Statement of Ambassador Charlene Barshefsky
WTO Basic Telecom Agreement
Testimony before the House Commerce Committee --
Subcommittee on Telecommunications, Trade & Consumer Protection

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I am pleased to testify today regarding the successful conclusion of the first important trade agreement of the 21st century. Three years ago, in Buenos Aires, Vice President Gore called on the nations of the world to join in building the Global Information Infrastructure. One year ago, this Congress delivered a clear and compelling blueprint in the 1996 Telecommunication Act. And now, thanks to that bipartisan achievement, the United States has effectively exported American values of free competition, fair rules and effective enforcement to global telecom services markets.

The WTO Basic Telecom Agreement represents a change of profound importance. It is an achievement greater than we could have reasonably expected three years ago at Buenos Aires. A 60-year tradition of telecommunications monopolies and closed markets will give way to market opening, deregulation and competition -- the principles championed in the United States and embodied in the 1996 Telecommunications Act.

We did not expect at Buenos Aires that these principles would be adopted widely by both the industrialized nations and by so many other countries. The Basic Telecom Agreement was negotiated among 69 countries -- both developed and developing -- that account for over 99% of WTO member telecom revenues. It ensures that U.S. companies can compete against and invest in all existing carriers. Before this Agreement, only 17 percent of the top 20 telecom markets were open to U.S. companies; now they have access to nearly 100 percent of these markets.

The range of services and technologies covered by this Agreement is breath-taking. From submarine cables to satellites, from wide-band networks to cellular phones, from business intranets to fixed wireless for rural and underserved regions, the market access opportunities cover the entire spectrum of innovative communications technologies pioneered by American industry and workers.

The Agreement has four parts: market access, investment, procompetitive regulatory principles and enforcement. With respect to market access, the Agreement provides U.S. companies market access for local, long-distance and international service through any means of network technology, either on a facilities basis or through resale of existing network capacity. On investment, the Agreement ensures that U.S. companies can compete against, acquire or hold a significant stake in telecom companies around the world. Finally, 65 countries adopted procompetitive regulatory principles based upon the landmark 1996 Telecommunications Act. And lastly, this Agreement is fully enforceable through WTO dispute settlement, supplemented where necessary by U.S. trade laws.

Today, telecommunications is a $600 billion industry; under this Agreement it will double or even triple over the next ten years. U.S. companies are the most competitive telecommunications providers in the world; they are in the best position to compete and win under this Agreement.

According to the Economic Strategy Institute, the Agreement will lead to the creation of approximately one million jobs throughout the U.S. economy in the next ten years -- in communications companies, high-tech equipment makers, software and information services -- and in all other sectors of the economy, which will benefit equally from the lower prices and the better service that competition among telecom networks will deliver.

This Agreement will also save billions of dollars for American consumers. Executive Branch agencies and the FCC estimate that the average cost of international phone calls will drop by 80% -- from $1 per minute on average to 20 cents per minute over the next several years. Every American with relatives or friends overseas and every business that operates internationally will benefit.

The WTO Basic Telecom Agreement will build the Global Information Highway. It is the perfect complement to the global Information Technology Agreement (ITA) which we brought to fruition three months ago. U.S. makers of telecommunications equipment are among the world's leaders. They will profit by meeting the new demand stimulated by the deregulatory, procompetitve terms of this Agreement. Our information technology industry is poised to lead the growth of the American economy in much the same way the automotive industry spurred tremendous growth 40 years ago.

Scope of Market Access Commitments

Increased competition in the supply of international and/or domestic services will be the rule for each of the 69 WTO members participating in the Agreement. These 69 markets account for 99% of WTO member countries' international and domestic telecom services revenues.

