

EDITORIAL

Where do Europe and the USA stand on market access?

Over the last months, the issue of foreign companies' access to telecoms markets in the United States and in the European Union has been the centre of growing attention raised by a number of political and economic events that have made it to the headlines.

One of the most recent events was US Vice-President Al Gore 's announcement that in 1995, Washington would lift all restrictions to foreign companies' access to the US communications market, provided their home markets are equally open to US firms.

Also under the spotlight was Atlas, a planned joint venture between Sprint, the third largest US long distance operator, and the French and German national telecoms operators. The venture has attracted much criticism from Atlas' European and US competitors, who lament that the French and German telecoms markets are not opened.

These two events have contributed to spread the idea that the European communications market is highly restrictive while the US one is more open. But is this really so?

In fact, the EU has already liberalised telecoms services with, however, the notable exception of voice telephony, which will be liberalised together with infrastructures by 1998 at the latest. Until then, the situation will vary from one country to another, with Britain being one of the few fully liberalised markets.

Concerning foreign participation in European telecoms companies, differences may last beyond 1998, as there is no obligation to privatise national telecoms operators. While Denmark, Sweden and the UK have no foreign ownership restriction, other countries like France and Germany do not allow any foreign participation at all.

In the USA, the US Communications Act only applies a 25% foreign equity limit for radio-based services. For other services to the public, foreign companies must comply with the "public convenience and necessity" criteria, whose interpretation is left to the discretion of the US Federal Communications Commission (FCC).

In fact, the FCC has tended to develop a doctrine of "reciprocal access," under which authorisation is only granted to a foreign

company under terms similar to those imposed by its home country to US businesses. Britain's BT and Cable & Wireless, for instance, have benefited from the liberalisation of the British market.

The concept of reciprocal access is expected to be incorporated by the US Congress into new US communications legislation. A key question would however be who decides whether a foreign country offers "effective market access" to US firms. If it is the US Administration, the risk is that decisions would be highly political. If it is the FCC, decisions would have a greater chance to be based only on legal and technical grounds.

At the end of the day, restrictions exist on both sides of the Atlantic. But while the EU is committed to open its market by a given deadline, many uncertainties still remain regarding the scope and calendar of US communications liberalisation.

EUROPE

Trends: While political and technological initiatives towards the information society multiply in Europe (see Germany's telecoms liberalisation package), increasing concern is voiced over its democratic dimension and its social and societal consequences.

LEGISLATION AND POLICY

German Telecoms Minister Wolfgang Bötsch has unveiled a telecoms liberalisation package under which any company who wishes to supply telecoms services, whether at national or regional level, would be awarded a telecoms license from 1998.

Applicants would only have to meet the requirements of financial stability, experience in telecoms and the ability to manage a network with a high level of security and integrity.

The plan, which will have to be approved by the German Parliament, requires only those companies who control over 25% of the market to provide universal service. Initially, this would only concern the national telecoms operator, Deutsche Telekom.

Mr. Bötsch expects Germany's new telecoms legislation to be adopted by the Autumn of 1996 and telecoms licenses to be granted by the Spring of 1997.

However, the package was criticised for failing to address the issue of how much new entrants will have to pay to connect to Deutsche Telekom's network.

Germany's Technology Council, a new body comprising high-level representatives of society, science and industry set up by the German government has devoted its first meeting to ways of bringing the information society to Germany.

In June 1995, the Council is expected to issue detailed proposals for the setting up of a national framework allowing for a quick development of Germany's information society. Its plans will be based on the analysis of Germany's strengths and weaknesses in the global information market and the needed strategy for it to become a leading international player.

The Technology Council will also address other key issues on the way towards the 21st century such as clean technologies and biotechnology.

The Belgian Flemish regional authorities have agreed to launch Telenet Vlaanderen, an info-superhighway project based on a partnership between the Flemish regional society for industrial development GIMV and the US telecoms group US West.

Telenet would offer new high value-added multimedia services at competitive prices in the Flemish region and could eventually set up its own network. Reacting to the project, Belgian Telecoms Minister Elio Di Rupo said he was in favour of one single advanced infrastructure for the whole of Belgium run by the national telecoms operator Belgacom.

MARKET

The German media giant Bertelsmann and the French pay-TV channel Canal+ have set a new joint venture, Canal Plus Ufa, to buy audiovisual programming. The two companies are already partners in the German Vox television channel.

Italy's two most powerful financial institutions, Mediobanca and Banca di Roma, have offered to purchase all of the 61% stake worth 5.7 billion Ecus in Italy's national telecoms company STET the Italian government has said it would privatise in 1995.

