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# The Great Satellite Shootout

Peter F. Cowhey and  
Jonathan D. Aronson

**W**HEN SMALL COMPANIES attack large monopolists, grand politics may result. AT&T's public monopoly began to crumble after pipsqueaks like Carterfone and MCI used legal loopholes to break into the equipment and long-distance markets. Other firms quickly provided the financial muscle to expand these breaches.

Intelsat and its U.S. affiliate, Comsat, have ruled international satellite communications for two decades. Since March 1983, however, they have been under attack from a pack of aspiring competitors led by a small company called Orion, which has no satellites and no known customers. This fall the Federal Communications Commission (FCC) will announce the victor of this brief, but bitter, regulatory battle. Every indication suggests that the new policy will undercut Comsat's position and end Intelsat's monopoly. What has provided the political impetus for this move toward greater competition? And what new policy questions will surface as a result?

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*Peter F. Cowhey is associate professor of political science at the University of California, San Diego. Jonathan D. Aronson is associate professor of international relations in the School of International Relations, University of Southern California.*

## The Rise of Intelsat and Comsat

The International Telecommunications Satellite Corporation, Intelsat, is a child of U.S. diplomacy. In the early phases of space exploration, American policy makers urged the creation of a single international satellite communication corporation, jointly owned and managed by all of the governments of the world. The new enterprise would demonstrate America's commitment to the shared peaceful use of outer space, guarantee adequate transmission facilities to meet rapidly growing demand, provide lower costs by permitting large economies of scale, prevent wasteful duplication of ground facilities or poor utilization of the frequency spectrum, and provide universal service. At the same time it would help developing countries by equalizing rates on each individual service for users with high and low volumes of traffic.

As a preparatory move, in 1962, Congress created the Communications Satellite Corporation (Comsat). The corporation is privately owned, but the U.S. government appoints three of its fifteen directors. Comsat was created as a "carrier's carrier," the sole link between U.S. carriers and international satellite traffic, al-

though the enabling legislation left open the possibility that the President and the FCC could authorize other new systems if that were in the national interest. Because of the company's monopoly position, the FCC instructed Comsat to make its circuits available to all American carriers and, until 1982, forbade it from providing direct domestic service. The legislation also directed Comsat to negotiate with other governments to set up the single global system that became Intelsat.

Intelsat was established in 1964 by an interim agreement among eleven members; until 1979 it was managed by Comsat. Its growth over the years has been impressive. Technological innovation made it possible for circuit capacity for the Atlantic region to rise an average of 35 percent a year from 1965 to 1982, even as rates were reduced a dozen times in twenty years. The consortium now has 109 members, served by sixteen satellites in geosynchronous orbit above the Atlantic, Pacific, and Indian Ocean regions. Most of the traffic it carries is international, but about 20 percent consists of domestic service within twenty-six countries.

The enterprise is owned and funded by its members in proportion to their share of total Intelsat traffic; Comsat's current share is 23 percent. The United States has an even stronger role in the satellite market than Texas had in the oil market before 1960, because it is the major center of consumption as well as production. Roughly half of all Intelsat traffic originates or terminates in the United States. Only the U.S. traffic is dense enough to attract significant investment and expansion by a competitor, and only the U.S. routes provide major

opportunities for driving down unit costs per message through economies of scale.

Intelsat remains overwhelmingly dependent on phone traffic and on the transatlantic market for its prosperity. As the accompanying table shows, about two-thirds of its circuits serve the Atlantic region. Comsat's business is even more lopsidedly concentrated on the transatlantic routes. In 1983 about 82 percent of the half-circuits that Comsat rented from Intelsat served the Atlantic region. Any policy change that undercuts the Comsat/Intelsat monopoly for service between the United States and Europe will significantly alter the market as a whole.

### Cracks in the Dike

Despite Intelsat's rapid growth, it has run into a number of problems. Intelsat I had 240 circuits and one TV channel while Intelsat V has 12,000 circuits and two channels. However, the capacity of undersea cable has also grown rapidly, as the table makes clear. And the combined growth of satellite and cable has made surplus capacity one of Intelsat's chief economic problems. Even though the consortium carries approximately two-thirds of all transoceanic telecommunications traffic, its circuit utilization rate averaged only 49.7 for 1981-83 after a new transatlantic telephone cable came on line and the world recession slowed demand growth.

