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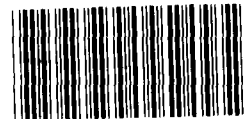
Report To The Chairman, Subcommittee On Government Information And Individual Rights, House Committee On Government Operations

The Federal Communications Commission's International Telecommunications Activities

The Federal Communications Commission's (FCC's) international telecommunications responsibilities include regulating international communications common carriers and allocating radio frequencies to non-Federal users.

FCC has stated that coordinating and planning international communications is one of its five management objectives. An international assistant to the Chairman and a coordinating committee were appointed to help achieve this objective.

As the FCC budget has decreased so have resources allocated to its international activities. Whether this decrease will impair FCC's ability to pursue U.S. telecommunications interests is uncertain.



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COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

B-207151

The Honorable Glenn English
Chairman, Subcommittee on
Government Information and
Individual Rights
House Committee on Government
Operations

Dear Mr. Chairman:

In response to your October 26, 1981, letter, we reviewed the Federal Communications Commission's (FCC's) international telecommunications activities and its organizational structure and resources for fulfilling its international communications responsibilities. We focused our work on FCC international activities relating to facilities, 1/ service and rate regulation, conferences, and the treatment of foreign entities in the United States. We reviewed FCC's coordination with other agencies on international telecommunications matters. We also identified issues for our future evaluation. The information we obtained is summarized below and discussed in detail in appendix II. A separate General Accounting Office (GAO) review will address in greater detail the adequacy of FCC's organizational structure and resources for carrying out its international responsibilities.

INTERNATIONAL TELECOMMUNICATIONS
AND THE FCC

International telecommunications is of vital importance to the United States. About \$2 billion in revenue was generated by the industry in 1980, about twice the 1976 revenue. Apart from its commercial significance, international diplomatic and economic activity, military preparedness, and cultural exchange all depend on an adequate network of international telecommunications facilities and services.

The Communications Act of 1934 (47 U.S.C. 151 et seq.) created FCC and gave it responsibility and authority to regulate non-Federal telecommunications. FCC's international telecommunications responsibilities include reviewing and authorizing communications facilities, services, and rates and allocating radio

1/Definitions of this and other terms used in this report are included in appendix I.

frequencies to non-Federal radio services. 1/ International activities, such as preparing for and attending international meetings and conferences, flow from these responsibilities. FCC has stated that coordinating and planning international communications is one of its five management objectives.

FCC's ORGANIZATIONAL STRUCTURE
FOR CARRYING OUT ITS INTERNATIONAL
COMMUNICATIONS RESPONSIBILITIES

FCC's international telecommunications responsibilities are carried out by eight bureaus and offices. 2/ The Office of Science and Technology, the Common Carrier Bureau, and the Broadcast Bureau carry out the bulk of FCC's international activities. On June 15, 1981, FCC appointed an Assistant to the Chairman for International Communications to help coordinate the international activities of these units. This official has no line authority over FCC's bureaus and offices. However, he is chairman of FCC's International Telecommunications Coordinating Committee (ITCC), which is made up of the heads of six FCC bureaus and offices that conduct international activities. This committee has met three times since it was created on October 6, 1981.

FCC coordinates its international communications activities with other Federal agencies such as the Departments of State, Defense, and Commerce, and the Office of the United States Trade Representative. This coordination is generally conducted informally through FCC officials in FCC's various bureaus and offices. FCC is also a member of the Interagency Committee on International Communications and Information Policy. This committee, chaired by the Department of State, was created in July 1981 to ensure effective interagency coordination of U.S. policy for international communication and information issues. The Departments of State, Defense, and Commerce, and the Office of the United States Trade Representative are also members of this committee.

RESOURCES FOR INTERNATIONAL
ACTIVITIES HAVE DECREASED

As the FCC budget has decreased so have its resources allocated to its international telecommunications activities. For

1/The National Telecommunications and Information Administration of the Department of Commerce is responsible for spectrum allocation to Federal Government services.

2/Detailed discussion on FCC's international activities and an organizational chart are included in apps. II and III.

fiscal year 1983, we estimated that FCC will allocate about 72 workyears, or 4.6 percent of its total workyears, to international activities. Workyears allocated in 1983 to the bureaus and offices for their international activities will decrease by about 17 percent from 1982 and about 24 percent from 1981. Funds for international travel will be cut by 30 percent from 1982. The Assistant to the Chairman for International Communications stated that there has not been a corresponding decrease in FCC's international responsibilities.

The budget stated that reductions in workyears and travel funds would affect FCC's participation in international conferences. FCC will reduce the number of participants at each conference and reduce participation in preconference planning meetings. The Assistant to the Chairman for International Communications told us that reducing FCC participation at these meetings will not necessarily reduce FCC's effectiveness because too many officials may have attended these meetings in the past. He and bureau and office officials stated that the impact of these reductions had not been studied. However, the budget stated that these reductions could impair FCC's ability to pursue U.S. interests in international telecommunications.

