

TeleGeography's Bandwidth Pricing Report

Pricing Analysis for Bandwidth Pricing Database Service Subscribers

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This is the inaugural issue of TeleGeography's **Bandwidth Pricing Report**, an exclusive service provided to subscribers of TeleGeography's Bandwidth Pricing Database Service.

Each month's issue will feature an updated **Price Watch**, which provides a snapshot of recent pricing developments on nine of the most important city-to-city routes worldwide. Each edition will also include an article that takes a more in-depth look at factors driving market developments. This month's issue examines recent trends in transoceanic capacity pricing, and the outlook for the year ahead.

Trans-Atlantic and Trans-Pacific Bandwidth Pricing Trends

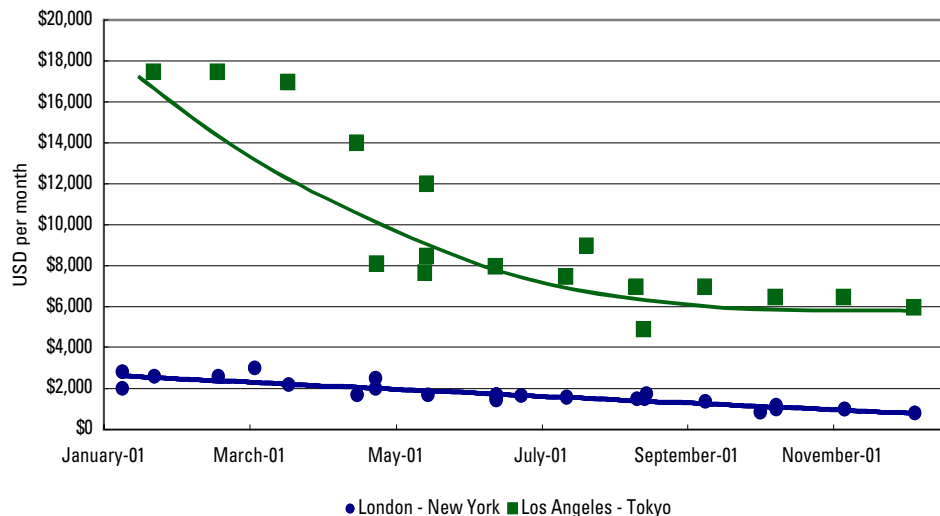
2001 proved to be another turbulent year for transoceanic bandwidth suppliers. New cable deployments and capacity upgrades on existing cables resulted in massive increases

in bandwidth, particularly in the Atlantic. Trans-Atlantic undersea bandwidth more than tripled, from approximately 550 Gbps at year-end 2000 to over 1.8 terabits per second at year-end 2001. Trans-Pacific capacity increases were substantial, but less dramatic, growing from 225 Gbps at year-end 2000 to 345 Gbps by the end of 2001. The continued deployment of new undersea capacity has given impetus to the rapid decline in prices in both regions.

Charting the Plunge

Trans-Pacific bandwidth has long been far more expensive than Trans-Atlantic bandwidth. Trans-Pacific E-1 prices plunged from approximately \$17,500 per month in January 2001 to \$6,000 per month a year later (see Figure 1). While Trans-Atlantic E-1 lease prices fell by "only" \$1,300 (compared with a \$11,500 decline on the Los Angeles-Tokyo route) to \$1,000, the rate of decline was essentially identical to the rate in the Pacific: 66 percent. Thus, while prices are converging in absolute terms in 2001, Trans-Pacific E-1 prices remained 7.5 times more expensive than Trans-Atlantic E-1 prices. Substantial price disparities also exist between Trans-Atlantic and Trans-Pacific STM-1 prices (see Figure 2). STM-1 leases from Los Angeles to Tokyo declined by 42 percent, from \$105,000 in January 2001 to \$60,000 in January 2002. While Trans-Atlantic STM-1 prices started at a far lower level than Trans-Pacific leases, they actually fell at a more rapid pace. STM-1 prices between New York

Figure 1. E-1 Pricing January 2001-January 2002

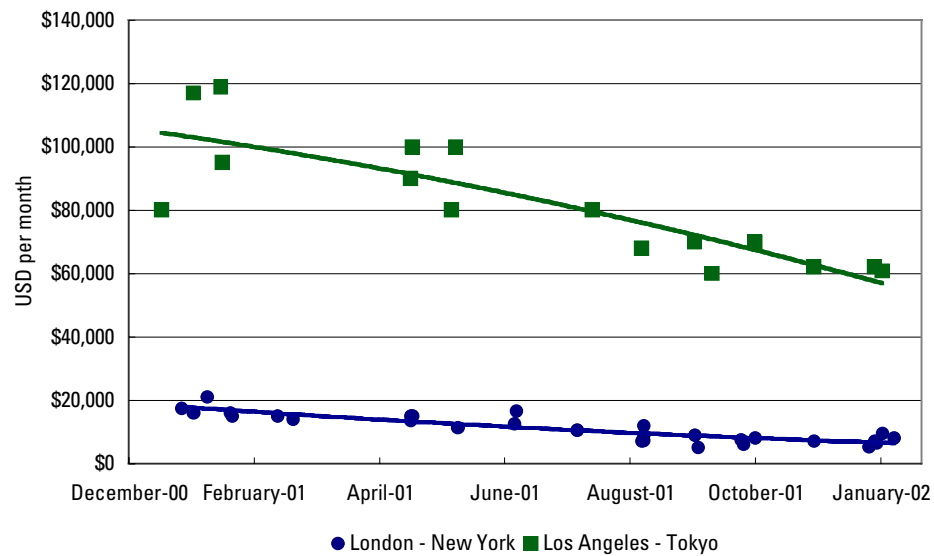


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Figure 2. STM-1 Pricing January 2001-January 2002