Critics attribute this surplus capacity in part to Intelsat's technological preferences. The consortium prefers to launch the high-capacity satellites permitted by new technology, even if the added capacity overshoots the level of current demand. Moreover, Intelsat uses low-power satellites, which require large, expensive earth stations. The alternative, used in many domestic markets, is the high-power satellite that can transmit directly to small dishes at customers' premises, thus bypassing large ground stations and local phone connections, which (according to both Intelsat and Orion) account for 90 percent of the cost of transatlantic calls. Intelsat's design, in other words, hinders direct service to customer premises, a major new market.

A second Intelsat problem involves the incentives for bypass. The consortium "rate averages" a given service across high- and low-volume users, holding down rates for low-vol-

COMPARISON OF SUBMARINE CABLE  
AND INTELSTAT CAPACITY, 1965-82  
(number of circuits)

Year	Atlantic Capacity			Atlantic as % of All Intelsat <sup>c</sup>
	Cable <sup>a</sup>	Intelsat <sup>b</sup>	Total	
1965	2,006	240	2,246	100.0
1968	3,454	1,513	4,967	62.5
1971	9,499	6,277	15,776	59.9
1972	10,579	10,133	20,712	63.3
1976	24,389	13,054	37,443	65.3
1979	38,089	16,442	54,531	64.5
1982	44,509	42,253	86,762	66.0

<sup>a</sup> Systems of at least 500 miles in length.

<sup>b</sup> Estimated.

<sup>c</sup> Percentage of all Intelsat circuits.

Source: Dale N. Hatfield Associates, *Issues in International Telecommunications Pricing and Demand*, report prepared for the Orion Satellite Corporation, November 27, 1984, p. 23.

ume developing countries by making major industrial countries pay more. Some critics have questioned the value of this subsidy to the beneficiaries. Many of the low-traffic-volume countries that are subsidized are not poor. Moreover, critics say, the major factor that causes cost to vary among users is the cost of

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on-the-ground equipment. Intelsat's reliance on large earth stations (and its pricing of services to low-capacity stations) makes it uneconomic for the consortium to serve many small users in developing countries, one of the system's original intended markets.

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tive is strongest for services connecting high-volume users, where Intelsat's charges are higher than its true costs. A further incentive for bypass, according to critics, is that Intelsat does not offer efficient "customized" services, such as high-speed data transmission and sophisticated video transmission such as teleconferencing, that primarily serve the internal needs of large organizations. These customers can profit from the efficiencies of a network that serves specific sites instead of linking all conceivable locations.

To fend off bypass efforts by member countries or others, Article XIV (d) of the Intelsat agreement permits member countries to oper-

ate other satellites for "international public telecommunications services" *only* if the satellites are technically compatible with Intelsat and do it no "significant economic harm." The Intelsat Board of Governors has approved only five regional satellite systems outside of Intelsat to date. They are the Arabian Satellite Communications Organization (Arabsat), the European Communications System (ECS), the Palapa-B system (which serves Indonesia and some of its neighbors), the hookup of the Soviet Intersputnik system with Algeria, and transmission from U.S. domestic satellites to Canada and Bermuda.

Intelsat's own consultants concede that the criteria used to assess "significant economic" harm are muddled. For example, the decision approving the European Communications System (otherwise known as Eutelsat) apparently held that the system would not harm Intelsat because Europe's postal, telephone, and telegraph ministries (PTTs) declared that they would not use satellites at all if they could not put up their own system! But Intelsat officials argue that the European case involves relatively small flows of traffic. For future bypass requests, they incline toward a stricter assessment of "significant harm" based on the cumulative impact of applications. Intelsat successfully discouraged, for example, Indonesia's plan to use its Palapa-B satellite to form a regional satellite news system.

