

On The Same 'Wave Length?'

Telecommunications Reform In Greece, Italy, Portugal, and Spain

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ABSTRACT: The Southern-tier states of the European Union (Greece, Italy, Portugal, and Spain) share two interesting political motivations for telecommunications reform. First, privatization is perceived by national leaders not as a tool for restructuring, but as a tool to pursue other regional objectives, such as the use of receipts from telecommunications privatization to reduce national deficits and public debt to meet the convergence criteria for full participation in the Economic and Monetary Union (EMU) and future development of the European Union (EU). Second, the introduction of competition in telecommunications networks and services is not strictly perceived as a tool to accrue the economic benefits associated with liberalization, but a trade-off national leaders face if the European Commission is to allow national telecommunications organizations to participate in international telecommunications alliances. Telecommunications reform can be pursued for economic motivations, yet these examples illustrate that political motivations exist in the Southern-tier states for policy adjustment in the sector.

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1.0 INTRODUCTION

This paper explores the similarity in political motivations for telecommunications policy reform in the Southern-tier states of the European Union (Italy, Greece, Portugal, and Spain).^{1,2} Telecommunications reform refers to the shift in the policy setting from state ownership of public networks and monopoly provision of telecommunications services, to private ownership and competitive market provision of services and establishment of networks.

This paper is partitioned into six sections. The introduction comprises the first section. Section two provides a synopsis of the key developments in European telecommunications policy. Sections three and four illustrate the similarities in political elite motivations found in the Southern-tier states for telecommunications reform. The conclusion is found in section five. Finally, further research which merits attention is highlighted in section six. Appendices are found at the end providing general information on the telecommunications sector and background information on European telecommunications.

¹This paper is part of a larger comparative study (my dissertation) which addresses the political economy of telecommunications reform in the Southern-tier states of the European Union. The study elaborates on the pace and form of telecommunications policy adjustment as fundamentally dependent on the national policy environment of member states. The policy environment focuses on institutionalism -- the policy decision-making structures in each country -- and the dynamic interaction between these structures with domestic interests and the political process. In other words, political economy here refers to how politics conditions economic and regulatory policy-making, opposed to normative political economy (what policy outcomes ought to be), the political consequences of economic outcomes, or the (micro)economics of politics. The driving motivation for this study stems from the need for theoretically grounded analyses -- particularly those with a cross-national focus -- to study the politics of telecommunications reform in the European Union and the need to explain and better understand reform in the less studied Southern EU states.

²This paper benefits from comments made by Tom Rochon and Jonathan Aronson on earlier drafts of dissertation chapters. The views expressed in this paper and resulting errors are solely those of the author.

2.0 ON THE PATH TO EU TELECOMMUNICATIONS REFORM

The European Telecommunications Policy sets the framework for the creation of Single European Telecommunications Market. The paradigm shift toward a competitive market for the provision of services and networks underlies its policy objectives (refer to Appendix 7.1).³ External global pressures such as the globalization of trade, the restructuring of the global centers of power (Cowhey 1990), and the emergence of new global networks of firms (Bressand and Nikolaïdis 1990, refer to Cowhey and Aronson 1993: 164-214) are seen as the background for the formation of an European policy in the sector.

European Telecommunications Policy is largely carried out by a series of binding directives that allow for limited member state differences when incorporated into national legislation (refer to Kamall 1996 for a detailed development of policy in this sector). Directives are normally approved by the Council of Ministers. Article 90(3) of the Treaty of Rome permits the Commission to issue a directive without Council approval, to deal with "cases where the dominant position of state monopolies is being abused,

³The policy paradigm shift is toward the introduction of privatization and liberalization. Interpreted broadly, privatization encompasses a wide range of policies to change the relationship between the public and private sectors. Most often, privatization refers to the transfer of the central government's ownership rights in commercial entities to private investors. In this sense, what makes privatization unique in the 1980s and 1990s in the European Union is the call for selling state telecommunications organization. Privatization is increasingly coupled with liberalization, to introduce at least limited competition between privatized (or privati-zing) and private companies for the provision of services. Privatization, however, need not affect the monopoly status; privatization can be seen as an independent option from liberalization. On the path towards establishing competition in the market, free or regulated market access exist as policy choices for the telecommunications substructure. Policy can specify which wired and wireless networks are allowed to compete with the incumbent carrier for infrastructural provision. In conjunction with providers, policy can also indicate which telecommunications services are to be open to competitive provision. Establishment of an independent regulatory body, rules for interconnection and regulation of pricing, profit, and other tariffs (for instance, to fulfill universal service goals) are usually also included. In this regard, the introduction of competition should not be solely associated with liberalization. Privatization and liberalization are often associated with deregulation and is often a misunderstood term. Deregulation can be seen as a wide variety of changes in both the institutions of regulation and in the substantive rules. In some cases, reform involves a retreat by the state; in others, it means the creation of new institutions and the development of newly elaborated rules. In either case, re-regulation is necessary either to abolish or create new rules and institutions. If re-regulation is successful, it may then permit deregulation in the long-term, making the market the only regulator of the sector.

resulting in a violation of EC rules" (Gibbs and Didier 1989: 14, refer also to Sandholtz and Zysman 1989).⁴

The main thrust of EU Telecommunications Policy is to separate services from infrastructure provision and to encourage competition in service provision (refer to Appendix 7.2). Value-added (since 1991), data (since 1992), satellite communications (1994) and mobile telephony services (1996) are fully liberalized; that is, member states are required to issue licenses (under 'fair and reasonable' terms) to suppliers for the provision of these services in addition to that of the public network operator. Licenses have been, or are in the process of being, awarded in all member states. National voice services will not be liberalized until January 1998. Ireland, Greece, Portugal, and Spain are exempt from this latter requirement until 2003 and Luxembourg until 2000.

The provision of infrastructure is to be fully open to competition in member states also by 1998, with similar derogations as for the introduction of competition in voice services. The Full Competitive Directive (issued under Article 90) was adopted by the Council of Ministers (on February 29, 1996) to implement into EU law the commitment to full liberalization of all telecommunications services and infrastructure provision by January 1, 1998. At this time, corporate (known as alternative infrastructure carriers, such as those from railway, gas, electricity, and water companies), mobile, satellite, and cable-television (CA-TV) networks are to compete directly with one another and with the public network provider for the provision of all telecommunications services, including public voice telephony.⁵ The Full Competition Directive also sets down broad competition principles for the post-1998 national regulatory framework. It calls for interconnection, licensing, and financing of universal service. Regulatory instruments are to be transparent, non-discriminatory, and as least restrictive of competition As possible

⁴The Commission also uses nonbinding recommendations to build a consensus on legally binding regulations and decisions.

⁵The separation of data and voice services, usually offered on different networks in Europe, should disappear with the emergence of infrastructure competition in 1998.

yet still achieving important policy goals of universal service, interoperability, and use of limited resources such as spectrum and right of way. Cable-television (CA-TV) (January 1996), mobile (February

TABLE I: A FRAMEWORK FOR LIBERALIZATION OF TELECOMMUNICATIONS SERVICES IN THE EUROPEAN UNION

Type of Service	Open to Competition	Date for Lifting Constraints on use of Other Providers	Full Liberalization; Facilities-Based Competition
Value-Added Services (VAS) & Non-public Voice Telephony for Corporate Networks & Other Closed User Groups (CUGs)	1991a	1996b,c	1998d
Data Communications	1992a	1996b,c	1998d
Satellite Communications	1994e	1994e	1994d,e
Mobile & Personal Communications	1996	1996f	1996d,g,h
Public Voice Telephony	1998a	1998b	1998d, i

Source: The Office of Official Publications of the European Union, Luxembourg.

- (a) Serviced-based competition: entrants are allowed to lease capacity from the monopoly and offer services.
- (b) Alternative Infrastructure. This refers to private corporate networks which have been created for the exclusive use of "in-house" corporate services (referring to railroad, energy, water companies) and restricted from providing excess capacity or from providing data and other network services to the general public. These networks are allowed to provide liberalized services, other than public voice telephony since 7/1 1996.
- (c) Cable-TV networks. Apart from TV broadcasts, CATV networks are allowed to provide liberalized services, other than public voice telephony since 1/1/1996.
- (d) Facilities-based competition. All network providers (wired and wireless) are allowed to build their own fixed or wired facilities and enter the market for the transmission and provision of all telecom services.
- (e) Any authorized dealer is able to access space segment capacity.
- (f) Mobile networks allowed to use the transmission capacity of third parties (i.e. alternative infrastructure).
- (g) Mobile networks are allowed to build their own fixed links.
- (h) Greece, Ireland, Portugal, and Spain can apply for derogations up to 5 years. This allows member states an additional implementation period to abolish restrictions with regard to infrastructure. During this period, member states are not able to grant further mobile or personal communications services (PCS) licenses to the monopoly or any other associated organization.
- (i) A transitional period up to 5 years beyond this deadline can be granted upon request to Greece, Ireland, Portugal, and Spain; and up to 2 years for Luxembourg.

1996),⁶ and private corporate networks (July 1996) are liberalized for infrastructure provision for already liberalized services. Member states are required to ensure that telecommunications operators provide interconnection between these networks with that of the public network. The establishment of these networks in the marketplace is expected to dampen the potential for increases in (fixed) local charges to consumers once the market is Fully liberalized in 1998. This is expected to be particularly true with the rapidly decreasing price of competitive mobile services, expected to set an effective ceiling for the wired-based local tariffs.

Privatization is not formally incorporated into European directives, but is seen as necessary to transform the national operator into a competitive entity and able to compete aggressively in an open market. While regional pressure exists for privatization, the process is left to member states.

