

Washington, D.C.
September 14, 2004

H.E. Abdulla Hassan Saif
Minister of Finance and National Economy
Kingdom of Bahrain

Dear Minister Saif:

In the course of negotiation of the Free Trade Agreement between our Governments signed this day, the delegations of the United States of America and the Kingdom of Bahrain discussed the manner in which Bahrain regulates its telecommunications industry and how its approach comports with the obligations set out in Chapter Twelve (Telecommunications) of the Agreement. I have the honor to confirm the following understanding reached between our delegations in the course of negotiations regarding Article 12.4.5 of the Agreement:

The United States is aware that Bahrain has recently enacted a new telecommunications law to regulate and liberalize the telecommunications market. The United States notes that, as part of this market liberalization, the law provides for the regulator to grant International Telecommunications Services licenses from July 1, 2004. Furthermore, the law provides that the regulator has the authority to require a public telecommunications operator in a dominant position to offer interconnection to other licensed operators on tariffs and terms that are fair and reasonable, non-discriminatory, and based on forward-looking incremental costs. Although the law does not specifically require that cost-oriented interconnection be offered to non-licensed U.S. suppliers, our mutual expectation is that a competitive environment resulting from market liberalization will facilitate effective commercial negotiations that will drive international interconnection rates down to cost-oriented levels.

The United States appreciates that the regulator will monitor the overall results of market liberalization, and that other than as specified above, will generally not intervene in interconnection arrangements unless it becomes apparent that liberalization has failed to result in cost-oriented interconnection rates.

I would be grateful if you would confirm that this understanding is shared by your Government.

Sincerely,

Robert B. Zoellick

September 14, 2004

Washington, D.C.

The Honorable Robert B. Zoellick
United States Trade Representative

Dear Ambassador Zoellick:

I am pleased to receive your letter of today's date, which reads as follows:

“In the course of negotiation of the Free Trade Agreement between our Governments signed this day, the delegations of the United States of America and the Kingdom of Bahrain discussed the manner in which Bahrain regulates its telecommunications industry and how its approach comports with the obligations set out in Chapter Twelve (Telecommunications) of the Agreement. I have the honor to confirm the following understanding reached between our delegations in the course of negotiations regarding Article 12.4.5 of the Agreement:

The United States is aware that Bahrain has recently enacted a new telecommunications law to regulate and liberalize the telecommunications market. The United States notes that, as part of this market liberalization, the law provides for the regulator to grant International Telecommunications Services licenses from July 1, 2004. Furthermore, the law provides that the regulator has the authority to require a public telecommunications operator in a dominant position to offer interconnection to other licensed operators on tariffs and terms that are fair and reasonable, non-discriminatory, and based on forward-looking incremental costs. Although the law does not specifically require that cost-oriented interconnection be offered to non-licensed U.S. suppliers, our mutual expectation is that a competitive environment resulting from market liberalization will facilitate effective commercial negotiations that will drive international interconnection rates down to cost-oriented levels.

The United States appreciates that the regulator will monitor the overall results of market liberalization, and that other than as specified above, will generally not intervene in interconnection arrangements unless it becomes apparent that liberalization has failed to result in cost-oriented interconnection rates.

I would be grateful if you would confirm that this understanding is shared by your Government.”

I have the honor to confirm that the understanding referred to in your letter is shared by my Government.

Sincerely,

Abdulla Hassan Saif