CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 24, 1999

S. 376
Open-Market Reorganization for the Betterment of International Telecommunications Act

As ordered reported by the Senate Committee on Commerce, Science, and Transportation on May 5, 1999

SUMMARY

S. 376 would amend existing law regarding the federal regulation of international satellite communications systems and their relationship to the U.S. market. A treaty-based entity—the International Telecommunications Satellite Organization (INTELSAT)—currently provides satellite-based communications services worldwide. A private company, COMSAT, serves as the U.S. signatory to the organization and, under current law, has the right to market its services. This bill would establish U.S. policy regarding the privatization of INTELSAT and would direct the President, the Federal Communications Commission (FCC), and COMSAT to implement those policies. If the privatization fails to occur in a manner consistent with the criteria and deadlines in the bill, the President would be required to pursue various remedies, including having the U.S. withdraw from INTELSAT. Other provisions in the bill would revise the statutory guidelines for U.S. participation in the International Mobile Satellite Organization following its privatization in April 1999, and would repeal most of the statutory conditions on COMSAT's financing and operations.

Assuming appropriation of the necessary amounts, CBO estimates that implementing S. 376 would cost about about about $1 million over the 2000-2004 period if INTELSAT meets the privatization standards in the bill. If triggered, the sanctions for failing to meet the privatization criteria would affect discretionary spending for procuring and regulating telecommunications services, but CBO has no basis for estimating any such costs. The bill would not affect direct spending or receipts; therefore, pay-as-you-go procedures would not apply.

S. 376 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal

governments. Provisions in this bill may affect COMSAT and end users of INTELSAT services if INTELSAT does not meet the privatization criteria outlined in the bill.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO estimates that federal agencies would spend about $1 million over the 2000-2004 period to complete the various reports and negotiations required by S. 376. CBO expects that most of these costs would be incurred by the Department of State, which along with the Department of Commerce implements U.S. policy with regard to such international organizations. According to the FCC, the commission's workload would not change significantly if the privatization of INTELSAT meets the conditions specified in the bill.

Most observers expect that INTELSAT will be privatized by 2002, but there is a chance that the new entity may not satisfy some of the criteria in S. 376. Should that occur, S. 376 would require that the U.S. withdraw as a party to INTELSAT. In addition, INTELSAT would not be allowed to market its services or capacity directly to end users (other than to the U.S. signatory, COMSAT) unless the privatization criteria are met.

If triggered, the bill's sanctions would affect the government's spending for certain international telecommunications services. But CBO has no basis for estimating the magnitude of the potential costs because we cannot predict how the FCC would reconcile the need to maintain access to INTELSAT satellites while complying with the bill's restrictions on the marketing of its services if the privatization is deemed deficient. Agencies that purchase certain services directly from COMSAT, such as the Department of Defense, might need to renegotiate contracts or modify equipment if the sanctions were to require a change in suppliers. On the other hand, their costs could be negligible if the FCC determined that COMSAT could continue to provide INTELSAT services. Agencies that use INTELSAT services through government contracts with Sprint and MCI WorldCom would be affected only if those companies changed their prices as a result of the sanctions.

According to agency officials, the FCC would play a key role in implementing these sanctions, including determining the terms and conditions under which U.S. market could continue to have access to INTELSAT services. CBO estimates that FCC's role in the implementation of such sanctions would have no net budgetary impact, because the commission is authorized under current law to collect fees from the telecommunications industry sufficient to offset the cost of its regulatory and applications activities.

PAY-AS-YOU-GO CONSIDERATIONS: None.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

S. 376 contains no intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

S. 376 would impose no new private-sector mandates as defined in the UMRA. Provisions in this bill may affect COMSAT and end users of INTELSAT services if INTELSAT does not meet the privatization criteria outlined in the bill.

Based on information from the FCC, COMSAT, and INTELSAT, CBO expects that INTELSAT would be privatized by the January 1, 2002, deadline. If INTELSAT does not privatize in a manner consistent with the criteria set forth in the bill, the bill would direct the United States to withdraw as a party from INTELSAT. Upon withdrawal, COMSAT would no longer be the U.S. signatory and therefore could not be an investor in INTELSAT, which would reimburse COMSAT for its investment. That reimbursement would be made at the book value of the stock rather than its market value, causing a loss for COMSAT. COMSAT would probably still be permitted to sell INTELSAT services to U.S. customers in a non-signatory capacity.

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