2.1 National Policy Adjustment

In accordance with the principle of subsidiarity (refer to Sun and Pelkmans 1995), member states are required to implement European directives in national legislation.⁷ The policy objectives determined by these directives are regarded as the baseline for the extent of liberalization in individual member states.⁸ The United Kingdom is usually considered the most liberalized market in regards to voice service and access to the public network ahead of many of the European telecommunications directives. A number of

⁶Member states with less developed mobile networks may apply for derogations of up to five years to take account of their specific situations (Greece, Ireland, Portugal, and Spain).

⁷Directives are indirect forms of legislation. If member states fail to enact such legislation within the specified timeframe, petitions can be made to national courts to demand action in accordance to the directive. In many cases, such petitions do not alleviate non-compliance by member states. For further detail on the powers of European institutions, refer to Keohane and Hoffman (1991).

⁸For example, in the case of the Open Network Provision Directive on voice telephony, the national regulatory authorities are responsible for the detailed rules (for example, the imposition of non-discriminatory interconnection conditions), monitoring compliance with essential requirements, and establishing arbitration procedures. EU institutions retain responsibility for defining basic principles for maintaining a coherent European approach and establishing conciliation procedures in disputes which cannot to be resolved at national levels.

other countries (including Sweden and Denmark) have licensed, or may shortly license, voice service in addition to the national public network operator.

Southern member states are often non-compliance states (mainly Greece and Italy) in implementing European telecommunications directives or then are given longer timeframes (with the exception of Italy) and infrastructural financial packages to implement EU reforms in the sector. Overall, large differences exist in the pace and form to adjust telecommunications policy across Southern Europe (refer to Appendix 7.3). Recent studies of telecommunications reform in the Southern-tier states partly attribute these differences to various social, political, and economic factors (refer to Noam 1992: 239-258, 270-273, Cassese 1994, Michalis 1994, Lavdas 1996, Kosmidis 1996). Closer inspection of telecommunications adjustment in the Southern states reveals interesting similarities in political elites' motivations for reform.

2.2 Political Motivations In The Southern-Tier EU States

Studies of communications policy stress the preferences of political elites and organized groups as a key feature of the policy debate affecting policy outcome. Policies are seen as a compromise among complex and evolving preferences of elites, including politicians, interest groups and political parties (Dyson and Humphreys 1986, Hills 1987, McQuail and Siune 1986). Preferences of bureaucracies, as a group of its own, have also been targeted for consideration (Dutton in Sapolsky et al. 1992: 71). Public choice (Olsen 1971) also stresses for a theoretical perspective that more realistically captures the complexity of the policy making process. The political economy of the deregulation school is known for its recent application to information technology. It stresses the role of the state together with interest groups in affecting the outcome of policy debates (refer to Jussawalla 1993: 2). In this study, the focus is on the preferences of political leaders in the Southern-tier states in reforming the telecommunications policy, specifically, introducing privatization and liberalization.

Greece, Italy, Portugal, and Spain share a number of common characteristics such as similarities in economic development, regime transitions of the 1970s (with the exception of Italy), and their relation to European integration. These similarities constitute these countries as a distinct grouping for analysis. In terms of privatization and liberalization in the telecommunications sector, the Southern-tier states demonstrate a number of common motivations for reform. With the partial exception of Italy, privatization in these states has not been associated with the policy debate on state failure or neo-liberal policies as with the need to deal with deficits and public debt. In this context, privatization is perceived by national leaders not as a tool for internal restructuring and to attract investment, but as a tool to pursue other regional objectives, such as the use of receipts from privatization to reduce national deficits and public debt to meet the criteria for full participation in the Economic and Monetary Union (EMU).⁹

On the other hand, liberalization has met neo-liberal ideological debate in these states, but this debate is further complicated by the recent trend and desire by national leaders for national telecom carriers to form international alliances and dominate the lucrative global market for telecommunications services. Such ventures, however, are contingent on EU (and foreign state) approval whether open markets exist at the national level (and foreign market) of the carrier partaking in the alliance. In this context, the introduction of competition in services and networks is not strictly perceived by national leaders as a tool

⁹Three important steps reinforce the goal to create a monetary union: creation of the European Monetary System (EMS) in 1979, provisions listed in the Single European Act of 1987 encouraging monetary integration and its endorsement of a single European currency; and the Maastricht Treaty of 1991 calling for a three-stage approach for full EMU by January 1, 1997 (1999 at the latest). A member can fully participate in EMU if it meets the convergence criteria: (i) inflation rate not more than 1.5 percent higher than the average of the three lowest inflation rates in the European Monetary System (EMS), (ii) long-term interest rates not more than 2 percent higher than average in three low inflation countries, (iii) not experienced a devaluation during two years preceding the entrance in the Union, (iv) government budget deficit not higher than 3 percent of its GDP, and (v) government debt not higher than 60 percent of its GDP. European governments in mid-1995 agreed they would not be able to meet the criteria for the 1997 deadline to create a EMU with at least 8 of the 15 members. The main problems are excessive public debt and budget deficits. As of the end of 1995, the 15 member states agreed to introduce a common currency in 1999. The leaders also agreed that countries that join the monetary union would begin issuing their debt, or all bonds traded on the markets (in Euros) as of January 1, 1999. Bills and coins will be introduced by January 1, 2002. Many details are still to be worked out, and it is unclear whether enough members will meet the criteria to make EMU workable. For further information on EMU refer to Hansen, Heinrich, and Nielsen (1991) and De Grauwe (1992).

to foster economic and social benefits from liberalization, but seen as a trade-off for national carriers to partake in such ventures. In this manner, international competitiveness and the EU's conditional approval that national leaders proceed with liberalization efforts provides an additional 'push' to open European markets.

3.0 PRIVATIZATION AND EMU CONVERGENCE CRITERIA

Historically, public enterprises have been especially significant in Southern Europe (Bermeo 1990). OECD data on public enterprises in the non-agricultural business sector (in terms of percentage shares for 1990) suggest that (with the exception of Spain), Southern Europe led then-twelve EU member states in the weight of public enterprises in value-added, employment, and gross fixed investment. Over the past decades, the government debt has emerged as a significant problem area in economic management. As a percentage of national GDPs, Greece, Italy, Portugal, and Spain show significant public debt/GDP (gross domestic product) ratios in the early 1990s; Italy (124 percent in 1994) and Greece (117 percent in 1994) having by far the most serious problems. Furthermore, for both Italy and Greece the other crucial economic policy problem is the public sector deficit. In 1994, Italian deficit (as a percentage of GDP) was at 11 percent, while in Greece it had reached 12 percent. Despite the high growth of Greece, Portugal, and Spain as newly industrialized countries in the 1960s, these countries encountered similar problems in the mid-1970s.

First, regime change and democratization took precedence over the need to adapt to the economic situation following the first oil shock in 1973. Expansionary economic policies were promoted to help consolidate the new regimes, and adjustment measures were postponed which led to destabilizing effects. Second, these countries, with the partial exception of Spain and Italy, were open economies and had a high share of trade to GDP. The slow growth years in the early 1980s in the EU and globally deteriorated their trade volumes. Eventually, financial resources for the public sector dried up and increasing tax burdens to finance public enterprises was avoided (Vernon 1988). Economic policy eventually resulted in 'soft budgets' (Kornai 1979: 801-819) in which balancing expenditures and receipts was relaxed.

As a result, these economies have faced considerable economic difficulties in responding to the challenges of the international environment and of full participation in the EMU. In particular, the inflation control requirements for participation in EMU along with the Maastricht Treaty's limit of a budget deficit that does not exceed 3 percent of GDP impose strict criteria for the implementation of European convergence. As a response, privatization appeared desirable as a possible solution. Thus, since the early 1990s, privatization in Southern Europe has become part of the larger effort to meet the convergence criteria to full participation in the EMU and future development of the European Union. In this sense, telecommunications, highly profitably entities in the last years, are slated as revenue-generators entities for government treasuries. In sum, the Southern-tier states engaged in privatization programs in the 1980s in part due to the international environment and national economic stalemates with the slow growth years of the decade, but in the 1990s receipts from privatization, especially from selling off telecommunications state organizations became a tool for meeting the convergence criteria for EMU participation.

3.1 The Portuguese Case

The public sector in Portugal extended considerably as a result of the nationalizations accompanying the regime transition (Maxwell 1996). In 1972, two years before the regime change, the public sector accounted for 9 percent of total value added. By 1976, it accounted for 24 percent. The most persistent problems are inflationary pressures and large public deficits. In view of the Maastricht timetable, the Portuguese government has been producing convergence programs since 1991 aiming to meet the requirements for full participation in EMU.

Portugal is the third largest privatizer in the OECD, after the United Kingdom and New Zealand, in terms of the percentage of privatization receipts to the country's GDP (*OECD Economic Survey: Portugal* 1994: 64). Partial privatization started in 1989 and full privatization in 1990 with the Social Democrat government (PSD, 1984-1995), though only extended to major utilities in the mid-1990s. The legal basis

for privatization was erected in a Constitutional amendment of 1989 limiting public majority in strategic firms, such as telecommunications. A privatization law of 1990 aimed to increase competitiveness, strengthen entrepreneurship, and stimulate capital in Portugal. The same law earmarked 80 percent (reduced in 1993) of privatization receipts for public debt redemption and placed a 25 percent limit on foreign ownership of privatized firms (later challenged by EU and abolished in 1994) (*OECD Economic Surveys, Portugal* 1994).

Regardless of the actual standing of the declared goals for privatization, the program was used explicitly to tackle the deficit. Since privatization receipts are earmarked for retiring government debt, privatization has influenced debt accumulation directly by reducing future interest payments (*OECD Economic Surveys: Portugal*, 1993). But despite the use being made of receipts to reduce public debt, results were less than anticipated by the government to some extent since the state often had to absorb public enterprise debts in preparing firms for privatization. By early 1993 sales of public assets slowed (in part due to the recession and partly due to foreign ownership limits) and the government was unwilling to accept low bids. The Social Democratic government revived the gradual privatization program and shares in most privatized companies ended up under the control of large investors. The privatization program of 1995 targeted particular areas of economic activity, including telecommunications (and other utilities), and privatization receipts doubled from the receipts of the 1994 privatization program. Portugal Telecom was formed in 1994 from the merger of three state-owned companies in preparation for privatization and became the largest company by employees in Portugal (*OECD Economic Surveys: Portugal* 1994). A first tranche of 27 percent of PT was floated in late mid-1995 and accrued \$925 million in receipts.