### **Orion Rising**

On March 11, 1983, a new firm, Orion Satellite Corporation, petitioned the FCC for permission to launch a transatlantic satellite service. Orion proposes to establish a service aimed at a particular market niche: providing "customized" services to private customers that have enormous flows of communications within their own organizations. Individual users would buy or lease transponders from Orion, and then route traffic over Orion's satellite to their own receiving facilities. The new enterprise would be a sort of global communications condominium; it would not offer what is called public "switched" service, in which subscribers can call other unrelated subscribers. (The telephone system is the model of such "switched service.") Applications from four other companies quickly followed Orion's.

Orion is a small company. Its co-founders are Thomas McKnight, a former FCC attorney and Office of Telecommunications Policy staffer, and Chris Vizas, a veteran congressional staffer. It shares a suite of offices in a fashionable Washington office building with other firms. No one knows whether it has the financial resources to launch a satellite. It has no set of research labs or major customers that an outsider can easily identify. But the United States is accustomed to small entrepreneurs in big technological markets, so many in Washington give Orion the benefit of the doubt. If it does have powerful backers, they might find it advantageous to remain hidden.

In any event, Orion's strategy is a textbook example of how to play the regulatory game in the United States. The firm's young executives have used their intimate understanding of regulatory politics to gain the attention of key officials and members of Congress. Their strategy reflects recognition of three key principles of regulatory reform. First, a push for international deregulation acquires maximum political impetus if it immediately follows the deregulation of a domestic market. Second, legislators would rather signal their intent and leave the initiation of new policies to the executive branch than make the hard regulatory choices themselves. Third, legislators prefer incremental deregulation to abrupt change. In particular, congressional intervention works to limit the scope of the immediate decisions, to tailor

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reform to attack scapegoats, and to leave ambiguous the ultimate changes spawned by the immediate choice.

Assaults on regulation in the international market are generally precipitated by deregulation in domestic markets. After all, if competition is beneficial at home, why should global monopoly be tolerated? Major customers hope to extend the efficiencies achieved at home to

their international operations, and domestic producers are often eager to extend the gains or mitigate the losses from new competition at home by seeking new opportunities abroad. With the deregulation of domestic telecommunications under way, it was therefore not surprising that a number of bills to deregulate the international telecommunications markets were introduced in Congress in 1983. The time was right for "international reform": Orion's co-pilots had correctly gauged the favorable political tailwind.

But favorable sentiment does not always produce legislative action, and the second element of Orion's strategy takes advantage of this fact. Congress hates being blamed for foreign policy failures, in part because they produce devastating press. So on regulatory issues that have big international implications, lawmakers prefer to retire prudently from the front battle lines. Members of key subcommittees will introduce legislation with no intention of pushing it to passage, their purpose being to signal their preferences to regulators and to win political support from interested parties. The burden for concrete action, however, is on the executive branch. Regulatory reform is thus most likely when the White House favors it and the regulatory agencies have the power to initiate it on their own. Again, Orion correctly recognized that these factors favored its chances.

The third element of the strategy—be incremental—was reflected in Orion's determination to keep the decision narrowly focused. Implicitly, Orion characterizes its challenge as applying competitive discipline to an outdated, inept middleman, Comsat, while simultaneously stimulating selective housecleaning at Intelsat. Orion argues that it will serve a vigorous but narrow market that stands largely untapped by the Intelsat system and that its application conforms perfectly to the Intelsat agreement.

Orion's original application tiptoed around Article XIV (d)'s requirement that new satellite systems be coordinated with Intelsat by claiming that Orion intends to offer not "public" but rather "specialized" communications as defined under Article XIV (e). In other words, Orion's clients would not link their internal communications systems to public phone facilities. Orion would therefore be serving a

market not covered under Article XIV (d). Accordingly, though requiring it to engage in technical coordination with Intelsat would be okay, it should not have to meet the "non-injury test."

For good measure, however, in an argument reminiscent of the original MCI attack on AT&T's long-distance monopoly, Orion also argues that it would create a new market, not divert traffic from the old one. Orion's individual users could configure their circuits to their special needs without using local phone networks. Because Orion would be tapping a market not available to Intelsat, it would not cause "significant harm." Orion carefully disassociates itself from the request of a more recent applicant, International Satellites, Inc., for permission to enter the market for switched international calls—although even ISI has offered to forgo serving switched international calls from AT&T for several years to protect Intelsat.

