orders for digital subscriber lines takes too long. In a test of FCC efforts to streamline the Section 271 process, Verizon’s intends to file similar applications through 2002 covering all of the states in its local service region. The FCC must make a final determination by December 21.
FCC REPORT FINDS 9% REVENUE INCREASE AMONG CARRIERS

The FCC reported that telecommunications services revenues increased 9% to $269 billion in 1999 from $246 billion in 1998. Wireless revenues grew more than 30% to $48 billion from $37 billion. Competitive local telephone company revenue rose 60% to more than $5 billion, accounting for almost 5% of the $112 billion of local service revenues. Toll service revenues increased less than 3% to $108 billion from $105 billion, reflecting sharp reductions in the price of international calling as the average price per minute fell from 68 cents to 56 cents. Interstate rates held steady at 14 cents per minute.

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