Our international long distance industry will gain access to serve over 52 markets in Europe, Asia, Latin American and Africa, and in 49 markets they will gain access to provide these and other services by satellite. U.S. industry will gain the right to use their own facilities and to work directly with their customers everywhere their customers go -- providing seamless end-to-end services, instead of transferring calls to local providers at extra costs. From the European Community to Korea, from Japan to El Salvador, Mexico and Canada, countries have made these commitments. And the range of services that can be provided internationally includes all voice and data services, provided by fixed or by wireless service networks or both.

As for domestic services, U.S. communications companies operating in Europe will be able to bypass former monopolies and build networks directly to and among customers in all member states of the European Union. U.S. firms will market communications services in developing countries such as India, Indonesia, Malaysia, South Africa and elsewhere. They will have a fair chance to build communications networks that are the key to worldwide economic development. Mexico, for example, has guaranteed that U.S. firms can help provide fixed wireless, mobile wireless and wireline local and long distance services.

This Agreement also provides market access and effective interconnection rights for the resale of telecom services. Almost every offer made in these negotiations to provide market access for facilities-based competition also included the opportunity to resell service and to interconnect with existing networks at reasonable rates, terms and conditions.

Investment and regulatory commitments

The Agreement also offers important opportunities for American investors and entrepreneurs who will be able to compete against, acquire or hold a significant stake in telecom companies around the world. These opportunities span all sectors. American companies will, for example, be free to have full control over companies that provide cellular telephone service in Mexico, satellite-delivered internet access in Japan, intra-Europe and domestic long distance service in Germany, hand-held satellite telephony in Korea, international business networks in Singapore, and video-conferencing in the United Kingdom. In all these technologies, our companies are the world leaders, and in all these technologies our companies will be free to compete.

Our firms will gain not only the opportunity to compete but they will also benefit for the first time from fair rules and effective enforcement. Sixty-five countries representing 93% of the world market have bound themselves to enforceable regulatory principles based upon the framework for competition that this Committee championed in the landmark Telecommunications Act of 1996. Fifty-five of these countries have agreed to a uniform, specific set of regulatory principles. The global adoption of these pro-competition principles, known as the Reference Paper, is an extraordinary testimony to the compelling nature of Congress' vision in this area. The Reference Paper commits foreign countries to establish independent regulatory bodies, guarantees that our companies will be able to interconnect with networks in foreign countries at reasonable prices, requires governments to take action to prevent anti-competitive practices such as cross-subsidization, and mandates transparency of government regulations and licensing. We will be able to enforce all of these rights, as well as the market access and investment commitments, at the WTO and through our own legislation. The Agreement takes effect on January 1, 1998. Countries remain free to improve further their offers and we will work to that end.

Benefits to American workers and consumers

The Agreement will create jobs in the United States and it will raise standards of living by opening the way for the more widespread supply of a wide range of telecommunications services at lower costs. By spurring greater competition and investment than we would otherwise enjoy, the Agreement will help the United States to maintain the world's most economical, highest-performance telecommunications infrastructure

Prior to this Agreement, monopolies around the world were able to charge prices excessive enough to limit economic growth. For example, one analysis of spending by the U.S. business sector ten years ago found that it its telecommunications costs were higher than is costs for oil to heat its factories and run its transportation systems. That means that in our own market and elsewhere, the benefits of this Agreement will not be limited simply to the expanded export of telecom services and equipment.

There are three factors to consider. First and foremost, businesses and consumers across the entire U.S. economy will benefit from lower prices. Under the Agreement, 52 countries guaranteed market access to international telecommunication services and. As I noted earlier, prices for international phone connections are likely, as a result, to fall by as much as 80%, resulting in a great expansion of the volume of international telecommunication services. The cost of U.S. domestic calls will also fall as the Agreement helps to achieve a major goal of the Telecommunications Act of 1996 -- to increase investment in the United States in competitive telecommunications networks.