Orion has every reason to be optimistic. Congress and the executive branch have been giving off all the right signals. The FCC deregulated the domestic satellite market in 1970. In 1981 it allowed U.S. domestic satellites to serve Canada and Bermuda under special circumstances. That same year Congress made the FCC responsible for promoting competition in the international "record carrier" (telex and telegram) business. In 1982, the FCC ruled that AT&T and the traditional international record carriers could compete in each other's markets. Then, in 1983, the House and Senate Commerce committees both reported favorably on bills for more sweeping deregulation of international satellite communications.

These bills spurred on the reformers in the executive branch. In 1984 the FCC revoked a longstanding rule guaranteeing Comsat 50 percent ownership of all U.S. ground stations. And congressional leaders are now criticizing the FCC's "proportional loading rule," which forces common carriers to balance their use of international cable and satellite facilities. If the rule is abolished, the planned 1988 opening of a new transatlantic fiber optic cable with enormous transmission capacity for both voice and data (and the possible construction of yet another fiber optic cable to provide customized services like Orion's by 1989) will ensure a competitive scramble between satellite and cable systems. Amidst this groundswell, Orion's petition mere-

ly seems to ask the FCC to go one tiny step further.

### Comsat and Intelsat Respond

Comsat and Intelsat have counterattacked in a big way; Intelsat alone spent \$2 million on lobbying last year. The case against Orion rests on four main grounds.

First, Intelsat and Comsat question the credibility of the potential competitors. They speculate that most would-be entrants would never manage to launch a satellite even if they won government approval. Most have neither the \$250 million needed to launch a system, nor the technical expertise to attract the money. Among several new applicants, only RCA is a likely exception: it could modify a satellite it now has slated for the domestic market to reach international markets.

Second, Intelsat insists that the new system would constitute public telecommunications, not a private system as Orion contends, and would therefore require coordination to avoid economic damage to Intelsat. Orion's distinction between private and public services may conform to U.S. domestic law, but in the international arena *any* sale of commercial services is considered "public." Moreover, modern technology further blurs any practical distinction between "public" and "private" communications. Large corporations use private branch exchanges (PBXs) as switchboards. A PBX in Chase Manhattan's New York offices could, for example, take an incoming call from one of the bank's European branches over a leased Orion satellite circuit and switch it onto the local phone system in order to terminate the call at a customer's factory in Albany. Regulators may try to forbid such "leaking" from private circuits to the public phone system, but PBX technology makes evasion easy. Orion's presence in the market would inevitably tempt major users to try it.

Third, Intelsat contends that it would suffer significant economic injury from Orion and its colleagues. The demand for customized satellite communications is smaller than Orion suggests, and adequate facilities are already available. Data traffic and teleconferencing would not be enough to sustain new entrants, which would proceed to siphon off phone and video business from Intelsat. Even the loss of

corporations' internal phone calls would be costly, considering that Intelsat's unused capacity averaged about 30 to 50 percent over 1981-83 (depending on when and how it is measured). Intelsat's consultants conclude that if the consortium loses its monopoly, the costs for using its satellites will rise by 15 to 36 percent.

Finally and most decisively, Intelsat and Comsat claim that, as the children of U.S. diplomacy, they deserve diplomatic support. The Intelsat agreement calls for a single commercial system. Orion's entry would change the rules of the game unilaterally: it would render untenable the service-by-service average rates that benefit (by Intelsat's calculations) some sixty other nations, and it would threaten the enormous markups that most PTTs, especially those in developing countries, now charge for the use of Intelsat's services. Indeed, Intelsat's management rallied a unanimous vote opposing the Orion initiative at the October 1983 meeting of the Assembly of Parties in Washington—triggering concern within the U.S. foreign policy establishment.