Portugal's 1996 new Socialist government (PS) embarked on an extensive 2-year privatization program considered more ambitious than any planned by the previous center right administration (though emphasized ownership by employees, small investors, and Portuguese immigrants). Like the previous government, PS is committed to reduce public debt and EMU (along with revitalizing giant public

companies and increasing competitiveness). A 22 percent tranche of PT was offered in mid-1996 bringing receipts in the amount of \$950 million. Stakes in PT were heavily sought and drove the Lisbon bourse 24.8 percent higher than the previous year (Brough 1996). Receipts from telecommunications privatization have been a major source to tackle the government deficit. An additional 26 percent of PT is expected to be offered this fall, leaving the government with a 25 percent stake.

3.2 The Spanish Case

In Spain, the overall strategy of the socialist governments (PSOE) has been to contain the public sector deficit and tighten monetary policy (and also increase labor market flexibility). This was the 1986-90 strategy which brought high growth rates. Despite the growth, the restrictive government policies along with the decline in employment in agriculture pushed unemployment levels up to 17-20 percent in the mid-1980s and early 1990s. Growth rates lowered and trade deficits widened in the early 1990s resulting in relaxed economic policy.

Privatization has its roots in attempts to tackle industrial decline and implement restructuring in a number of firms, mostly public enterprises, in the 1980s by the center-right Socialist government (Myro-Sanchez 1993: 613-640). In 1986 PSOE decided first to increase private shareholding in order to widen the capital base of public enterprises (*OECD Economic Survey: Spain 1988-89*: 39). Finally in 1988 the first transaction took place and shares for electricity supply and other sectors were placed in the capital market with the state retaining a majority holding. Overall, the Spanish government has maintained a cautious approach to full privatization (in part due to the politically explosive problem of regional concentration of certain declining industrial sectors). The government favored selling loss-making firms to the public sector. For profitable enterprises, partial privatization was considered to be the most appropriate strategy. When it comes to partial privatization of strategic enterprises, considered to be in the public interest, the state was to maintain various forms of control over specified areas of such firms' activities, such as in telecommunications.

Privatization receipts are meant primarily to reduce public debt (*OECD Economic Survey: Spain 1991-92*: 53) (but also to increase public sector efficiency). In the early 1990s, the government considered it a greater priority to reduce the deficit in order to facilitate EU convergence (than to work systematically towards a more efficient public sector) (Jacquemin and Wright 1993: 405-407). Toward this end (and to improve its international competitiveness) Spanish utilities were to be next for privatization. For most of its existence, Telefónica de España, Spain's major telecommunications group, has been a private managed company with corporatization and privatization traced to 1924 (McClelland and Bright 1993) though the government had held 32 percent since 1945. The government, adhering to partial privatization, sold 12 percent in early 1995 and the Conservative government (since 1996) placed the remainder 20 percent on the market in February; receipts in the amount of \$4.4 billion were received from the final sale and most of which to help tackle the deficit (Weinberger 1997: 37).

Spain's conservative government is committed to joining the EMU, despite having inherited an economy with high inflation and a deficit above EMU requirements. In terms of the latter, the government has secured an agreement on an austere budget to cut spending and reduce inflation to an expected 2.5 percent by the end of 1997, aims to bring the budget deficit down from 5.7 in 1995 to 4.4 percent in 1996 and to 3.0 percent in 1997 (Giles 1996). Interest rates have also fallen even though unemployment remains close to 22 percent (Weinberger 1997: 37).

3.3 The Italian Case

In Italy, privatization emerged in the mid-1980s with the sale of the state holding companies (Istituto per la Ricostruzione Industriale (IRI), Ente Nazionale Idrocarburi (ENI), and Ente Partecipazioni e Finanziamento Manifatturiera (EFIM)) of parts or the whole of their stakes in ventures. Privatization in Italy consists of two distinct phases (refer to Cassese 1994). The first phase (mid 1980s-to-1989) was distinguished by selling individual ventures of the state holding groups to the private sector. In this phase, the state holding companies selected which ventures to privatize and received the privatization receipts. The second phase was initiated in 1989 by the Andreotti government. Similar to Spain, the

intention to privatize was to contribute to a reduction of public debt while introducing market initiatives to the privatized ventures (Cassese 1994: 53). In 1991, the next (seventh) Andreotti government adopted a privatization law that involved the transformation of public enterprises into joint stock companies in order to sell shares more widely. By this time, the need to control the public debt had emerged as the main problem (refer to Segnana 1993: 277). As such, framework programs for privatization, instead of individual privatizations, specified that the receipts from privatization were to go to the Treasury.

The Amato (of 1992) and Ciampi governments (of 1993) continued with the privatization program but slowed down during the Berlusconi government (of 1994) in part due to government differences over the privatization method. The Dini government revived the privatization process in 1995 concentrating on large scale privatizations such as banking, energy, and telecommunications (EIU 1995: 23) and promoting widespread shareholding. Societa Finanziaria Telefonica (STET, under IRI), the state-owned telecommunications group which holds 62% of Telecom Italia (TI) and 60% in Telecom Italia Mobile (TIM), was initially due to full privatization in late 1995. The problems of public debt and public budget deficit since Dini remain pressing for the Prodi governments (of 1996, 1997). Despite ideological differences in political parties regarding method of privatization, the commitment to European convergence is strong enough to help define and constrain varying political priorities and economic policy.

Telecommunications is a profitable sector with STET posting a \$1.6 billion profit in 1995 and 1996, and \$2.3 billion profit in 1996, up from \$1.8 billion in 1995 (*Financial Times Asia* 1997). Profitability of this sort builds up equity, and revenues from the public offering will be used to help defray Italy's deficit, and help it meet the EMU convergence criteria. Toward this aim, Prodi in 1996 called for the creation of an agency to handle the privatization and public offering of STET.

Due to the lack of a regulatory watchdog and to avoid the saturation of the stock market with European telecommunications public offerings,¹⁰ an unannounced percentage (due in part to differences on the 'golden share' to be held by the government) of STET is set for a public offering during the second half of 1997. In January of this year, in preparation for privatization, the government decided to merge TI into STET and name the combined company (also) Telecom Italia. Shareholders of STET and TI have already approved the merger; the government's stake (IRI's) in STET decreases to 44 percent and the new entity is expected to be corporatized as an operating company, instead of a holding company (Du Bois 1997: 40). The merger is expected to build up Telecom Italia's equity before the sell-off.¹¹ The huge success of privatization in other European countries is expected to harvest big receipts for the Italian Treasury.

3.4 The Greek Case

In the 1980s, the Panhellenic Socialist (PASOK) government pursued expansionary economic policies and redistribution (Tsoukalis 1993: 254). During this period, the selling of public enterprises got a difficult and late start with no agreed upon plan as to the pace of sequence of privatization. The government was torn over whether to sell sequentially (beginning with the most profitable firms) or then restructure the less efficient ones to be sold at a later date (Katsoulacos 1993: 365-369). In the early 1990s, the New Democracy (ND) conservative government initiated privatization programs encompassing a number of sectors from textile companies to oil refiners and major utilities. Between 1990-94, considerable progress was made with privatization extending to 200 companies including those in energy, manufacturing, and construction; privatization programs for major enterprises, such as telecommunications, remained partial. This is significant in a country where, until a few years ago, 50 percent of the economy was state-controlled and heavily subsidized.

¹⁰Deutsch Telecom was due for privatization in November 1996 and France Telecom in the first half of 1997.

¹¹In the quest to raise revenues by national and local governments, issue price of stocks in most Italian privatization industries have been oversubscribed (*The Economist* 1997: 78).

The initiation of privatization programs reflected the need to close gaps in public finances, reduce the deficit, and tackle the debt. A privatization program for telecommunications was launched. The government hoped for substantial privatization receipts from the Hellenic Telecommunications Organization (OTE, the state telecommunications group). The government, committed to reduce the role and size of the public sector, decided to sell 35 percent of OTE to an international carrier and a stock market flotation of another 14 percent. In 1992, the Industrial Reconstruction Organization (IRO) was formed to take charge of the privatization process. The privatization attempt was unsuccessful (mainly due to major resistance from trade unions, procurement policies, party differences, and clientalist practices) even after major attempts to redefine the privatization program (refer to Michalis 1994). In 1994, the Greek Parliament approved partial privatization of OTE but in November the government suspended OTE privatization citing disappointing offers from international bidders. This no-confidence by investors is attributable to the socialist's insistence on OTE management remaining in the hands of the state and the uncertainty over the eventual stake to be floated. Finally in March of 1996, 8 percent of OTE shares were floated with the government holding the remaining 92 percent.

The government insists that it remains committed to further privatization of OTE. A second tranche of 10 percent is expected to be released during the second half of 1997. The government is anxious to sell further stakes in OTE partly to help it meet the EMU convergence criteria (and partly to re-invest in modernizing its telecommunications infrastructure). Public sector borrowing declined by more than one-third in the early 1990s, and inflationary pressures appear to be under control by the mid-1990s, but the volume of the public debt remains very significant.

Lastly, Greece has received structural funds and participates in other telecommunications infrastructural projects partly funded by the EU. Many of the moneys from the EU for these projects must be matched by EU member states. This makes it difficult for the Greek state (and the other EU Southern states also recipients of such funds) to cut back in public finances. In this respect, the national requirement to match EU funds jeopardizes efforts to meet the Maastricht economic convergence criteria. Structural funds are

still necessary for the much needed infrastructural development in Greece (and in parts of the other Southern states).