Second, experience demonstrates that a switch from monopoly to competition in telecom services could double the size of the market, adding an extra $800 billion to the global telecom services market from 1998-2008. For example, after the introduction of competition in Chile, domestic long distance rates fell from $2 per minute to 20 cents per minute, and the telecommunications sector grew by 250%. To give another example, several years ago the Philippines decided to allow numerous competitors into its telecommunications market. The result was a 15-fold increase in the number of lines added in one year. As this subcommittee knows well, increasing competition in U.S. domestic long distance markets has always meant increased volumes and increased revenues for the entire industry. U.S. telecom services suppliers -- by virtue of their wealth of experience in the world's largest and most competitive telecom services market -- are in the best position to enter new markets and compete.

Third, the Agreement will allow U.S. telecom equipment providers -- among the world's most competitive -- to enjoy expanded sales abroad. For example, the foreign countries with the ten top telecom equipment markets all made commitments in these negotiations. In 1995, U.S. telecom equipment exports to these 10 countries amounted to $7.3 billion, which was well under 10% of the needs of these markets. As new service suppliers enter these and other foreign markets for the first time, and as former monopolists come under competitive pressures, the preferred supplier relationships that limit access for U.S. equipment suppliers today will give way to procurements based on price and quality terms. The workers at our satellite manufacturers, computer manufacturers, telephone equipment manufacturers and companies throughout the U.S. telecommunications equipment industry are ready, willing and able to compete on a level playing field -- such as the one this Agreement provides.

Implementation of the Agreement in the United States and Abroad

The implementation of the Agreement will be no less challenging than it was to negotiate. There are two areas to mention: our own domestic implementation and implementation by our trading partners.

First, with respect to implementation by the United States of its commitments under the Agreement, I have great respect for differences of opinion among some Members of Congress. The Administration believes, as does the FCC, that U.S. communications law provides authority to implement the U.S. commitments made under this Agreement, without any further legislative action. Under the Basic Telecom Agreement, the United States

-- maintained the 20% limit on direct foreign investment set by U.S. communications law;
-- allows foreign investment greater than 20% only by indirect investment;
-- reserves the exclusivity of Comsat, particularly regarding INTELSAT and INMARSAT; and,
-- protects the right of each state, as set forth by the Telecommunications Act of 1996, to make exceptions to interconnection obligations for certain local exchange carriers.

The Federal Communications Commission has authority to exceed the 25% benchmark for indirect foreign investment in common carriers. Under U.S. communications law, that authority is based on the FCC's determination of the public interest. That authority has been exercised repeatedly, for example, most recently, in approving recent foreign investments in MCI and Sprint.

Finally, regarding new types of television and radio services that are regulated as telecom services in the United States, we excluded the satellite-based delivery of the fast-growing Direct-to-Home, Direct Broadcast Satellite and Digital Audio Services sectors from our commitments in the WTO Basic Telecom Agreement.

The Clinton Administration supports the longstanding FCC practice, under the FCC's interpretation of the public interest, to consider applications for foreign ownership of broadcast licensees differently than applications for foreign ownership of common carrier licensees. The 20% statutory limit on direct foreign ownership and the 25% statutory benchmark on indirect foreign ownership of broadcast licensees already are protected by the U.S. services commitments made in the Uruguay Round Trade Agreement. Nonetheless, I am sensitive to concerns of Members regarding radio licenses for broadcasters and we will work with interested Members of Congress on appropriate revisions to the foreign ownership provisions of U.S. communications law concerning broadcast licenses.

The second area of implementation concerns our trading partners. Their obligations on market access and investment are as wide-ranging as those of the United States, but our trading partners' commitments must be implemented against a very different historical background. Most of our peer countries -- the industrialized countries of the OECD -- are, by this Agreement, introducing competition into all sectors of their basic telecom services markets for the first time. The same is true, by definition, with respect to foreign investment in the basic telecommunications sector. Many of these countries must pass ratifying legislation and develop implementing regulations in order to implement this Agreement next January 1. We will be monitoring closely the timeliness and completeness of these near-term implementation processes; and, over the longer term, we will do the same for commitments that are phased-in after 1998. I expect a number of formal bilateral discussions to take place, later this year, in order to discuss reciprocally and comment upon the implementation plans of our key trading partners.