FCC's DECISIONS INVOLVING FOREIGN ENTITIES

Under its normal process for authorizing communications facilities, FCC considers factors such as technological development and consumer economies that can result from these developments. However, in several proceedings over the last few years, FCC has had to go beyond its traditional areas of expertise to consider foreign affairs, national security, and U.S. trade policy. Also, FCC has considered reciprocal treatment of foreign firms based on the treatment of U.S. firms by the foreign firms' governments. These considerations may require coordination with other Federal agencies with responsibilities in these areas, such as the Departments of State, Defense, and Commerce and the Office of the U.S. Trade Representative. However, no formal process exists for coordinating with these agencies, and FCC, an independent agency, maintains authority in such matters.

In a current facilities authorization proceeding FCC must decide whether the American Telephone and Telegraph Company (AT&T) should award a contract for a new fiber-optic cable to its wholly owned subsidiary, Western Electric Company, Inc., or to a lower bidding Japanese firm. In this proceeding, letters to FCC from members of the U.S. Congress and the Department of Defense raised national defense, international trade, and industrial security questions. The Japanese Embassy also submitted comments to FCC.

FCC contacted the Departments of State, Defense, and Commerce and the Office of the U.S. Trade Representative requesting these agencies' views on how FCC's decision would affect their areas of responsibility. The Departments of State and Defense submitted differing comments on the national defense implications of the decision. FCC is deciding the proceeding based on these comments and other available information. A meeting of the Interagency Committee on International Communication and Information Policy was not called on this matter.

The reciprocity issue was raised in 1979 when FCC was considering an application by the French Telegraph Cable Company, a company owned by the French Government, to extend its international record communications services to two new gateway cities, San Francisco and Washington, D.C., and to extend voice grade circuits between those cities and New York City. In this proceeding FCC concluded that it had authority under the Submarine Cable Landing Act (47 U.S.C. 21) to deny the French Telegraph Cable Company's petition. FCC stated that since the French Government prohibited U.S. carriers from operating in France, FCC authorization of the French Telegraph Cable Company's expansion in the United States would clearly violate congressional intent on reciprocity. FCC denied the petition.

FCC recently employed the reciprocity principle in a Caribbean facility authorization. FCC restricted a Canadian company's operations in the United States to the same conditions that Canada placed on U.S. facilities operating on its soil. In that proceeding, there was uncertainty within FCC on whether to consult with the State Department because of the foreign policy implications of the decision. A member of the Chairman's staff stated that formal coordination was not necessary because the matter was not primarily a foreign policy issue. FCC staff cleared the matter with the State Department when directed to do so by one commissioner.

FCC has established a group that will study reciprocity and try to establish a common basis of understanding on the issue within FCC. The group plans to produce a paper by June 1982.

RATE OF RETURN/RATE BASE
REGULATION OF INTERNATIONAL
COMMON CARRIERS

To carry out its responsibilities for regulating communications common carriers, FCC has used a form of price/earnings regulation that relies on rate of return/rate base regulation. Under this system, a regulatory agency attempts to simulate a competitive outcome by limiting a regulated firm's revenues to its cost of service, including a reasonable return on investment.

This involves determining the firm's reasonable costs of plant and expenses and the prices that it should charge for its products and services to cover its costs and provide a fair return to investors.

In May 1976 FCC ordered a preliminary audit of international voice and record carriers because rates had not been considered since 1958 and changes in service and facilities appeared to justify an audit. The 1979 preliminary audit report, prepared by FCC's Common Carrier Bureau, indicated that international record carriers' rates of return might be excessive. FCC, however, concluded that it was not necessary to begin a procedure to establish reasonable rates of return for these carriers. FCC stated that it would monitor the effects of its recent decisions that were intended to create more competition, which should control profits.

Section 220 of the Communications Act gives FCC the authority to prescribe depreciation rates for all carriers subject to regulation under the act. FCC has prescribed depreciation rates for AT&T's longlines division and one international record carrier. The Chief of FCC's Depreciation Rates Branch told us that FCC did not have the resources to prescribe depreciation rates for all international carriers.

FCC was authorized seven additional staff members in 1982 to revise the Uniform System of Accounts for voice and record communications carriers. FCC plans to concentrate its efforts on parts of the system pertaining to voice carriers, not the international record carriers. A Notice of Inquiry on the parts of the Uniform System of Accounts dealing with international record carriers may be published by June 1983.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of this review was to describe FCC's organizational structure and resources for fulfilling its international communications responsibilities and to identify issues for our future evaluation. We concentrated on FCC organizational units with the most international workyears and international activities relating to facilities, service and rate regulation, conferences, and the treatment of foreign entities in the United States. We did not evaluate the adequacy of FCC's organizational structure and resources for carrying out its international responsibilities. We did not review the activities of the Interagency Committee on International Communications and Information Policy, nor did we contact officials from other agencies that are involved in international communications matters. These tasks will be included in a subsequent GAO review.