4.0 LIBERALIZATION AND INTERNATIONAL ALLIANCES

Historically, international telephone services have been provided by a shared monopoly of national monopolies and protected from foreign competition. The assumed economies of scale and scope were simply extended from the domestic network to the international arena through joint investment. Revenue sharing agreements were established between individual nations and reflected in long distance calling charges. The liberalization of national markets for services, however, opens the door to newcomers in the market, and is forcing major telephone companies to reconsider how they develop and deliver seamless solutions globally (Noam 1994: 20-22). The global telecommunications industry has annual revenues of \$900 billion and about 20 percent of revenues are driven by multinational corporations who are seeking end-to-end solutions (Du Bois 1997: 33).

Three main strategies are emerging: global cooperation strategies, global overlay / portfolio strategies, and global carrier strategies (Cowhey and Aronson 1993: 190-211). Another way to characterize these strategies is to consider them as acquisitions, international service offerings and foreign subsidiaries (Noam 1994: 20). These strategies represent many of the following alliances:

- Atlas (France Telecommunications / Deutsche Telekom);
- Concert (MCI / British Telecom (BT) / Portugal Telecom (PT), Spain's Telefónica),
- Unisource (Swedish Telia / PTT Telecom Netherlands / Switzerland PTT);
- World Partners (Unisource / AT&T / Japanese long-distance provider KDD / Singapore Telecom);
- UniWorld (AT&T / a French water utility / German-based Communications Network International); and
- Global One (France Telecom / Deutsche Telekom / US-based Sprint).

It appears national carriers will continue to dominate the provision of international services and possibly services in domestic markets.¹² These alliances aim (i) to gain access to markets that cannot be penetrated or done quickly enough to obtain a competitive advantage and (ii) to bring new technologies and services to the market. In many of these alliances, more important than 'owning' assets is to 'control' them at both ends of an international network making alliances highly satiable.¹³

In Europe, telecommunications organizations are forming mergers and alliances in an attempt to face the growing competition and to seize as large a share of the domestic, European, and international markets (*The European* 1997: 26). Approval of such partnerships are the responsibility of the European Commission and approval for European telecommunications groups to join international alliances is no exception. The first case faced by the Commission in this area was the participation by France Telecom (FT) and Deutsche Telekom (DT) in the global alliance Global One headed by U.S. long-distance provider Sprint. Commission approval was given in 1995 (final in 1996) but incorporated certain conditions. The European Commission stipulated that the two European telecommunications operators are allowed to enter the alliance¹⁴ given that they take the necessary steps to open their networks to competitors, including leasing lines and allowing alternative networks for basic services. In exchange to operate jointly, France and Germany agreed to liberalize their national telecommunications laws by July 1, 1996, set up independent regulators, and allow competitors fair access to state-owned networks by

¹²The reorganization of international long-distance seems to be reinforcing the old monopolist structure in new forms. Noam suggests we take a cautious view towards these partnerships:

"Potentially at least, these alliances of dominant national carriers could create international cartels and barriers to competitive entry, whether in their home countries or internationally. It has the anti-competitive potential of 'whip-sawing' in which a one-sided liberalization across frontiers permits the remaining monopolist to fully appropriate the previously shared monopoly" (1994: 22).

¹³According to *Barron's* recent survey, winners in the new telecommunications global environment are speculated to be those that can control a phone call from the point of origin to the point of destination as much as possible with their own assets; while the losers are speculated to be companies that are too reliant on what will be an outdated array of pricing schemes (Du Bois 1997: 33).

¹⁴Under the agreement, FT's and DT's data-transmission networks Transpac and Datex-P will be left out of the alliance until January 1998. The agreement also stipulates against FT and DT using monopoly profits to subsidize Global One activities.

January 1998. Furthermore, to reinforce these conditions, the German and French leaders committed to the U.S. Federal Communications Commission (FCC) in writing that they will be ready to open their telecommunications markets to competition by early 1998.

As seen in the Global One case, EU approval of the alliance was used as a tool to pursue its liberalization objectives at the national level of member states as outlined in the European Telecommunications Policy (Jeronimo and Swaminathan 1996).¹⁵ The Commission's conditional acceptance of this alliance sets a policy precedent for other such cases.

4.1 The Spanish Case

As the liberalization of Spanish telecommunications gathers momentum, Telefónica's management response to the erosion of its monopoly has been to look toward new commercial horizons and attract powerful shareholders. At home, Telefónica has strong earnings and investment appeal despite heavy criticism for its inability to keep up with growing demand for its services and some anti-competitive practices. Nonetheless, Telefónica is considered the second most productive European carrier, measured by the number of lines per employee, the ninth largest telecoms firm in the world by revenues, and the biggest provider in the Spanish-speaking world (Ober 1997). It has also been aggressive in installing new equipment to modernize and introduce highly sophisticated digital networks. Telefónica is interested in partners offering skills it does not possess, particularly with reference to Telefónica's aim to connect the telephone, computer, and cable television networks.¹⁶

¹⁵Jeronimo and Swaminathan present a cheap talk game-theoretic model based on a two-level bargaining strategy to illustrate the fate of the Global One alliance and its implications for market access into European basic services, focusing primarily on the French and German markets (1996). These authors explain (i) how domestic political pressures on national leaders impact international agreements with foreign counterparts; and (ii) how international agreements may be used by leaders to (a) condition the acceptance of domestic related policies or (b) push other foreign policy objectives.

¹⁶ For instance, in early 1996 Telefónica teamed up with IBM to offer real-time transmission of data, voice, and images over the network in the Spanish business market. (This service will also be extended to the Chilean market.) Shortly thereafter, Telefónica joined IBM and Spanish editorial company Planeta to offer Internet services to corporate and individual users.

Since 1988, Tisa (Telefónica's international subsidiary) has been active in expanding interests outside of Spain (some claim at the expense of modernizing the Spanish market). The new 1996 government (as the previous socialist government, 1983-1996) focuses on international competitiveness and endorse Tisa's activities. Tisa currently operates telephone companies in Argentina, Venezuela, Colombia, Peru, Chile, Puerto Rico, and has a pending interest with Teléfonos de México. In mid-1996, Telefónica's new elected chairman vowed to increase the company's value, improve quality of services, increase international expansion, and form strategic alliances (*AFX News* 1996).

In early 1996, Telefónica teamed up with the Unisource alliance (Swedish Telia/PTT Telecom Netherlands/Switzerland PTT; Unisource is part of the World Partners alliance which includes AT&T/Japanese long-distance provider KDD/Singapore Telecom). Each partner will have a 25 percent stake in the alliance and the initial goal is to offer corporate telecommunications services. Once authorized by the EU, Unisource intends to offer its service through the World Partners alliance on a global and not just European level. Spain's Development Minister met three separate times with the EU's Competition Commissioner to promote Unisource and to comply with EU merger regulations. By October 1996 little progress on opening of the Spanish market to free competition was made, which holds the key to EU approval of Telefónica joining Unisource. At issue is granting licenses to allow operators to compete with Telefónica and a final date for the liberalization of voice services. Spain proposed a two year delay instead of its 5 year transition period (up to 2003) negotiated by the previous government. The Commission, however, insists a new timetable be set by the Spanish government as close to the first of January 1998 as possible. Finally on November 8, in return for EU approval of the Unisource alliance, the Spanish government agreed to the following (*Europe Information Service* 1996):

- Spain to forego its 5 year extension beyond 1998 to introduce competition in voice services;
- Spain to open basic services to competition from December 1, 1998 (at the latest), eleven months after the January 1, 1998 deadline;
- Companies can submit tenders from August 1, 1998 to obtain licenses to offer voice services;

- Government to declare a General Law on Telecommunications that will transpose EU telecommunications Directives into national statutes, to be approved at end of 1997;
- Government to implement regulations to open Spanish market to competition; regulations to be adopted at the end of June 1998 (at the latest);
- Spain to withdrawal two appeals lodged with EU's Court of Justice by previous government against Directives to allow cable and alternative communications networks to offer voice services;
- And amend the national cable law to allow cable companies to offer basic telephony starting in 1998 and the same for alternative communications networks.¹⁷

Interestingly, upon entering office, the Conservative government intended to put off liberalizing telecommunications completely after the EU goal of 1998 in order to give domestic firms a chance to enter the market since the previous Socialist government delayed the introduction of regulations and did not give domestic cable services and other networks a proper chance to develop (Reuter European Business 1996). Toward this aim, the government had decided that state-owned Retevisión would begin competing against Telefónica in basic voice services (and have access to its network) once it is at least 51 percent privatized.¹⁸ A duopoly situation in the run-up to 1998 would allow a gradual process of liberalization of basic services in Spain. The government's major concern was that Telefónica, obliged to provide complete territorial coverage, would jack up prices to compensate for the entrance of competitors seeking only the most lucrative markets. Such a price hike would counter the government's aim to reduce inflation to meet EMU convergence criteria (Reuter European Business 1996).

During the past nine months Telefónica commenced talks with a number of other alliances in search of a U.S. operator to consolidate its Latin American and U.S. operations. In April, Telefónica abandoned its involvement in Unisource and reported its commitment to Concert (British Telecom / MCI) (Commission

¹⁷The EU also made it contingent that Telefónica is not able to integrate its data transmission services with Unisource before January 1, 1998.