On top of all this, Intelsat's defenders say, foreign PTTs would refuse to accept service from Orion and the others, so that the new entrants would call on the State Department for help. This would draw the United States into contentious and ultimately fruitless international economic negotiations. When several U.S. carriers negotiate with a single foreign national phone monopoly, the monopoly would have the catbird seat. It could play the U.S. carriers off against each other to extract maximum benefits for itself. In the end deregulation would simply reshuffle benefits within the satellite communications business without aiding the consumer.

Yet Orion's case with the U.S. government remains politically strong. The U.S. government need go no further in helping the new entrants than the usual representations it makes for U.S. businesses operating abroad. Also, Intelsat has convinced no one that a decision to license Orion would *in itself* destroy the existing system. Even Comsat admits that at most one or two new satellite systems are likely to be launched if approval proceeds. If any party suffered serious losses from that, it would be Comsat; and Comsat is a U.S. problem, not an international one.

By early this year Intelsat had conceded political defeat on the issue of Orion's entry. Its new goal is to minimize the damage by several means.

First, it wants the United States to sponsor an amendment to the Intelsat agreement that would give the consortium the discretion to charge different prices for the same service instead of rate averaging. Intelsat argues that only the thorough rate reorganization that such an amendment would permit will allow it to compete effectively. In the meantime, the consortium recently began marketing its Intelsat Business Service, which caters to the market targeted by Orion. Second, Intelsat emphasizes that Orion would have the capacity to carry public switched calls as well as private traffic. The consortium's objective in raising this charge may be to stiffen political and regulatory resolve against letting Orion carry switched service at a later date. Third, Intelsat is quietly distancing itself from Comsat. It supported the FCC decision to strip Comsat of its guaranteed equity in earth stations. More recently, it hinted that it favors authorizing direct access to its system by other carriers that wish to bypass Comsat. After all, the United Kingdom already allows two companies to have direct access to Intelsat: British Telecommunications and its officially designated competitor, Mercury.

Comsat, for its part, has a dramatic response in reserve: it may seek authorization to launch its own satellites to compete against Intelsat if stripped of its present monopoly on direct access. That is not the only way Comsat has been striking out on its own. For a decade the company has been trying to diversify into related fields. In 1973 it started Comsat General to provide design and consulting services to national satellite systems. In 1976, with Intelsat's permission, it began launching a series of navigation satellites (Marisat), as well as satellites to serve the domestic market (Comstar). And now it is starting specialized service networks for NBC, Holiday Inn, and other clients. Some of its ventures have been spectacular failures. It sank large amounts into a direct broadcasting service that is now on hold. And it lost substantial sums on a venture called Satellite Business System before selling its investment to its partners. Furthermore, AT&T may soon launch its own satellites, depriving Comstar of its main customer.

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plotting turf fights within the executive branch and appealing to sympathetic congressional committees.

### Who's in Charge?

The Washington titans of foreign and regulatory policy have grappled with the Orion application for more than two years. The secretaries of commerce and state asked the FCC on April 6, 1983, to delay action until a Senior Interagency Group on International Communication and Information Policy (SIG), co-chaired by State and Commerce, could determine whether alternative satellite services were in the "national interest" as provided for in the Communications Satellite Act of 1962.

SIG's major participants reached a consensus in favor of competition fairly easily. The Defense Department and the Central Intelligence Agency, for example, sought only assurances that the choice would not impair defense communications. The U.S. Trade Representative took a low profile after Ambassador William Brock declared his support for Orion as a symbol of the country's commitment to freer trade in services. But in Washington, turf is sacred and process is never sacrificed on the altar of substance. And a classic turf fight soon developed between the State Department and the Commerce Department's National Telecommunications and Information Administration (NTIA).

Heading one side was Ambassador Diana Dougan, the telecommunications coordinator for State, who had excellent connections in the White House and more affinity for deregulation

than many diplomats. On the other was the new Assistant Secretary of Commerce David Mark-ey, who was in the midst of rejuvenating NTIA when Orion's application became an issue. Both sides favored freer entry into the market. The major issue was whether Intelsat should be allowed to use aggressive commercial countermeasures to retaliate against new entrants, and specifically whether Intelsat's charter should be amended to allow it more flexibility in cutting prices to meet the competitive challenge. NTIA opposed restraining Intelsat's fair competitive responses. Citing lessons learned in the deregulation of the domestic U.S. telephone market, it argued that the success of competitors was less important than the efficiency of pricing and service.