This review was performed in accordance with our "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions." Our work was conducted at FCC headquarters in

Washington, D.C., during January, February, and March of 1982. The information in this report was developed based on discussions with more than 50 FCC officials and our review of related documents. We reviewed legislation; FCC's organizational manual; program evaluation reports; management by objectives records; activity status reports; budgets for fiscal years 1981 to 1983; personnel rosters; and other documents relating to FCC's organizational structure, resources, and international activities.

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At your request we did not take the additional time to obtain written agency comments on information contained in this report. However, we did discuss the report's contents with FCC officials, and their views are included where appropriate.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 3 days from its issue date. At that time we will send copies to the Chairman, Senate Committee on Commerce, Science and Transportation; Chairman, Subcommittee on Communications, Senate Committee on Commerce, Science and Transportation; Chairman, House Committee on Energy and Commerce; and the Chairman, Subcommittee on Telecommunications, Consumer Protection and Finance, House Committee on Energy and Commerce. We will also send copies to interested parties and make copies available to others on request.

Sincerely yours,



Henry Eschwege
Director

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ABBREVIATIONS

AT&T	American Telephone and Telegraph Company
COMSAT	Communication Satellite Corporation
FCC	Federal Communications Commission
GAO	General Accounting Office
ITCC	International Telecommunications Coordinating Committee

GLOSSARY

Common carrier	A company, organization, or individual providing wire or electronic communications services for hire.
Facility	The means by which telecommunications are conducted, including satellite, radio, and cable.
International Telecommunications Union	A United Nations-related organization with responsibilities in international communications.
Notice of Inquiry	When FCC determines that it does not have enough information to support a proposal to amend the rules, it may adopt and publish a Notice of Inquiry requesting the public to provide it with more information and details on specific issues.
Rate of return regulation	A method of regulation allowing a regulated firm to earn revenues equal to its cost of service, including a fair return to stockholders and bondholders. Such regulation attempts to prevent firms from receiving unregulated monopoly profits but still allows them to attract new capital.
Radio spectrum	The full range of frequencies on which radio communications may be conducted.
Reciprocity	An exchange of favors or privileges such as mutual action or removal of restrictions to free trade in communications. It is a state or relationship in which something is done or given in return for equivalent action.
Record carrier	A company, organization, or individual providing communications services that generally result in some form of hard copy, such as a telegram.
Uniform System of Accounts	An accounting system prescribed by FCC for common carriers.

FCC's INTERNATIONAL ACTIVITIES

The Communications Act of 1934 (47 U.S.C. 151 et seq.) created FCC to regulate interstate and foreign communications by wire and radio, including telephone, telegraph, and broadcast. The Communications Satellite Act of 1962 (47 U.S.C. 701 et seq.) gave FCC responsibility for regulating the Communications Satellite Corporation (COMSAT), a private corporation established to own and operate the U.S. portion of the global satellite system.

The international telecommunications market

The international telecommunications system consists of (1) the part that distributes international traffic within the United States, (2) the part that sends communications between the United States and other countries, and (3) the part at the foreign end of international telecommunications circuits.

Until recently, AT&T and Western Union had virtual control of international traffic distribution within the United States. Overseas facilities are furnished largely by AT&T and COMSAT. AT&T and the international record carriers are the major service providers. At the foreign end of international circuits, communications is often controlled by monopoly enterprise and governmental administration or centrally controlled public or private corporations, which usually provide postal services, telegraph, and telephone service.

FCC and the Congress have recently taken steps to open the international telecommunications market to more competition. International record carriers may now provide service to additional gateway cities. Western Union, formerly restricted to domestic service, is now authorized to deliver international services. FCC has also authorized new international record carriers. Foreign countries, however, often do not favor increased competition and have the power to erect barriers to new entry relating to interconnection, frequency management, and other technical standards. In addition, AT&T's size dwarfs all other carriers, even when only its overseas operations are considered.

FCC's international responsibilities and related activities

FCC's international responsibilities include reviewing and authorizing international telecommunications facilities, services, and rates, and regulating the non-Federal use of the radio spectrum. Related activities include preparing for and attending facilities planning and spectrum management meetings and conferences. FCC has stated that coordinating and planning international communications is one of its five management objectives.

Common carrier facilities,
services, and rates

As part of its responsibilities for reviewing and authorizing telecommunications facilities, FCC participates in studying, planning, and implementing international facilities (such as cables and satellites) with U.S. international carriers, their foreign counterparts, and affected foreign countries. For example, as part of the North Atlantic facilities planning process, FCC participates in meetings with officials from other Federal agencies, the U.S. telecommunications industry, and European and Canadian entities to plan facilities for the North Atlantic telecommunications network.

FCC reviews and authorizes tariffs; that is, the charges, practices, classifications, and regulations of U.S. international carriers to ensure that they are just and reasonable. This involves FCC in the review of the carriers' accounts, records, and memoranda that support the tariffs.

Radio spectrum management

FCC is also responsible for allocating radio frequencies to non-Federal radio services. The National Telecommunications and Information Administration of the Department of Commerce is responsible for allocations to Federal agencies.