¹⁸Bids are expected to commence mid-1997 with a 60 percent offering and a 10 percent to follow. The government intends to maintain a 30 percent stake for 2 years. Those interested in the bid include: a domestic Spanish consortium (led by Endesa (dominant electricity utility, 66 percent owned by Spanish government), Central Hispano bank (BCH), and Santander), Global One (which would suggest that the new operator would include U.S. Sprint), Renfe (the national railways company which has a broad fibre-optic network), REE (the electricity distribution grid), Caja Madrid savings bank, Italian operator STET, Airtel (the current second cellular operator), amongst others.

approval of BT / MCI alliance expected this summer).¹⁹ Portugal Telecom's (PT) decision (see below) to join Concert is highly likely to have influenced Telefónica's decision to switch alliances (*Financial Times* 1997). A share swap is expected between Telefónica and PT and will underpin planned joint ventures in Brazil where Tisa heads a consortium and controls a key regional operator (Companhia Riograndense de Telecomunicações, CRT). In addition, TISA is expected to create a pan-American joint venture with MCI. Telefónica's decision to join Concert, thought to have the best and most developed strategy in Europe, will consolidate its share value making it safer, more stable, and likely to place Telefónica as one of the five world leaders in telecommunications (refer to Du Bois 1997). Complications for Telefónica's involvement in Concert are not expected from the European Commission, assuming the government continues with its previous commitments to liberalization as under its agreements in respect to the Unisource alliance.

4.2 The Portuguese Case

With the support of the government, in late 1994 PT started to look for an alliance to join that would bring technological know-how and an international dimension. Possible candidates on the Portuguese list included BT (Concert partnership had not yet formed), Atlas (Global One before Sprint joined), and Unisource. An alliance at that time did not look as attractive to foreign operators as the present due to the development of the Portuguese telecommunications networks and services. The government focused on the digitization of telecom network and other advanced broadband technologies, improving services in rural areas, upgrading quality of services, and introducing new service offerings. In this respect, Portugal maintains the highest investment per capita in telecommunications equipment within the EU (for upgrading networks, etc.), digitization of local and trunk switches stands at 70 percent, access lines grow at 51 percent annually, mobile services are the second most active in Europe (after Germany), participates

¹⁹On November 3, 1996, BT and MCI announced plans to merge, forming a new company, Concert. Shareholders of BT and MCI have approved the merger with BT to own a 20 percent in MCI. The alliance is to be formally completed this fall. BT and MCI have been sharing network platforms and some marketing campaigns. In an attempt to garner business from large multinational corporations looking to integrate their communications globally, the alliance has signed up partners in 37 countries (refer to Du Bois 1997: 38) and has the world's first global Internet network, Concert InternetPlus.

with Spain in the construction of a pan-European fiber optic network (Metran), and the Portuguese telecommunications market is expected to grow to \$4.2 billion by 1997 (refer to Double 1995, Shankar 1996). With the tremendous development occurring in Portugal's telecommunication landscape, several groups (BT, Swedish Telecom, Bell Atlantic, Cable & Wireless) have show an interest in developing a private telephone network in Portugal.

The Socialist government considered its 5-year derogation (beyond the 1998 deadline) option for the introduction of full competition. This would give PT an additional period to develop its telecommunications networks and services. At the same time, the government supported PT joining an international alliance. These two goals were thought to be unattainable simultaneously since the Commission would most likely not approve such an alliance without Portugal making concessions on its derogation option. Growing consensus in the Portuguese government supported the view that PT could not keep itself out of an international partnership with the increasing pressures of competition in Europe and globally. In anticipation of PT joining an alliance, the government focused on options to open markets and services ahead of its 2003 deadline.

After negotiating almost a year with several international alliances (Global One, Unisource, and Concert) PT announced Concert as its strategic global partner in March 1997. Valued at \$7 billion, its stake in Latin America, and its commitment to modernization in Portugal, PT is highly attractive to MCI and BT.²⁰ In the upcoming 26 percent of PT privatization shares to be offered this fall, 5 percent is to go to

²⁰British Telecom (BT) incorporated as a public limited company in the United Kingdom in 1984, is one of the world's leading providers of telecommunications services. Valued at approximately \$44 billion, BT is the world's fourth largest telecommunications company and employs 129,000 people. Revenues at year end (March 1996) were \$22.1 billion. Microwave Communications International (MCI), headquartered in Washington, D.C., provides a full range of integrated communication services to more than 20 million customers. Credited with opening up the U.S. long distance market for competition, MCI is now leading the charge to bring competition to the \$100 billion local market, offering American consumers for the first time the freedom to choose their local carrier. With 1996 revenue of \$18.5 billion, MCI is one of the largest and fastest growing telecommunication companies in the world and already classified as the largest international private-line carrier.

Concert.²¹ The four partners will collaborate their individual strengths. BT and MCI will offer PT (and Telefónica) support in marketing and global networking, enhance its domestic service offerings through knowledge transfer of best practices and leading edge technology, and expansion into new markets with new global network services. PT's (including its Aliança Atlântica with Brazil's Telebras, the state-owned telecommunications group²²) and Telefónica's partnerships in Latin America give Concert an advantage over other providers for the provision of corporate communications services in the region (*Agence Europe* 1997).²³ Besides the Latin American market, Concert also intends to focus on the EU market. For now, PT is to be the exclusive distributor of Concert voice products in Portugal enabling it to offer an advanced portfolio of global communications services to multinational businesses. (*Crain Communications Radio Report* 1997).

The Commission has yet to approve PT's (and Telefónica's) partnership in the alliance. Portugal has committed to open its telecommunications services and networks to competition in 2000, three years ahead of its 5-year derogation option. This may suffice for a Commission approval since Portugal has already established an independent regulator (in 1989) and has effective mobile competition (since 1992), though the Commission may ask for further legislation and a regulatory environment that ensures alternative infrastructure and CA-TV networks are able to apply for licenses to provide voice services within the next years.

4.3 The Italian Case

In view of the European agreement for the liberalization of telephony services by 1998, Telecom Italia already faces, to some extent, competition from international operator alliances targeting Italian business

²¹BT is to acquire a 1 percent stake in PT capital for \$46 million and MCI a .05 percent stake for \$23 million. Share swaps between PT and Telefónica are also expected to strengthen their Latin American interests.

²²Brazil, a \$14 billion market, accounts for nearly 40 percent of Latin America's fast-growing communications market. In addition, the companies will also seek other opportunities in the \$36 billion Latin American communications market which is expected to grow to over \$60 billion by the year 2000.

²³Moreover, MCI is said to be the second largest carrier of international telephone traffic from the United States to Latin America with a presence in 17 Latin American countries.

users in areas such as mobile phones and information networks (linking phones and computers). STET and TI responded by exploring international markets while striving to retain major Italian corporate customers. STET International (owned by STET, TI, and TIM) began to coordinate overseas investments in the early 1990s, and STET began to scout international partners last year. The state telecoms group has spent heavily since the 1990s in an attempt to modernize the network in preparation for competition, to attract investors, and to make the entity favorable for international partnerships.

To date, STET has not aligned itself with a major alliance, but such arrangements are considered by the government, STET, and TI as strategically important for profit and Italian competitiveness. Establishing Telecom Italia as an operating entity (instead of a holding company) was strategically done in order to build managerial and technical leadership. Corporatization²⁴ is an important step if STET, the fourth largest telecommunications company in Europe and sixth in the world, is to seek out an important international partner as the world telecommunications market becomes increasingly more competitive and lucrative.

With Portugal joining and having lost Telefónica to Concert, AT&T is looking for a new partner in Southern Europe; Telecom Italia as a combined company is highly likely to fill that void. In this case, as with the Portuguese and Spanish cases, in exchange for EU approval of the alliance, the Commission will make its approval contingent, requiring the Italian government not to default on timeframes for competition in provision of services and establishment of networks. With Italy's record of non-compliance to Telecommunications directives, the Commission may also require (i) that a regulatory

²⁴The carrying-out of privatization turns out to be rather complicated primarily because many of the affected enterprises are inefficient and unprofitable. Therefore, the goal of corporatization is to remove managerial and financial constraints (Hudson 1993: 220), though the operator is usually held under state ownership during this process. Separation of the operator from the regulator (or the establishment of an independent regulator) is usually also done at this time and seen as a policy commitment toward privatization.

climate and an independent regulator be established,²⁵ (ii) inquire into whether effective competition exists in mobile services²⁶ and alternative infrastructure for already liberalized services, and (iii) examine the progression of changing national laws to allow competition in the fixed public telephony market by 1998.

4.4 The Case of Greece

As of early 1996, the Greek government has been anxious to join an international alliance (*Reuters* 1996) though talks about forming such alliances date to 1994. Overall, OTE has been tightly protected by national monopoly status and has not felt the need to join an alliance. However, with other European carriers joining such alliances, and the eventual liberalization of telecommunications set in most EU states by 1998 (and set by the WTO for global liberalization by the same date), there is no guarantee that OTE will weather the changes in Europe or globally. OTE also wants to survive and benefit from this lucrative sector. Domestically, OTE has already lost 31 percent of Greece's telecommunications market since 1993 with the introduction of mobile telephones (*Paris* 1995).

The prospects for OTE to join an international alliance is not as salient to foreign carriers as are Telefonica, PT, and Telecom Italia. First, in an era of telecommunications alliances, the control of the privatized OTE's management is a crucial issue to foreign carriers if the government intends to keep OTE under its control. Moreover, there is danger that partial privatization does not have significant benefits in terms of managerial efficiency. It is highly likely that OTE will be corporatized in the near future and substantial shares of OTE will be sold. However, OTE may 'miss the boat' in joining an international

²⁵The Italian government is currently in dispute over the government's 'golden share' and the creation of an independent regulator. If an independent regulator is not established and if the golden share is a major one, these conditions may not be palatable to foreign operators and TI joining an international alliance.

²⁶A highly publicized case was that Omnitel, the state mobile operator, paid \$450 million for its license to operate mobile services while TIM did not pay for its license. Compensation to TIM (whether monetary or reduced rates for connection to state-controlled telephone lines) has been required by the Italian Post and Telecommunications Minister and by the European Commission.

alliance if the government does not show a commitment in the short-term. To do this, ND and PASOK need to coordinate forces, deal with unionists, and bypass procurement beneficiaries.