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and London fell from approximately \$18,000 to \$8,000 over the course of the year, a decline of 56 percent.

Factors behind the Decline

Much of the decline in Trans-Pacific pricing came in the early months of 2001, prior to the launch of the Japan-U.S. cable, as operators jockeyed for position in anticipation of the launch of the Japan-U.S. Cable Network, and the planned launches of 360pacific and FLAG Pacific-1 in 2002. Pricing pressures moderated in the later months of 2001, after the entry into service of the Japan-U.S. Cable, and after it became clear that neither the 360pacific nor the FLAG Pacific-1 cables would be deployed. The outlook for pricing in the Pacific in 2002 remains unclear, largely due to the potential impact of Tyco's planned Trans-Pacific cable. Tyco Trans-Pacific, which is scheduled to enter into service in August 2002, would add 580 Gbps of capacity at RFS, effectively doubling the capacity available on trans-Pacific routes at year-end 2001.

Trans-Atlantic pricing remains even more troubled. Given the already low prices prevailing on Trans-Atlantic routes, and the fact that new cable deployments have come to a standstill, one would expect the rate of price declines on Trans-Atlantic routes to slow. However, supply—the number of bits of capacity available on a route—is not the only

factor determining price. Equally important is who is selling the capacity. In recent months, bandwidth prices in the Atlantic have been driven downwards by carriers who have found themselves long on bandwidth, and desperately short of cash. Corporate financial emergencies have prompted fire sale prices, with some companies unloading capacity at prices well below costs. Until these companies have stabilized their balance sheets—or exited the market altogether—the downward spiral of prices is likely to continue in the coming months.

Price Watch

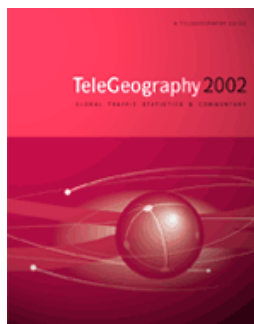
TeleGeography's **Price Watch** service is designed to allow market participants to track recent pricing developments at a glance. **Price Watch** tracks pricing changes on nine key routes worldwide. Because pricing in some regions, particularly on terrestrial routes, is distance-sensitive, prices are stated both in absolute terms and in dollars per Mbps per mile.

February 2001

	Monthly Lease Price			Monthly Price Per Mbps/Mile		
	E-1	OC-3	OC-48	E-1	OC-3	OC-48
Intra-European Routes						
London - Paris	\$800	\$8,111	-	\$1.878	\$0.246	-
London - Frankfurt	\$2,500	\$13,932	-	\$3.173	\$0.228	-
London - Milan	\$4,150	\$28,985	-	\$3.482	\$0.314	-
London - Madrid	\$5,285	\$56,354	-	\$3.375	\$0.464	-
Trans Oceanic Routes						
London - New York	\$2,956	\$21,287	-	\$0.426	\$0.040	-
Los Angeles - Tokyo	\$17,160	\$108,750	-	\$1.566	\$0.128	-
Intra-U.S. Routes						
New York - Los Angeles		\$52,768	\$458,436	-	\$0.138	\$0.074
LA - San Francisco		\$19,662	\$71,415	-	\$0.369	\$0.083
NY - Washington		\$4,972	\$41,985	-	\$0.157	\$0.082

February 2002

	Monthly Lease Price			Monthly Price Per Mbps/Mile		
	E-1	OC-3	OC-48	E-1	OC-3	OC-48
Intra-European Routes						
London - Paris	\$697	\$4,833	-	\$1.636	\$0.146	-
London - Frankfurt	\$1,570	\$5,535	-	\$1.992	\$0.091	-
London - Milan	\$2,364	\$16,069	-	\$1.984	\$0.174	-
London - Madrid	\$2,411	\$16,413	-	\$1.540	\$0.135	-
Trans-Oceanic Routes						
London - New York	\$1,300	\$7,188	-	\$0.187	\$0.013	-
LA - Tokyo	\$6,417	\$65,200	-	\$0.586	\$0.077	-
Intra-U.S. Routes						
New York - Los Angeles	-	\$14,834	\$233,371	-	\$0.039	\$0.038
LA - San Francisco	-	\$3,979	\$47,208	-	\$0.075	\$0.055
NY - Washington	-	\$2,804	\$17,901	-	\$0.089	\$0.035



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