The radio spectrum consists of all radio frequencies on which radio communications can be conducted through electromagnetic waves. FCC's function is to encourage the most effective use of this resource.

The radio spectrum is shared by all countries, and close national and international coordination is essential to ensure the greatest use of limited spectrum space. The allocation of frequency bands and the assignment of specific frequencies take into consideration the requirements of many radio services and minimize actual or potential interference.

National frequency planning or "frequency management" deals with current and long-term problems, such as new demands for spectrum as communications satellites and other space applications increase.

International allocations, technical requirements, and operating standards are developed through the International Telecommunication Union in Geneva, Switzerland. The Union, a specialized agency of the United Nations, is the world's oldest continuously active international organization, having been founded in 1865.

FCC's ORGANIZATIONAL STRUCTURE
FOR CARRYING OUT ITS INTERNATIONAL
TELECOMMUNICATIONS RESPONSIBILITIES

FCC is an independent Federal agency headed by seven Commissioners, one of whom serves as Chairman. The Commissioners supervise all FCC activities, delegating responsibilities to staff and committees of Commissioners. Eight FCC bureaus and offices are involved in international matters. The Office of Science and Technology, Common Carrier Bureau, and Broadcast Bureau carry out most of FCC's international activities. The Private Radio Bureau, Field Operations Bureau, Office of Plans and Policy, Office of General Counsel, and Office of the Managing Director are also involved with international matters. FCC appointed an Assistant to the Chairman for International Communications and a committee to coordinate the international activities of these units.

Office of Science and Technology

The Office of Science and Technology has international communications responsibilities for meetings and conferences, technical planning, technical standards, and treaty implementation relating to spectrum management. Its International Staff has preparatory responsibility for conferences, including those sponsored by the International Telecommunications Union. The Spectrum Management Division is responsible for allocating and assigning domestic frequencies based on international treaties and agreements. The Division's Treaty Branch is responsible for interpreting treaty obligations relating to radio frequency.

Common Carrier Bureau

The Common Carrier Bureau is responsible for regulating facilities, services, rates, and practices of international common carriers. Most of the Bureau's units have international responsibilities. The Assistant Bureau Chief/International manages and directs the Conference Staff, the International Facilities Planning Division, and the International Facilities Authorization and Licensing Division. These units' activities are wholly related to international communications. Other international activities within the Bureau, such as rate of return/rate base regulation are not under the control of the Assistant Bureau Chief/International. These other activities are conducted by the Program Evaluation Staff; the Accounting and Audits, Economics, Policy and Program Planning, Enforcement, Tariff, and Hearing Divisions; and the Satellite Radio and Network Analysis Branches within the Domestic Facilities Division.

Under the Assistant Bureau Chief/International, the Conference Staff coordinates the development of policies and positions for FCC participation in international conferences relating to common carrier matters. The International Facilities Planning Division develops guidelines and standards for implementing or discontinuing services and facilities. This division prepares

for facilities planning conferences, such as the July 1982 North Atlantic conference in Rome. This conference will develop guidelines for constructing cables and satellites for the North Atlantic between 1985 and 1995. The International Facilities Authorization and Licensing Division develops and recommends rules and procedures for authorizing and regulating international common carrier facilities and services via satellite, radio, wire, and submarine cable and processes common carrier service and facilities applications.

Broadcast Bureau

The Broadcast Bureau has responsibility for developing, recommending, and administering policies and programs for the regulation of all radio and television broadcast industry services. These responsibilities include providing support for international conferences relating to broadcasting, processing applications for radio and television services based on international agreements, and evaluating proposed service assignments in other countries with which the United States has broadcasting agreements. These responsibilities are carried out by the Office of the Bureau Chief, the Broadcast Facilities Division, and the Policy and Rules Division. The Technical and International Branch, within the Policy and Rules Division, has primary responsibility for the Broadcast Bureau's international activities.

Other organizational units with international responsibilities

Five other FCC bureaus and offices have international responsibilities. The Private Radio Bureau is responsible for regulating private radio services, including administering aviation and maritime radio services. The Field Operations Bureau's international responsibilities primarily relate to spectrum management, including monitoring for international frequency interference. The Office of Plans and Policy is responsible for participating in the development of international communications policy, but it does not have a direct operational role or primary responsibility for any international issue. The Office of General Counsel's responsibilities include interpreting the statutes and international agreements affecting FCC. The International Telecommunications Section within the Office of the Managing Director is responsible for processing accounting settlements to foreign countries. We did not examine the activities of these five FCC units in detail in this review.

Assistant to the Chairman for International Communications

On June 15, 1981, FCC announced the appointment of an Assistant to the Chairman for International Communications. In serving as a focal point for international activities, the Assistant's responsibilities include

- advising the Chairman and Commissioners in matters of international communications policy development;
- coordinating FCC staff, interagency activities, and international conference planning;
- reporting to and coordinating with the Congress on all significant matters; and
- representing the Chairman at meetings and conferences, as appropriate.