On the other hand, OTE has made considerable strides in developing its infrastructure (including an ambitious program to eliminate waiting lists for new phone service by end of 1996, and have 55% of phone network digitized by 1998 and complete digitization by 2015), experienced dynamic growth, made considerable success in East European markets since the early 1990s (refer to Noam 1992: 270-273), and will continue to pursue a leading role in the Balkans, Mediterranean, and Eastern Europe. These developments are favorable conditions for OTE to partake in an international alliance. Moreover, unlike in Italy, Greece established an independent licensing body in 1993 with responsibility for licensing telecommunications operators, monitoring performance, and tariff regulation (McClelland and Bright 1993).

In any case, the European Commission will require major strides in liberalization in all areas of Greek telecommunications services and networks if OTE indeed partakes in a global venture. Greece has the worst failure rate in implementing EU telecommunications directives. However, if OTE is to eventually join an international venture, it may well serve Greece to proceed with liberalization efforts to ensure approval from the European Commission once OTE finds an alliance partner.

5.0 CONCLUSION: The Politics Of Telecommunications Reform In Southern Europe

Although more clear in the cases of Italy and Spain, the development of privatization as illustrated in the telecommunications sector in Southern Europe more generally involves a shift from concerns of industrial decline to the requirements of EMU convergence. In Portugal and to a much lesser extent in Greece, denationalization of the sectors taken over by the state following regime change in the 1970s provided support for privatization programs of the 1980s. In the 1990s this situation provided the background against the main factors shaping privatization, such as debt and deficit pressures to participate in EMU. Increasingly, privatization programs need to be seen as aspects of policy packages broadly related to the

requirements of the convergence criteria for EMU participation; telecommunications has been a major sector for such purposes.

Introducing competition and other liberalization regulations (such as the establishment of an independent regulator, interconnection rules, etc.), more apparently seen in the Portuguese and Spanish cases, reflect the situation faced by political elites between choosing prolonging competition and joining an international alliance. The political preference is to maintain longer timetables (with the exception of Italy) for the introduction of competition, allowing governments the opportunity to build a stronger telecommunications playing field once the market was open to competition. Yet, prolonging competition would mean Commission rejection for stakes in international alliances and the Spanish and Portuguese governments opted for the latter. Interestingly, Commission approval of such alliances has allowed this European body with a golden opportunity to break open earlier than expected the network and services monopoly of national operators.

In summary, the examples in this paper illustrate descriptively how policies (privatization and liberalization) can be used to achieve other policy ends (participate in the EMU and join international alliances). Telecommunications reform can be pursued by political leaders for economic motivations, yet these examples illustrate that similar political motivations exist among the Southern-tier states for policy adjustment in this sector.

6.0 FURTHER RESEARCH

This paper only touches on the similarity in political motivations of national elites for telecommunications reform. Further research would target reform differences in the EU Southern-tier states. To do this, an in-depth analysis of each country's policy environment would be beneficial, providing insights on the institutional framework of policymaking in each country and the specific actors participating in this process and their interests. In other words: how does the policy environment of each country impact on the policy process and policy choice? How do political decision-making institutions

define responses to a set of largely similar pressures and challenges? How are political elites' preferences integrated with those of other policy stakeholders? These questions are the foci of the larger study of which this paper is an extraction.

If the connection between diverging policy environments and policy choice is supported, this has implications for the future of market access into the Greek, Italian, Portuguese, and Spanish markets; the configuration of a Single European telecommunications market; and the design of an information infrastructure in Europe. Another interesting area of research would be to pursue these issues and provide policymakers with insights for overcoming obstacles to telecommunications policy reform, such as whether national political institutions can be manipulated in order to expedite reform efforts.

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8.0 APPENDICES

APPENDIX 8.1: THE SHIFT IN TELECOMMUNICATIONS POLICY

POLICY COMPONENT	ORIGINAL POLICY COMPONENT	SHIFT IN POLICY COMPONENT
POLICY SETTING	Natural Monopoly <ul style="list-style-type: none"> • Economies of scale and scope • High investment requirements 	Competitive Market <ul style="list-style-type: none"> • Economies of specialization and Innovation
POLICY TOOL(S)	Create a public enterprise: <ul style="list-style-type: none"> • State owned & operated (varying levels of % of public shares) In some cases, state-owned, but with private management; in others, private owned and managed but regulated, as in the United States] • Operator and regulator one in the same Establish rules on entry & exit <ul style="list-style-type: none"> • Sole network & Service provider Establish pricing rules: <ul style="list-style-type: none"> • Tariff cross-subsidization btw long and local services (core services); btw core and enhanced services (information & value-added) • Limited regulations on price, profit and investment (as found in private enterprises) 	Create a private enterprise: <ul style="list-style-type: none"> • Privatization (partial and complete through issuance of shares) • Autonomy / corporatization: restructure public monopoly toward business practices Establish an independent regulator <ul style="list-style-type: none"> • Regulator separate from operator Relax entry restrictions <ul style="list-style-type: none"> • Provide market access • Oligopoly and multi-providers of networks and services Re-form pricing rules: <ul style="list-style-type: none"> • Maintain tariff cross-subsidization btw long and local services • Some restrictions on cross-subsidization btw core and enhanced services; • Some price-cap-regulation (opposed to rate-of-return as found in the United States) • Allow price competition on some services
POLICY GOAL(S)	Social goals: <ul style="list-style-type: none"> • Equity & distributional regimes (universal service, remote-out-of-area service); Other goals: <ul style="list-style-type: none"> • Revenue-generation • Support large users • Industrial policy • National security 	Social goals: <ul style="list-style-type: none"> • Equity & distributional regimes (universal service); Economic goals: <ul style="list-style-type: none"> • Efficiency - Increased managerial & productive efficiency - Raise capital for expansion - Respond quicker to technological change - Competitiveness

Source: Compiled by author.

APPENDIX 8.2: EUROPEAN TELECOMMUNICATIONS POLICY
APPENDIX 8.2.1: COMPETITIVE PROVISION OF TELECOMMUNICATIONS SERVICES

DATE FOR PROVISION OF SERVICE	SERVICE	EU POLICY REQUIREMENTS	EU RULES FOR NETWORK ACCESS
1/1/1990	Value-Added Services (VAS) and Non-Public Voice Services for Corporate Networks and Closed User Groups (CUGs) <ul style="list-style-type: none"> • Data and non-public voice services 	1. Member states are to make the supply of these services available whether by a licensing agreement, general authorization, or a declaration procedure. <ul style="list-style-type: none"> • The conditions for access must be objective, non-discriminatory, and transparent. • If access is refused, reasons must be given, and a procedure must be in place to appeal refusals. 2. By 7/1/1991 the creation of a body independent of the telecommunications organization (TO) be oversee: <ul style="list-style-type: none"> • The granting of operating licenses; • Control of type approval and mandatory specifications; and • Allocation of frequencies and surveillance of usage conditions. 	1. Open network provision (ONP) conditions are to comply with certain basic principles: <ul style="list-style-type: none"> • must be based on objective criteria • must be published in an appropriate manner • must guarantee equal access to all interested parties, and • be non-discriminatory in accordance with Community law. 2. Tariffs for network access are to be independent of the type of application.
1/1/1992	Data Communications Services <ul style="list-style-type: none"> • Leased lines for the commercial provision of data transmission (simple resale), including switching, processing, and data storage 	1. Member states are to abolish public service specifications and replace them with either a licensing agreement, a declaration procedure or a general authorization. <ul style="list-style-type: none"> • The conditions for access must be objective, non-discriminatory, and transparent. • If access is refused, reasons must be given, and a procedure must be in place to appeal refusals. 	1. Tariffs for leased lines are to be independent of the type of application. <ul style="list-style-type: none"> • Tariffs should contain an initial connection charge and a periodic rental charge, such as a flat rate element. • When other rate elements are imposed, they must be transparent. 2. TOs are to take necessary measures so conditions governing network access are: <ul style="list-style-type: none"> • based on objective criteria • published in an appropriate manner • guarantee equal access to all interested parties, and • non-discriminatory in accordance with Community law. 3. By 1/1/1994 member states are to ensure that their TOs formulate a cost accounting system.

Source: All charts in appendix 2 are compiled from various official documents from the Office for Official Publications of the Office of European Communications, Luxembourg; and from Directorate-General XIII: Telecommunications, Information Market and Exploitation of Research. For a thorough review of EU Telecommunications Policy refer to Kamall, S. (1996). *European Union Policy Briefings: Telecommunications*. London: Cartmill Publishing.

APPENDIX 8.2.1: COMPETITIVE PROVISION OF TELECOMMUNICATIONS SERVICES (Cont.)