The State Department maintained that Intelsat's current operating authority already gives it enough pricing flexibility. For example, State said, when Intelsat leases circuits to new U.S. customers it routinely defines the new service in such a way that no developing countries can qualify, thus eliminating the need for a subsidy. In fact, State contended, the consortium could repackage its older services in a similar manner to end subsidies if it wanted. State worried that what Intelsat really wants to do with new pricing flexibility is to funnel cross-subsidies to those services that compete with Orion. NTIA disagreed, arguing that relying on the loopholes in its current authority would not give Intelsat the full pricing flexibility it needs to be fully competitive and best serve its customers. NTIA also believes that it is possible to prevent abuses of cross-subsidization.

State has responded that for the United States to sponsor flexible pricing might rally foreign opinion against Orion, since the effect of such flexibility would be to end subsidies currently paid by U.S. consumers. At present, the weighted voting system used by Intelsat's Board of Governors gives the United States a good opportunity to block an adverse finding by the board regarding the Article XIV (d) consultations concerning Orion. But sponsorship of a pricing amendment—even though Intelsat's management has pledged to cooperate with such an initiative—might provoke the often somnolent Assembly of Parties, which allots one vote to each member, to take adverse action on the Orion consultation decision.

On November 28, 1984, President Reagan determined "that separate international communication systems are required in the national interest," but promised that the United States would "consult [i.e., coordinate] with Intelsat regarding such separate systems as are authorized by the Federal Communications Commission." On January 4, 1985, the FCC began to evaluate the new applicants.

Secretaries George Shultz and Malcom Baldrige carefully highlighted their points of agreement, while downplaying contentious issues, in a letter to Chairman Mark Fowler of the FCC sent at the time of Reagan's decision, and then in a SIG "white paper" of February 1985. First, they said, the FCC should authorize new international satellite facilities only for "customized" services, not for services involving the public switched network. The white paper acknowledged that some illegal "leaking" from private to switched service might occur, but argued that a volume sufficient to harm Intelsat would be detectable and subject to correction. Second, permission to enter should be contingent on the entrant's first gaining authorization for service in at least one foreign country and the subsequent completion of the Intelsat consultation process under Article XIV (d). (SIG insisted that the Intelsat decision on coordination would not bind the United States.) Third, the FCC should consider allowing U.S. commercial users and carriers to bypass Comsat on customized services and have direct cost-based access to Intelsat. (This issue was a special priority of NTIA's that State considered less important.) Fourth, SIG reaffirmed the U.S. commitment to Intelsat.

In the meantime, Congress has been stirring. Intelsat's congressional champion, Representative Don Bonker (Democrat, Washington), introduced a budget rider this spring providing, *inter alia*, that Intelsat's decisions on coordination be binding on the United States and that State be required to sponsor an amendment to the Intelsat agreement to authorize route-by-route pricing. The House passed Bonker's rider on May 9, 1985, but only after it was significantly rewritten amid intense bargaining. Among other things, the final version endorses increased competition, deletes the binding character of Intelsat's decision on coordination, and leaves State with greater latitude concerning its sponsorship of an Intelsat

amendment on pricing. However, it also gives Congress a last chance to act by requiring that State must respond to any negative Intelsat coordination vote by informing Congress on how it plans to limit the diplomatic damage at least sixty days before sending its final approval to the FCC.

Even if the Intelsat coordination goes smoothly, the State-Commerce paper was silent about subsequent diplomatic tactics. U.S. diplomats must still decide (1) how hard to press the case for entry to foreign markets by U.S. satellite systems and (2) how to prevent foreign PTTs from playing off the U.S. systems against each other when they bid for "landing rights" in those countries. The most closely analogous case of this sort before Orion was the U.S. effort to secure increased competition in the North Atlantic airline market. Breaching united European opposition, however, required a combination of vigorous bilateral diplomacy and the threat of withdrawing U.S. antitrust immunity from International Air Transport Association. And although Intelsat's defenders have argued that the United States wasted its diplomatic energy in this case, the results have benefited transatlantic air travelers.