This Assistant officially reports to the Chairman, but he has provided assistance to other Commissioners. He is also chairman of FCC's International Telecommunications Coordinating Committee. He chaired the U.S. delegation at the Regional Administrative MF (medium frequency) Broadcasting Conference for the Western Hemisphere which was concluded in December 1981. He has met with Members of Congress and congressional staff and prepared FCC's responses to questions raised in congressional hearings. He has coordinated with the Under Secretary of State for Security Assistance, Science and Technology, on international communications matters such as the 1981 broadcasting conference.

International Telecommunications Coordinating Committee

ITCC was created in October 1981 to "serve as a mechanism to assist in focusing the varying international functions of the involved Commission elements * * *." This committee meets when necessary, according to FCC officials. ITCC has met three times since it was created. It did not meet in November and December 1981 when the Assistant to the Chairman for International Communications was in Rio de Janeiro heading the American delegation at the 1981 broadcasting conference and was, therefore, not available to chair ITCC meetings.

Minutes were not maintained for ITCC meetings, but personal notes provided by one attending official indicated that the international travel budget, international meetings and conferences, and congressional testimony were discussed at these meetings. ITCC established a working group to explore reciprocity options for FCC.

FCC's COORDINATION WITH OTHER AGENCIES ON INTERNATIONAL MATTERS

FCC has coordinated with other agencies on international communications matters, generally on an informal basis through officials from at least seven FCC bureaus and offices. The nature and context of a given international communications matter has dictated what interagency coordination is necessary and the level of that communication.

The Office of the Assistant to the Chairman for International Communications was established as a focal point within FCC for coordinating international communication matters. However, offices and bureaus still have authority and responsibility for coordinating routine matters with other agencies. The Assistant to the Chairman has been involved and coordination has been more formal on some issues. For example, the International Assistant said that he coordinated with the State Department regarding the 1981 broadcasting conference. He also coordinated with the State Department regarding record carrier rates charged the world press, which was primarily the responsibility of the Common Carrier Bureau. FCC documentation confirmed coordination with the State Department regarding a Caribbean facility issue that was recently before FCC.

FCC, the Departments of State, Defense, and Commerce, and the Office of the United States Trade Representative are members of the Interagency Committee on International Communications and Information Policy. This committee, chaired by the Under Secretary of State for Security Assistance, Science and Technology, was established on July 10, 1981, to ensure effective interagency coordination of U.S. policy for international communication and information issues. At the last meeting of this committee, which was held in October 1981, the U.S. position for the Regional Administrative MF Broadcasting Conference was discussed, according to the Assistant to the Chairman for International Communications.

WORKYEARS ALLOCATED TO INTERNATIONAL ACTIVITIES HAVE DECREASED

As the FCC budget has decreased so have its workyears allocated to its international telecommunications activities. FCC has requested an appropriation of about \$74 million for fiscal year 1983, about \$3 million less than the 1982 budget and about \$6 million less than the agency expended in 1981. We estimate that 4.6 percent of the workyears contained in FCC's proposed budget for 1983 are for international activities. Workyears allocated to the bureaus and offices for their international activities will decrease by about 17 percent from 1982 and about 24 percent from 1981. The Assistant to the Chairman for International Communications stated that there has not been a decrease in FCC's international responsibilities.

We estimate that FCC's fiscal year 1983 budget contains about 72 workyears for international activities. The Commissioners' offices spend about 18 percent of their time on international matters, based on estimates provided by the Commissioners' professional assistants. This is equivalent to about 10 workyears in the 1983 budget. The Office of Science and Technology, the Common Carrier Bureau, and the Broadcast Bureau have been allocated a total of 53 workyears for international activities in the 1983 budget, about 73 percent of the international workyears. Other offices and bureaus have been allocated about 10 workyears for international activities in fiscal year 1983.

The following table provides details on workyears allocated to FCC's bureaus and offices for international activities for fiscal years 1981 to 1983. It was prepared based on data in the fiscal year 1983 proposed budget and discussions with FCC program and budget officials. Workyears allocated to the Commissioners were not included because this information could not be computed for the 3 years.

	<u>FCC Workyears Allocated to International Activities</u>			
	<u>FY 1981 (actual)</u>	<u>FY 1982 (estimated)</u>	<u>FY 1983 (estimated)</u>	<u>Change since FY 1981</u>
Office of Science and Technology	27	25	21	-6
Common Carrier Bureau	28	26	25	-3
Broadcast Bureau	14	13	7	-7
Other bureaus and offices	<u>13.45</u>	<u>11.2</u>	<u>9.8</u>	<u>-3.65</u>
Total international activities	<u>82.45</u>	<u>75.2</u>	<u>62.8</u>	<u>-19.65</u>
Total bureau and office activities	2,083	1,938	1,538	-545
International-- percent of total bureau and office activities	<u>4</u>	<u>4</u>	<u>4</u>	

The international workyears of the Office of Science and Technology would continue to decrease under the proposed budget for fiscal year 1983. The proposed budget indicates that this decrease will be offset by increased computer support. However, the availability of computer support is uncertain, according to the office's Deputy Director. International travel funds allocated to the Office of Science and Technology would also be reduced under the proposed budget. This reduction will result in decreased participation in international meetings and conferences, according to the budget statement. An increase in the frequency assignment backlog could result from the cuts in staff even with increased computer support, according to the Chief of the office's Spectrum Management Division.