DATE FOR PROVISION OF SERVICE	SERVICE	EU POLICY REQUIREMENTS	EU RULES FOR NETWORK ACCESS
11/1/1994	<p>Satellite Communications Services, including Satellite Personal Communications Services (SPCS)</p> <ul style="list-style-type: none"> • Geostationary satellites in conjunction with radio frequency spectrum and gateways • To provide all services except public voice services (until 1/1/1998) 	<p>1. Member states are to ensure that any operator is entitled to supply these services (except public voice services).</p> <ul style="list-style-type: none"> • Criteria for the authorization for the provision of these services are to be provided by member states. • Fees imposed on service providers are to be based on objective, transparent, and non-discretionary criteria. 	<p>1. Member states are to ensure access to space capacity to any authorized satellite earth station network operator.</p> <p>2. Orbital positions and frequencies are to be allocated by the International Telecommunications Union (ITU) while national regulatory authorities assign frequencies following ITU allocations.</p> <p>3. CEPT and national regulatory authorities are to be involved in frequency management at European level</p>
2/1/1996	<p>Mobile and Personal Communications Services (PCS)</p> <ul style="list-style-type: none"> • Radio-paging and several radio telephone services (private communications networks (PCNs), a mobile telephone that operates at higher frequencies than current European cellular systems), and telepoint services) • All services, including public voice services 	<p>1. Member states are to award licenses according to open, non-discriminatory, and transparent procedures to any operator.</p> <p>2. Member states are to publish the allocation arrangement of frequencies every year and make such information available upon request.</p> <p>Preference for the use of GSM (Global System for Mobile Communications), DCS 1800 (part of GSM to be opened up for licensing by member states by 1/1/1998), DECT (Digital European Cordless Telecommunications services, an alternative to the local loop access to the PSTN), and ERMES (European Digital Radio-messaging system).</p>	<p>1. Member states are to ensure transparent an non-discriminatory behavior between fixed and mobile network operators.</p> <ul style="list-style-type: none"> • Should not include unjustified technical restrictions. <p>2. Member states are to ensure direct interconnection between mobile systems, and between mobile communications systems and fixed telecommunications networks.</p>
1/1/1998	<p>Basic Voice Services</p> <ul style="list-style-type: none"> • Local, long-distance, and international voice services. <p>• Ireland, Greece, Portugal, and Spain can request a transitional period up to five years (until 2003;) and Luxembourg up to two years (until 2000.)</p>	<p>1. Member states can maintain exclusive rights until 1/1/1998.</p> <p>2. By 1/1/1997, member states are to notify the Commission of any licensing or declaration procedures in compliance with the EU requirements (and trade regulations) related to conditions of performance, service availability, quality of service, and financial obligations for universal service.</p> <ul style="list-style-type: none"> • Declarations procedures or licensing terms are also to be published by 1/1/1997. <p>3. Member states can limit the number of licenses issued only in cases where lack of capacity exists and justified under the principle of proportionality.</p>	<p>1. TOs are to publish terms and conditions for interconnection to their voice services and network by 7/1/1997.</p> <ul style="list-style-type: none"> • Such as interconnection tariffs and access points. <p>2. A cost-accounting system is to be implemented and cost elements are to be shown relevant to interconnection offerings and tariffs.</p> <ul style="list-style-type: none"> • A monitoring system is also to be installed for this purpose.

APPENDIX 8.2.2: LIBERALIZATION OF TELECOMMUNICATIONS NETWORKS

DATE FOR ALLOWING COMPETING NETWORKS	TYPE OF NETWORK	EU POLICY REQUIREMENTS	EU RULES FOR NETWORK ACCESS INTERCONNECTION
11/1/1994	Satellite Communications Networks	1. Licenses for space capacity are to be supplied by national authorities subject to international treaties: <ul style="list-style-type: none"> • ITU (International Telecommunications Union) • INTELSAT (International Telecommunications Satellite Organization, a consortium of 44 member countries) • INMARSAT (a consortium of 120 member countries) 1. To avoid cross-subsidization, member states are to ensure that TOs and Cable-TV Networks maintain separate accounting practices for the provision of broadcasting and telecommunications services.	1. Access to space capacity is to be ensured to any authorized operator.
1/1/1996	Cable-TV Networks <ul style="list-style-type: none"> • Allowed to provide all liberalized services (except voice services open 1/1/1998). 	1. Member states are to make available a licensing agreement, a declaration procedure or a general authorization for the establishment of competing networks. <ul style="list-style-type: none"> • The conditions for this establishment must be objective, non-discriminatory, transparent, and proportionate. • If establishment of a competing network is refused, reasons must be given, and a procedure must be in place to appeal refusals. 2. For member states requesting a transitional period to abolish restrictions for access to the public network, are not to grant further mobile or personal communications services (PCS) licenses.	1. Restrictions on the direct interconnection of cable-TV networked by cable-TV operators are to be abolished. 2. TOs are to allow interconnection between their networks with those of Cable-TV providers, in particular via leased lines.
7/1/1996 <ul style="list-style-type: none"> • Ireland, Greece, Portugal, and Spain can request a transitional period up to five years (until 2001) 	Alternative Networks (better known as alternative infrastructures) <ul style="list-style-type: none"> • Cable-TV networks and networks from the railroad, energy, and water companies for the provision of all services, except public voice (to be open to these providers beginning 1/1/1998) 	1. Member states are to make available a licensing agreement, a declaration procedure or a general authorization for the establishment of competing networks. <ul style="list-style-type: none"> • The conditions for this establishment must be objective, non-discriminatory, transparent, and proportionate. • If establishment of a competing network is refused, reasons must be given, and a procedure must be in place to appeal refusals. 2. For member states requesting a transitional period to abolish restrictions for access to the public network, are not to grant further mobile or personal communications services (PCS) licenses.	1. TOs are to provide interconnection to their public networks to competing networks.
2/2/1996	Mobile and Personal Communications Networks (PCN, also known as personal communications services)	1. Member states are to lift restrictions on the establishment of mobile and PCN networks. 2. National regulatory authorities are to allocate frequency and regional / local right-of-way.	1. Restrictions obliging these network providers to route calls via the public network are to be lifted. <ul style="list-style-type: none"> • Direct interconnection between mobile systems and mobile / fixed networks are to be allowed.
1/1/1998	Establishment of all types of networks to compete with public operator (better known as basic telecommunications infrastructure) <ul style="list-style-type: none"> • Leased lines and establishment of other networks for provision of all services 	1. Member states can maintain exclusive rights until January 1, 1998 for the establishment of other wired and wireless networks to compete directly with public network. 2. The establishment of competing networks may be subjected to a license, general authorization or a declaration procedure. <ul style="list-style-type: none"> • Member states are to notify the Commission of the criteria and conditions for licenses, declaration procedures and general authorizations. 	1. TOs are to publish terms and conditions for interconnection to their network by July 1, 1997. <ul style="list-style-type: none"> • Such as interconnection tariffs and access points.

APPENDIX 8.3 : TELECOMMUNICATIONS REFORM IN THE SOUTHERN-TIER STATES
APPENDIX 8.3.1: STATUS OF TELECOMMUNICATIONS PRIVATIZATION IN THE SOUTHERN-TIER STATES

MEMBER STATE	NATIONAL TELECOM	INDEPENDENT REGULATOR	OWNERSHIP STATUS
GREECE	<p>Hellenic Telecommunications Organization, S.A. (OTE), under supervision of the Post, Telegraph, and Telephones Administration</p> <ul style="list-style-type: none"> • Monopoly over most forms of communications, including broadcast transmission 	<ul style="list-style-type: none"> • National Telecommunications Committee (NTC) under Ministry of Transportation & Communications (MTC) • Established in 1993 	<p>3/1996: first tranche for 8 % of OTE STATE controls as of 5/1997: 92%</p> <p>Expected upcoming policy: 6/1997: second tranche for 10 %</p>
ITALY	<p>TELECOM ITALIA cyica, P.A. (STET), state owned telecom group (financial state holding company)</p> <p>Instituto per la Ricostruzione Industriale (IRI) (in Treasury) has majority holding in STET; in 1994 IRI merged 7 operators of STET into a single entity, TI</p> <ul style="list-style-type: none"> • SIP: domestic operations; some long-distance services • Iritel (formerly ASST): trunk and international services • Italcable: intercontinental operators • Telespazio: satellite operations • Sirti: network services • Sirmi: maritime communications • Italtel: manufacturing <p>TI also has majority holding in Telecom Italia Mobile, TIM</p>	<ul style="list-style-type: none"> • No national authority to regulate industry; first announced in mid-1993, goal was to have one in place by 1/1997 	<p>STATE controls as of 5/1997: 61.27 %</p> <p>Expected upcoming policy:</p> <ul style="list-style-type: none"> • Treasury unveiled plan in 2/1997 to merge TI into STET, new company to also be called Telecom Italia; set to decrease Treasury's stake to 44.7% • 9/1997: an undetermined % of STET to be offered
PORTUGAL	<p>PORTUGAL TELECOM</p> <p>Comunicações Nacionais, SGPS, S.A.A. (CN), new state holding company established in 1993 to merge three telecom organizations in preparation for privatization:</p> <ul style="list-style-type: none"> • Telecom Portugal, S.A. (TP) (Correios, Telegrafos e Telefones, CTT, was separated into a communications branch named TP and posts maintained CTT name) • Telefones de Lisboa e Porto (TLP) • Companhia Portuguesa Radio Marconi (CPRM) (private mgt.) 	<p>Portuguese Institute of Communications (Instituto das Comunicações de Portugal, ICP) Under Ministry of Public Works, Transport & Communications</p> <ul style="list-style-type: none"> • Established in 1989 	<p>6/1995: first tranche of PT for 27% 6/1996: second tranche of PT for 22% STATE control as of 5/1997 = 51%</p> <p>Expected upcoming policy: 9/1997: third tranche of PT for 26% - part of tranche to be acquired by Concert Alliance (BT and MCI) which PT joined in 4/1997</p>

Source: All charts in Appendix 3 are compiled from various official documents from the Office for Official Publications of the Office of European Communications, Luxembourg; the Directorate-General XIII: Telecommunications, Information Market and Exploitation of Research, and from various news sources.

APPENDIX 8.3.1: STATUS OF TELECOMMUNICATIONS PRIVATIZATION IN THE SOUTHERN-TIER STATES (cont.)

