

Draft
Subject to Legal Review for Accuracy, Clarity, and Consistency
June 18, 2004

TELECOMMUNICATIONS SIDE LETTER ON INTERCONNECTION RATES

H.E. Abdulla Hassan Saif
Minister of Finance and National Economy

Dear Minister Saif:

In the course of negotiation of the Bahrain-United States Free Trade Agreement (the "Agreement"), the delegation of Bahrain and the United State discussed the manner in which Bahrain regulates its telecommunications industry and how its approach comports with the obligation set out in Chapter Twelve (Telecommunications) of the Agreement. I have the honor to confirm the following understanding reached between the governments of the Kingdom of Bahrain and the United States of America in the course of negotiations regarding Article 12.4.5 of the Agreement:

The United States is aware that Bahrain has recently enacted a new telecommunications law to regulate and liberalize the telecommunications market. The United States notes that, as part of this market liberalization, the law provides for the regulator to grant International Telecommunications Services licenses from 1 July 2004. Furthermore, the law provides that the regulator has the authority to require a public telecommunications operator in a dominant position to offer interconnection to other licensed operators on tariffs and terms that are fair and reasonable, non-discriminatory and based on forward looking incremental costs. Although the law does not specifically require that cost-oriented interconnection be offered to non-licensed U.S. suppliers, our mutual expectation is that a competitive environment resulting from market liberalization will facilitate effective commercial negotiations that will drive international interconnection rates down to cost-oriented levels.

The United States appreciates that the regulator will monitor the overall results of market liberalization, and that other than as specified above, will generally not intervene in interconnection arrangements unless it becomes apparent that liberalization has failed to result in cost-oriented interconnection rates.

I would be grateful if you could confirm that your Government shares the views set out in this letter.

Sincerely,

Catherine Novelli
Assistant U.S. Trade Representative

[reply letter omitted]