The Common Carrier Bureau's international program will lose 1 workyear from fiscal year 1982 under the proposed fiscal year 1983 budget. According to the budget impact statement, the reduction will impair FCC's ability to pursue U.S. interests in international telecommunications by affecting agency participation in international conferences.

The Broadcast Bureau would lose 6 of its 13 fiscal year 1982 international workyears under the proposed fiscal year 1983 budget. This reduction could result in greatly reduced preparation and participation in international conferences by the Bureau, according to the budget impact statement. The budget states that lack of broadcast expertise in conference preparation and participation could weaken FCC's position at international conferences.

TRAVEL FUNDS AND WORKYEARS FOR
INTERNATIONAL MEETINGS AND
CONFERENCES ARE BEING REDUCED

Based on responsibilities contained in the Communications Act and other statutes, FCC participates in many international communications meetings and conferences, such as those relating to facilities planning and spectrum management. These conferences involve exchanging technical information and working out operational problems on a multilateral basis with foreign countries. FCC personnel often head the U.S. delegations to these conferences because of their technical expertise.

FCC's fiscal year 1983 budget shows reduced travel funds and workyears relative to FCC's participation in international meetings and conferences. Funds allocated to international travel will be cut by about 30 percent from 1982 under the proposed budget. A reduction of workyears allocated to the Office of Science and Technology, the Common Carrier Bureau, and the Broadcast Bureau for their international activities will reduce FCC's participation at international meetings and conferences. According to the budget impact statement, FCC will reduce the number of participants at each conference and reduce participation in preconference planning meetings.

The Assistant to the Chairman for International Communications told us that reducing FCC participation at these meetings will not necessarily reduce FCC's effectiveness because too many officials may have attended these meetings in the past. However, he and bureau and office officials stated that the impact of these reductions had not been studied. The budget stated that these reductions could impair FCC's ability to pursue U.S. interests in international telecommunications.

FCC'S DECISIONS INVOLVING
FOREIGN ENTITIES

Under its normal process for authorizing communications facilities, FCC considers factors such as technological development and consumer economies that can result from these developments. However, in several proceedings over the last few years, FCC has had to go beyond its traditional areas of expertise to consider foreign affairs, national security, and U.S. trade policy. FCC has also considered reciprocal treatment of foreign firms based on the treatment of U.S. firms by the foreign firms' governments. These considerations may require coordination with other Federal agencies with responsibilities in these areas, such as the Departments of State, Defense, and Commerce and the Office of the U.S. Trade Representative. However, no formal process exists for coordinating with these agencies, and FCC, an independent agency, maintains authority in such matters.

In a current facilities authorization proceeding, FCC must decide whether the American Telephone and Telegraph Company (AT&T) should award a contract for a new fiber-optic cable to its wholly-owned subsidiary, Western Electric Company, Inc., or to a lower bidding Japanese firm. In this proceeding, letters to FCC from members of the Congress and the Department of Defense raised national defense, international trade, and industrial security questions. The Japanese Embassy also submitted comments to FCC.

FCC contacted the Departments of State, Defense, and Commerce and the Office of the U.S. Trade Representative requesting these agencies' views on how FCC's decision would affect their areas of responsibility. The Departments of State and Defense submitted differing comments on the national defense implications of the decision. FCC is deciding the proceeding based on these comments and other available information.

The Defense Department supported awarding the contract to the lowest cost domestic supplier (Western Electric) because of national security and emergency preparedness interests. The particular considerations cited were:

- Survivability features of fiber-optics technology and the difficulty of foreign commercial supplier participation in the application of such features to the U.S. domestic long-haul telecommunications network.
- Adverse impact upon domestic research and development capability in the application of fiber-optics technology.
- Benefits to the U.S. defense industrial base and emergency mobilization preparedness of reliance upon domestic suppliers.

The Department stated that the "national defense" purpose of the Communications Act and the national security/emergency preparedness concerns discussed in its comments warranted FCC's approval of AT&T's decision to award the contract to the lowest cost domestic supplier.

In contrast, the Department of State wrote that the national security concerns raised in the case were probably taken care of by the contract specifications requiring that the successful bidder provide a 6-month supply of spare parts and all blueprints and technical specifications. The State Department letter stated that it could be argued that our national security would best be served by installing the most technically advanced and reliable system and that any decision to sanction discrimination against a foreign firm would have trade implications affecting our bilateral relations with that country and our multilateral obligations.

The Office of the United States Trade Representative wrote that, in responding to FCC's request, it had to differentiate between the prerogatives of AT&T and the international obligations of the U.S. Government. AT&T was a private sector firm; therefore, it was not bound by the international trade agreements program of the United States and was free to purchase from whatever supplier it considered to be beneficial to its commercial interest. The Department of Commerce wrote a letter that agreed substantially with the comments of the Office of the United States Trade Representative.

