

So some will lead, while others follow.
Some will be warm, others cold
Some will be strong, others weak.
Some will get where they are going
While others fall by the side of the road.

From the Tao Te Ching, Lao Tzu, c.600 B.

Chapter 1

Beginnings

When international callback burst onto the scene in the early 1990's, no one, especially me, believed that callback would ever become a serious contender to compete for the very lucrative international telephone traffic handled by the world's incumbent telephone carriers. The decades old system of bilateral agreements, which was supported by the International Telecommunications Union (commonly known as the "ITU"), fostered an artificially high pricing structure for international telephone calls. The national telecommunications companies (mostly government owned) simply set rates for international calls that were often completely independent of the costs involved. This allowed the companies to establish rates for international calls based on what they could get away with -- charging consumers for using what was a tightly controlled monopoly service, regardless of the actual costs or value of the service provided.

But, legions of entrepreneurs saw an enormous opportunity, and began to vigorously attack the telecom market. This revolution started with international callback. International callback was especially insidious since it used the existing public network in an innovative way to reduce the cost of making international calls. It was highly innovative, difficult to detect, and almost impossible to stop.

In 1992 I designed a callback system using AT&T products and

sold by AT&T salespeople, which only further confused the issue of the legality of callback. Callback, with its gray market technology, offers a considerable reduction in cost to overseas callers, and high revenues and margins to service providers. By 1995, when *The International Callback Book, An Insider's View* was published, callback had achieved over \$250 million in annual revenues. A drop in the bucket percentage wise, but a highly visible demonstration of the virtues of free market competition. That book, and callback, received a lot of attention, and was discussed, and presumably, "cussed" around the world. I became a hero, or a heel, depending on your point of view.

In 1996, Dr. Pekka Tarjanne, then the Secretary General of the International Telecommunications Union, pointed his finger at me following a press conference in Singapore, and said, "I know who you are and what you are doing to us!" At that moment, I knew that callback had succeeded in doing what years of negotiation, legal maneuvering and outright threats had failed to do. Callback had won, and the world's telecom markets were finally opening up to competition.

Callback had slam dunked competition in an arena that was structured from its very beginning to be the province of monopoly operators. Just 20 years earlier in the United States, the monopolistic national carrier, AT&T, had declared that it was a "natural monopoly" and should not be answerable to accusations of anti-trust. Natural Monopoly? And in the United States? Were they kidding? Monopolies could never carry the label of "natural," could they? Didn't it take an incredible series of legal and regulatory supports to maintain this unlegislated position? What is natural about a vast series of artificial supports designed to eliminate any potential competitive threat?

But in the global arena, many monopolistic national carriers actually believed that their positions were beyond "natural." In many of these venues where kings like Louis XIV had ruled, the PTT monopolies acted as if they held their privileged positions because they were imbued by divine inspiration.

The international competitive telecommunications scene has come a long way since its humble, if not tumultuous, beginnings.

In fact there are credible estimates that non-traditional carriers will handle over US\$20.5 billion worth of international telephone traffic in 2002! Considering that just a few years ago (1991) callback was barely a blip on the world telecommunications radar screen, this is quite a development.

By anybody's standards, an industry like the competitive international long distance "industry", with over \$20 billion per year in revenue is a significant industry. Perhaps it is time for even the most skeptical observers to start considering what this phenomenon is all about.

I hesitate to call this an "industry," because it really is not an industry in itself. An industry is a definable set of products and/or services meeting a specific set of needs and requirements for a group of customers. International competitive long distance does not meet even a liberally interpreted definition of an industry. It is a method for accessing a network where a more traditional method does not exist.

Should callback be discounted because of its humble and sometimes questionable roots?

When Henry Ford started puttering around the Michigan landscape in his motorized carriage, many farmers (who would later reap major benefits from his new invention) were very critical. They saw Ford's contraption as nothing but a reckless nuisance that created noise, caused horses to bolt and endangered the lives of other people in horse drawn carriages, not to mention pedestrians. The horseless carriage was also accompanied by what detractors described as a "very bad odor." (It should be noted that some critics claim that callback also has a similarly repugnant odor.)

Later on, these same farmers found that Mr. Ford's invention could also plow fields at a rate several times faster than horse drawn rigs, and allow access to markets many miles away. They, of course, fell in love with the smelly, noisy contraption.

Likewise, some callback detractors, like PTT's (Post, Telephone and Telegraph) that felt threatened by any form of uncontrolled competition, began to warm to the idea of easy access to networks

outside their own borders. One of the most stringent persecutors of callback actually bought an interest in a callback company, and also offered its own callback services in other countries.

Most new industries have similar humble roots. These industries are created by entrepreneurs, inventors and other very creative people with grand, new ideas. But, it is a human trait that the establishment almost immediately rejects new ideas (regardless of how good they may be) for the very reason that they are new.

When MCI first came on the scene in the US in the early 1970's, there were no ticker tape parades. MCI was treated with a great deal of suspicion and skepticism. Today, MCI is not only one of the darlings of Wall Street, but is the recognized pioneer of the competitive long distance industry -- starting the competitive telecommunications trend that has continued throughout the world.

In fact, it might be said that the degree of scorn shown callback by the established telephone community -- carriers, local operators and government regulatory agencies -- demonstrates exactly how exciting and significant this new industry has become.

The concept of a new world telecommunications order is not exactly a radical idea. Those of us in the United States may remember that Bill Clinton and Al Gore made the new world telecommunications order a major issue in their reelection campaign. It is now evident that even seemingly radical restructuring, such as the Telecommunications Act of 1996, doesn't offer enough change, at a fast enough pace, to meet the continuously metamorphose that consumers demand.

The United States is arguably the most liberalized telecommunications country in the world. The domestic and international long distance marketplaces are almost completely open to anyone with the time, money and talent to explore the world's largest telecommunications market. Provisions in the US's 1996 Telecommunications Act have even opened up parts of local service provisioning (previously the exclusive domain of the local exchange carrier [LEC]) to competition, which was long thought to be the Lost City of Gold within the telecom community. But, after

the initial rush by competitors into the local service market, it has lost its luster, and even well-financed competitors are falling by the wayside. Thus, there is still very little competition in that sector, with LECs controlling 99% of the local service market. So, even in the US, there are many areas of telecommunications that remain virtual monopolies despite all the attempts at liberalization over the years.

With the exception of a handful of countries, the majority of the world has a long way to go before there is a true competitive telecom structure in place. Although there are many sectors in the US where competition has brought benefits, those areas remain untapped elsewhere, i.e. long distance, international long distance, local service, information enhanced services, voice mail and messaging systems and even the equipment used for telecommunications.

Things are changing and changing very rapidly. There are over 200 tele-countries in the world today. Each one has a different set of standards and varying sets of rules and regulations. Within each one of them a different political environment exists that dictates the roll out of true telecommunications competition. The political climate will be the most significant factor in the development of the individual tele-countries' telecommunications competition policies.

Many look at the telecommunications picture in the world today and see a riddle or a problem. Others look at it and see a golden opportunity waiting to be seized. This book explores the position of competitive telecommunications as it is in the world today and what direction it is likely to head -- from a rutted dirt road to a superhighway of fast moving ideas, any one of which the business community may appropriate as the next great opportunity.