<p>SPAIN</p>	<p>TELEFÓNICA DE ESPAÑA, S.A.</p> <p>For most of its existence, a private run company with a granted legal monopoly</p>	<p>National Telecommunications Commission (Comision Nacional de las Telecomunicaciones)</p> <ul style="list-style-type: none"> • Independent regulatory commission established in 1997 • In 1986, the Secretary General of Communications and the Directorate General of Telecommunications under Ministry of Public Works, Transports & Environment (MOPTMA) established not as an autonomous regulatory body, but in Ministry 	<p>1945: 32% controlled by government 1985: began to offer stock over foreign exchanges; 74% held by 750,000 private investors 4/1995: government sells 12% 2/1997: government sells 20% STATE control as of 5/1997 = 0%</p>
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**APPENDIX 8.3.2a: STATUS OF LIBERALIZATION IN THE PROVISION OF TELECOMMUNICATIONS SERVICES
IN THE SOUTHERN-TIER STATES**

TYPE OF SERVICE	GREECE	ITALY	PORTUGAL	SPAIN
VAS & Non-public Voice Telephony for Corporate Networks & Other CUGs	COMPETITION (1994)	COMPETITION (1994)	COMPETITION (1994)	COMPETITION (1994) Telefonica teams up with IBM and Spanish editorial company Planeta to offer Internet services (1996)
X.25 Data Communications	MONOPOLY	COMPETITION (1995)	COMPETITION (1995)	COMPETITION (1996)
Mobile Communications	COMPETITION in cellular / mobile networks (GSM) Panafon (1992) STET Hellas (1992) OTE (1995-6)	DUOPOLY in cellular / mobile networks (GSM) Telecom Italia's TIM (previously known as SIP)(1992) Omnitel-Pronto(1994) (A 3rd operator expected in 1997)	COMPETITION in cellular / mobile networks (GSM) Telecomunicações Moveis Nacionais (TMN) (1992) Telecel (1992) Other smaller providers (since 1994) To issue a PCS license (1/1/98)	DUOPOLY in cellular / mobile networks (GSM) Telefonica (1994) Airtel (1994) (A 3rd operator expected in 1998)
Public Voice Telephony	MONOPOLY in paging services PCN licenses TIM (1995)	MONOPOLY in paging services PSTN MONOPOLY on local, trunk, and international Competition expected (1998)	MONOPOLY in paging services PSTN REGIONAL MONOPOLY on local, MONOPOLY on trunk, and DUOPOLY on international Competition expected (2000)	DUOPOLY in paging services PSTN MONOPOLY on local, trunk, and international Three operators providing national cover will be free to offer voice telephony with cable companies to offer voice services in areas they currently cover; competition expected (12/1/1998)

Note: Competition does not necessarily signify an 'open' market. In many instances, barriers to entry such as restrictions to interconnect to the public network, requirements for entry, and high tariffs are placed. For instance, in Italy no license is required by private companies wishing to offer value-added services (VAS), yet permission must be obtained from the state-owned operator and this is rarely given.

**APPENDIX 8.3.2b STATUS OF LIBERALIZATION IN THE ESTABLISHMENT OF TELECOMMUNICATIONS NETWORKS
IN THE SOUTHERN-TIER STATES**

TYPE OF SERVICE	GREECE	ITALY	PORTUGAL	SPAIN
Cable-TV Networks	CA-TV networks introduced by OTE (1995); cable operators will be allowed to provide voice services; government altering its telecommunications law in order to bring its provisions on CA-TV systems into line with EU legislation	CA-TV networks will be allowed to provide voice services (1998)	CA-TV networks were legalized in 1991 and since then a few licenses have been awarded to CA-TV operators (1995); these operators will be allowed to provide voice services (1998)	Government introduced amendments to its cable law (1996) to allow local cable operators to compete with Telefonica in providing voice services on cable television lines in areas they currently cover (a license will be needed) (1998) CableEuropea (1996) - major competitor to local cable companies
Mobile & Personal Communications Networks	Mobile networks allowed to build their own fixed links (1996) and use the transmission capacity of third party networks (1997)	Mobile networks allowed to build their own fixed links and use the transmission capacity of third party networks (1996)	Mobile networks allowed to build their own fixed links (1996) and use the transmission capacity of third party networks (1997) Direct international connections for GSM mobile phone providers opened to competition (1/1/1999)	Mobile networks allowed to build their own fixed links (1996) and use the transmission capacity of third party networks (1997)
Other Alternative Networks	Full competition for already liberalized services (7/1/1997)	Full competition for already liberalized services (7/1/1996)	Independent TV, electricity distribution, and railway networks able to compete in designated market segments with fixed telephone networks (1994)	Retevisión (1989) offers limited voice and data services; Caja Madrid bank to offer national data, voice and image services over Caja's national network (1993); and RTVE operates its own transmitters and relay stations and runs an independent communications network (1995) to compete in designated market segments Full competition for already liberalized services (7/1/1997)

**APPENDIX 8.3.2b STATUS OF LIBERALIZATION IN THE ESTABLISHMENT OF TELECOMMUNICATIONS NETWORKS
IN THE SOUTHERN-TIER STATES (cont.)**

<p align="center">Public Network, including Leased Lines</p>	<p>MONOPOLY on provision of leased lines for voice services</p> <p align="right">Full competition expected (2003)</p>	<p>MONOPOLY on provision of leased lines for voice services</p> <p align="right">Full competition expected (1998)</p>	<p>MONOPOLY on leased lines for local and long-distance voice services; COMPETITION on leased lines for international voice services</p> <p align="right">Full competition expected (2000) (EU timeline 2003)</p>	<p>MONOPOLY on leased lines for voice services</p> <p>DUOPOLY on network provision State-owned Retevisión expected to compete again Telefónica on basic services (7/1996) (Retevisión must privatize at least 51% before offering voice services, meaning competition will likely halt until 1998)</p> <p>Talk of a third license to be awarded to an independent carrier be (before 1998).</p> <p align="right">Full competition Expected (1998) (EU timeline 2003)</p>
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APPENDIX 8.3.3: INTERNATIONAL STRATEGIES

GREECE	ITALY	PORTUGAL	SPAIN
<p>Hellas Com International: 100% owned by OTE</p> <p>1995:</p> <ul style="list-style-type: none"> • OTE and Italy's Teleset agree to cooperate in expanding their international networks to cover the entire Balkan region • OTE made a bid in India to establish one of 20 regional telephone networks in joint-venture with an Indian partner • OTE and Russian government have a satellite coverage in Georgia, Ukraine, and Turkey 	<p>STET International: 51 % owned by STET 37% by TI 12% by TIM (all under IRI)</p> <p>1993:</p> <ul style="list-style-type: none"> • STET part of a consortium that owns Telecoms Argentina • STET and Nynex operate GSM services in Greece <p>1995:</p> <ul style="list-style-type: none"> • Investments in Cuba <p>1996: overseas investments</p> <ul style="list-style-type: none"> • Italtel (owned by STET) and Siemens win contract from South Africa Telkom to supply digital technology • Buys 17 percent of Chilean Entel Santiago 	<p>CPRM conducts major overseas ventures</p> <p>Since late 1960s:</p> <ul style="list-style-type: none"> • CPRM provides services in Africa, paging services in China and India, value-added services in UK, and VSAT business in France and Hungary <p>End of 1993:</p> <ul style="list-style-type: none"> • CPRM and Embratel (Brazilian long-distance operator) form a consortium (Aliança Atlântica) - 50/50 venture • PT becomes a partner of Concert alliance (US Microwave Communications International, MCI, British Telecom, BT, and Spain's Telefónica who joins same time as PT) <p>Other: Historical holdings in Africa and Macão</p>	<p>Telefónica International, Tisa: 100% by Telefónica</p> <p>1988:</p> <ul style="list-style-type: none"> • \$150 m contract to upgrade / manage Argentina's phone system • 10% stake in Telettra, Italian equip. • Joint-venture to build a factory and produce telephones in (former) USSR <p>1990:</p> <ul style="list-style-type: none"> • 10% share in Argentina's Entel • 44% share in Chile's (CTC) • 5 % in US firm Infonet; 3% in GeoStar • 10% in British's Mercury PCN Subs. • 6% in AT&T's network systems in return for shares in joint micro-electronics venture with AT&T in Spain • joint venture with Amper to build factory and produce telephones in former USSR <p>1991:</p> <ul style="list-style-type: none"> • 40% in Venezuelan telecom <p>1993:</p> <ul style="list-style-type: none"> • majority % shares in Puerto Rican operator TLK as gateway into N. American market • 15% stake in radio paging operations in Portugal through Contactel • 60% shares in Telefónica Romania, cellular voice telephony phone network <p>1994:</p> <ul style="list-style-type: none"> • 35% shares in Peruvian company to operate CA-TV; shares in Colombian telecom operator • Telefónica to take a 25% stake in Unisource alliance (telecom carriers of the Netherlands, Switzerland and Sweden) <p>1997:</p> <ul style="list-style-type: none"> • Telefónica drops Unisource alliance and joins Concert

APPENDIX 8.3.4: EU FUNDS FOR DEVELOPMENT OF THE TELECOMMUNICATIONS NETWORKS AND SERVICES

GREECE	ITALY	PORTUGAL	SPAIN
<p>1981 - current: Greece classified as a Less Favored Region (LFR); major recipient of various EU funds for development of various aspects of telecommunications infrastructure and services throughout Greece</p> <p>Partakes in EU STAR (Special Telecommunications Action for Regional Development) and Telematique programs to develop the telecommunications infrastructure and stimulate demand;</p> <p>CRASH program (19923, 1993-94) to help Greece modify its legal telecommunications framework, but also to modernize network (create digital overly network) and development of new services (i.e. further development of Hellaspac, public packet switched data network, and creation of a telecommunications technological park); recipient of structural funds</p>	<p>Some areas in Italy classified LFRs and recipient of structural funds to help develop infrastructure and extend service to rural areas</p>	<p>1991: EIB provides Esc16.8 for a project to build an Esc104 m underground telecom link between France, Portugal, Madeira Island and Morocco</p> <p>1991: With financial assistance from EU, PROTER (Operating Program for rural telecommunications) established by TP to develop basic telecom network and improve access to less developed regions</p> <p>1986 - current: Classified as a LFR and recipient of structural funds for development of various aspects of telecommunications infrastructure</p>	<p>1986 - current: Classified as a LFR and recipient of structural funds for development of various aspects of telecommunications infrastructure</p>