FCC is deciding the proceeding based on currently available information. On March 30, 1982, the Chief, Common Carrier Bureau, told us that Government agencies often submitted conflicting opinions in FCC proceedings. He said that FCC must reach an independent decision on available information. A meeting of the Interagency Committee on International Communication and Information Policy was not called on this matter.

The reciprocity issue was raised in 1979 when FCC was considering an application by the French Telegraph Cable Company, a company owned by the French Government, to extend its international record communications services to two new gateway cities, San Francisco and Washington, D.C., and to extend voice grade circuits between those cities and New York City. In this proceeding FCC concluded that it had authority under the Submarine Cable Landing Act to deny the French Telegraph Cable Company's petition. FCC stated that since the French Government prohibited U.S. carriers from operating in France, FCC authorization of the French Telegraph Company's expansion in the U.S. would clearly violate congressional intent on the issue of reciprocity. FCC denied the French Telegraph Cable Company's petition.

The Assistant Bureau Chief/International, Common Carrier Bureau, said that FCC also construes the 1934 Communications Act to include reciprocity authority under its public welfare provisions. This interpretation might bring up a challenge in court.

FCC recently employed the reciprocity principle in a Caribbean facility authorization. FCC restricted a Canadian company's operations in the U.S. to the same conditions that Canada placed on U.S. facilities operating on its soil. In that proceeding there was uncertainty within FCC on whether to consult with the State Department because of the foreign policy implications of the decision. A member of the Chairman's staff stated that formal coordination was not necessary because the matter was not primarily a foreign policy issue. However, FCC staff cleared the matter with the State Department when directed to do so by one Commissioner.

The Deputy Bureau Chief, Common Carrier Bureau, said that FCC has no set policy on reciprocity; it solicits input from other agencies if these agencies express interest. He said that reciprocity was a recent issue and therefore no formal interagency networks of coordination had been established as yet.

ITCC recently established a group under the direction of the Special Assistant to the General Counsel that will study reciprocity and how it affects FCC. The group will try to establish a common basis of understanding on reciprocity within the agency. The Special Assistant to the General Counsel said that the group will produce a paper by June 1982.

FCC'S RATE OF RETURN/RATE BASE
REGULATION OF INTERNATIONAL
COMMON CARRIERS

To carry out its responsibilities for regulating communications common carriers, FCC has used a form of price/earnings regulation that relies on rate of return/rate base regulation. Under this system, a regulatory agency attempts to simulate a competitive outcome by limiting a regulated firm's revenues to its cost of service, including a reasonable return on investment. This involves determining the firm's reasonable costs of plant and expenses and the prices that it should charge for its products and services to cover its costs and provide a fair return to investors.

The broad subject of rates, rates of return, and investment of international record carriers was not considered by FCC between 1958 and 1976. The Chief, Accounting and Audits Division, told us that FCC usually begins a rate of return proceeding when service rates are increasing. A public utilities specialist in FCC's Tariff Review Branch said that international record carrier rates have shown some decreases and no increases over the last 10 years.

In May 1976 FCC ordered a preliminary audit and study of the operations of international voice and record carriers because rates had not been considered since 1958 and because changes in service and facilities of international carriers appeared to justify an investigation. The Commission's principal goal was to determine the lawfulness of the rates of international carriers, including consideration of the extent to which there may be

unlawful cross subsidies among various services or between particular routes or geographic operating areas of respective carriers.

FCC found that the International Record Carrier's past levels of return may have been excessive and resulted in cross subsidization between services. The agency stated it did not begin legal action because the reliability of the data provided by the carriers was questionable. FCC stated that rather than begin a formal rate of return proceeding for international record carriers, it would monitor the effects of several recent FCC decisions relating to the international telecommunications market. These decisions were intended to encourage competition by eliminating barriers to market entry. FCC stated that a more competitive market would control profits.