Significantly, the political process has handled these issues in ways closely conforming to the strategic principles that Orion recognized when it started the ball rolling. Congress has underscored its support for SIG's philosophy of "incremental" and "evolutionary" change, but now that serious choices are at hand, it is retreating to its oversight role. Even if the Senate does not back the House's amendment, the congressional pressure almost certainly will force the State Department to assist Intelsat's management on the flexible pricing issue.

### Winners and Losers

In the end, the balancing of political interest in Washington has led to a surprising outcome. Both Intelsat and Orion have won, while Comsat has lost. The United States technically has upheld the Intelsat agreement. It has barred new entrants from providing international switched service and has thereby protected most of Intelsat's market. It will also support the flexibility Intelsat needs in order to become a more effective competitor. So Intelsat should not fare too badly in practice.



More important, the United States has re-committed itself in principle to the welfare of Intelsat during this decade. In many ways Intelsat has successfully positioned itself as the international counterpart to the Bell Operating

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Companies under domestic regulation. When faced with the threat of bypass, the operating companies successfully focused local politicians' attention on the danger that bypass would lead to higher rates for ordinary local households. They managed to persuade those lawmakers that bolstering local telephone company revenues was the best way to reduce price hikes for the households. Intelsat has likewise made itself into the ostensible champion of the many countries of the third world, and has thus forced Orion's advocates to condition their victory on Intelsat's protection during this decade. If Intelsat runs into trouble in the next few years, it will have substantial political leverage with which to coax regulators into making quiet adjustments to ease its pains.

Comsat's fate is not so well assured. If Intelsat gradually withdraws its close support, Comsat will have no major constituency left. Comsat's leadership has great hopes for its new commercial ventures in the U.S. domestic market. But it will surely have to consider seeking regulatory permission to compete with Intelsat if it loses its monopoly on direct access to that system.

Approving entry by Orion and other applicants will be only a first step in a continuing reappraisal of the regulation of international telecommunications. And the opportunities to bypass have multiplied. Many nations are interested in launching alternative satellite systems. British Telecom's Unisat could independently serve the eastern United States and Western Europe if it wished. France's Telcom system, which already serves France and the French Caribbean, could be modified to link up with the United States and Eastern Canada (nota-

bly Quebec). Iberoamerican proposes to link Spain with Latin America. Luxembourg and Ireland have discussed an Atlantic system, and Sweden is considering a Scandinavian system. Finally, Japanese companies are studying a Pacific Basin configuration for a telecommunications satellite (which may be bought from the United States in order to mollify the anger of the U.S. Congress concerning the trade balance in telecommunications equipment).

None of these systems will pose a serious competitive threat to Intelsat unless it can carry traffic to the United States. And no government had thought seriously of challenging the Intelsat monopoly until the United States broke the ice by giving preliminary approval to competition. Now that final action by Washington is imminent, detailed proposals are under consideration elsewhere as well.

The FCC will also be considering the applications that have come in since Orion's for permission to launch international satellite service. Among the applicants are International Satellites, Inc., backed by United Brands and by TRT, an international telex and telegram network, which like Orion wants to offer specialized service; RCA American Communications, Inc., a leader in domestic satellites; Cygnus Satellite Corporation, which wants to serve the Caribbean as well as Europe; and Pan American Satellite Corporation, which plans to serve Latin America. In the aftermath of these decisions, aficionados of regulatory policy should watch for several other benchmark policy choices. What rules will govern pricing and access to Intelsat? How vigorously will the United States support entry by American satellite carriers into other countries? What will these proceedings imply for entry by foreign satellite systems into those countries? Will the United States eventually decide to grant U.S. entry to new foreign common carriers—say, a French satellite system—and if so will it demand strict reciprocity for American carriers? How will new transoceanic telecommunications cables be coordinated with the international satellite system? How much supervision will the FCC exercise over the pricing agreements reached between American carriers and foreign PTTs? As the answers to these questions unfold, consumers will learn whether monopoly or competition will be the fate of the international telecommunications market. ■