I must also call attention to the fact that never before have we had a multilateral trade agreement that incorporated as many elements of competition policy as the WTO Basic Telecom Agreement's Reference Paper on pro-competitive regulatory principles. This presents a great opportunity and also a great challenge.

The transition from monopoly markets to competitive markets in basic telecom services requires a strong dose of regulatory intervention to compel the dominant former monopoly to cooperate with new entrants on a reasonable economic and technical basis. To implement successfully the competitive principles adopted by 65 countries, the United States will undertake a wide-ranging effort that combines incentives and enforcement. The United States will support work in appropriate international fora to help countries determine how to create regulatory institutions, train regulatory personnel, and turn the principles of the Reference Paper into statutes, regulations, rules and practices. Those fora will include, but are not limited to, the WTO itself, the OECD, the International Telecommunication Union; the telecommunications sub-group of APEC; and, CITEL the telecommunications sub-group of the Organization of American States.

At the same time, the Clinton Administration will undertake an enforcement effort in the basic telecommunications services sector that is every bit as activist and strategic as our enforcement program of annual reviews in other trade sectors. The United States will expect countries that have made commitments to open their markets from next January 1 to do just that. We will not hesitate to use the dispute settlement mechanisms of the WTO and our trade laws to bring cases early and often where benefits expected by the United States under this Agreement have not been realized.

Conclusion

Our negotiating instructions, set by the Congress in the Uruguay Round Agreements Act, were to obtain the opening on non-discriminatory terms and conditions of foreign markets for basic telecom services, on a facilities- and a resale-basis. This Agreement meets the negotiating objective that Congress set. The United States has effectively exported American values of free competition, fair rules and effective enforcement not only to the markets whose industries are ready and poised to compete here -- but also to many other markets in Asia, Latin America and Central Europe, where governments judged that only greater reliance on private investment and competition can deliver the benefits of modern telecommunications infrastructure.

The WTO Basic Telecom Agreement meets the litmus test for any agreement undertaken by the United States -- it strengthens the U.S. position in the global economy by creating new opportunities for our most competitive industries. That means it will contribute to a healthier, stronger U.S. economy, and that it will create jobs and higher incomes for American workers within and outside the telecommunications sector. I must admit, however, that it is not a perfect agreement. For that reason, we already are engaged in continuing efforts with Japan, Korea and

Mexico to open their markets wider. We expect that Canada also will find that its position on foreign investment does not serve to strengthen its national competitiveness. We stand ready to work with our Canadian colleagues on access to our DTH/DBS satellite market when they are prepared to reconsider their position on foreign investment and content. Argentina has approached us with respect to access to provide certain satellite-based services in the United States, and we are willing to work with them to assure full access for U.S. suppliers of all satellite-based services to Argentina.

There is a long list of countries negotiating to accede to the WTO. The conclusion of the GBT Agreement effectively has "raised the bar" for their entry, by establishing that the United States and the other parties to the Agreement will request basic telecom services commitments as part of accession. We have done so in all the twenty-eight ongoing accession negotiations to the WTO -- just as we have requested commitments to zero-out tariffs for goods covered by the Information Technology Agreement. As a result of the impetus given by the GBT Agreement to ongoing accession talks, Taiwan just last week submitted an offer covering basic telecom services for the first time.

We have always said that trade is not a zero sum game. Nothing could be more illustrative than this Agreement. We sometimes forget that more half the world's population has never made a telephone call. Thanks to this Agreement and the efforts of the United States, I expect there will be more rapid progress towards universal service around the world in the next ten years than we have seen in the past sixty. The Basic Telecom Agreement serves as a vivid reminder that trade agreements can create jobs and prosperity at home while providing opportunities for other nations also to prosper and develop.