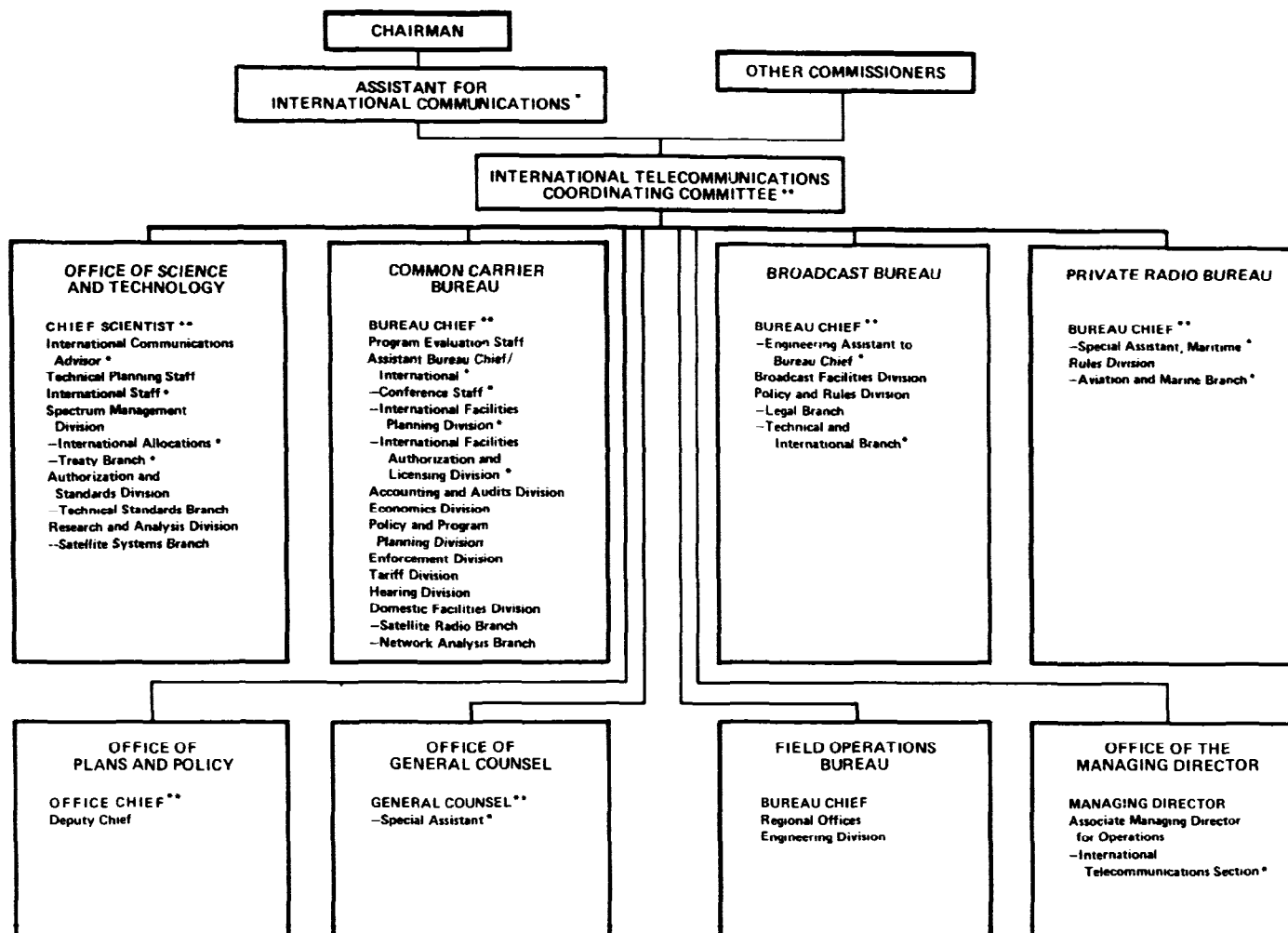
FCC began a rate of return proceeding for one international record carrier. The proceeding originally included an investigation into the rate base, expenses, and rate of return of the carrier. In order to expedite the proceeding, which FCC estimates would take 2 or 3 years as originally structured, FCC later terminated the investigation into the rate base and expenses and decided to focus on the carrier's rate of return. However, the Assistant Bureau Chief/International, Common Carrier Bureau, told us that without the rate and expenses inquiry, the rate of return information would be questionable.

Section 220(b) of the Communications Act gave FCC authority to prescribe depreciation rates for all carriers subject to the act. With one exception, however, FCC has not prescribed any depreciation rates for international record carriers. FCC has accepted the rates that each carrier has filed. FCC has not exercised control over the accuracy or validity of these depreciation rates and has accepted whatever material was filed without review or evaluation.

The Chief, Depreciation Rates Branch, told us that FCC did not have the resources to prescribe depreciation rates for all international carriers so it concentrated its efforts where it believes they will be most effective. For instance, every 3 years the Depreciation Branch does a complete study of AT&T longlines' depreciation rate, which does include depreciation of AT&T's international facilities.

FCC was authorized seven additional staff members in 1982 to revise the Uniform System of Accounts for both voice and record carriers. The 1979 preliminary FCC audit report said that the Uniform System of Accounts was anachronistic because it has not been revised to reflect technological change and current business practices. These seven staff members will primarily rewrite Part 31 of the Uniform System of Accounts, which pertains to voice carriers. As time permits, the staff will lay the groundwork for a Notice of Inquiry for revising Parts 34 and 35, the parts dealing with record carriers. This Notice of Inquiry may be published by June 1983.

FCC ORGANIZATION FOR INTERNATIONAL ACTIVITIES



*The duties of these organizational units primarily relate to international communications. All others contribute to international activities, but their primary duties do not necessarily relate to international communications.

**The standing membership of the ITCC consists of the Chiefs of the Common Carrier, Private Radio and Broadcast Bureaus, the Chief Scientist, Chief, Office of Plans and Policy; and the General Counsel. The ITCC is chaired by the Assistant to the Chairman for International Communications.

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