If the joint bid is successful, it would mark a major boost of Italian banks' control over industry. Indeed, with sales worth 20 billion Ecus, STET is one of Italy's richest group. In addition, Mediobanca already controls leading Italian companies through cross-share holdings, in particular the computer giant Olivetti, the telecoms and tyre manufacturer Pirelli, and the automobile group FIAT. The two banks have already said that they would place 30% of STET's capital with friendly shareholders.

SOCIAL, SOCIETAL AND CULTURAL

Telia, the main Swedish telecoms operator, has inaugurated in Helsingborg -- a city of 108,000 -- CityNet, an urban information superhighway based on the ATM technology.

CityNet's first customer is the city government, which has already hooked up its office computers across 45 buildings. The city will build on CityNet to enhance its efficiency and encourage teleworking for its employees. It also plans to link up medical facilities, use videoconferencing to share specialised teaching in schools, and put on-line official proceedings and documents, which would be available over terminals at the public library.

CityNet is Telia's first city-wide ATM network. It passes 98% of the city's businesses and 75% of its homes. Fibre links to the office or the home will be established on demand.

CityNet will eventually be connected to other city networks which are still under construction, in particular in Sweden's largest cities Stockholm and Gothenburg.

An educational multimedia pilot project at the Queen's School in North-London has found that new multimedia tools can contribute to trigger and sustain pupils' interest and attention, thus improving the quality of their work. While the effect of multimedia doesn't necessarily last, establishing initial enthusiasm is an important progress.

In second world war history class for instance, half the pupils watch on-screen background video material with the possibility to choose more detailed footage on specific themes, while the rest of the class works on documents and books. The school also uses E-mail internally as well as to communicate with a Russian school.

The Queen's project is a first in a series of regional "learning information superhighways" launched in the framework of Schools Online, a project sponsored by the British Department of Trade and Industry. It is based on a public-private partnership, with government contributing 320.000 Ecus and businesses 450.000 Ecus.

The plan was originally designed by the UK National Information Infrastructure Task Force, which comprises firms such as BT, C&W, Motorola, ICL, IBM and Bull.

Several other departments are funding multimedia pilot schemes. The overall aim is that all British secondary schools will benefit from the new technology by the year 2000.

On March 23-24, the Council of Europe held a colloquium on "Electronic Democracy" which criticised the European Union (EU) and the US Administration for their lack of political, ethical and social vision in tackling the information society.

While the information society could actually contribute to revive democratic life, it also presents a risk of populism or of a Big Brother-type society. Direct democracy could also question the traditional role of parliaments. While these are the real issues of the building up of the information society, they are only marginally addressed by governments.

Another seminar organised by the European Commission and Unesco on "Preparing the Europeans for the Information Society" emphasised key issues such as education, the future of work and employment, and the evolution of culture in the information age.

A German priest, Hartmut Landwehr, has developed On-line with Jesus, an electronic confessional which allows believers to confess their sins over a personal computer. It was one of several pieces of PC software presented at the Credo bit, an annual ecumenical fair organised in Germany by Christian computer freaks.

NORTH AMERICA

Trends: Topping the news is the outcome of the FCC's PCS auction, which has inaugurated a new way of awarding licenses. Indeed, the fact that operators are ready to pay huge amounts of money to win a license could be the best guarantee that they will exploit them to a maximum extent, in the consumer's interest. Another key news is Judge Greene's decision to allow Bell Atlantic to provide video services nationwide.

APPLICATIONS

MCI, the second largest US long distance operator, has unveiled marketplaceMCI, an on-line shopping service available over the Internet.

To guarantee a high level of security -- an endemic problem on the Internet -- MCI has developed in collaboration with America's FTP Software, a piece of software which scrambles customer's sensitive financial data. Only MCI and the companies whose products and software are available on marketplaceMCI have the key to decode it.

LEGISLATION AND POLICY

A US Federal Communications Commission (FCC) auction to sell a hundred cellular licenses for "personal communications services" (PCS) in about 50 regional markets has raised \$7 billion. The winners of the bidding are a handful of US telecoms giants.

Sprint, the third largest US long distance operator, and its cable partners TCI, Comcast and Cox, were the top bidders with \$2.11 billion for 29 markets. Their strategy was to win licenses in the markets where they already operate cable networks in order to sell packages of video and phone services.

AT&T, the leading US long distance operator, was the second-highest bidder with \$1.68 for 21 markets. AT&T's strategy was to win licenses to extend the coverage of the cellular network of McCaw Cellular, the leading US mobile operator, which it has purchased in 1994 for \$11.5 billion. The new licenses will allow it to double its potential customer basis to 200 million by covering 80% of the US territory.

A team comprising the US regional telecoms companies Bell Atlantic, Nynex, US West and Pacific Telesis' cellular spin off Air Touch was the third-highest bidder with \$1.11 for 11 markets. Their strategy was to complete their national coverage.

PCS carriers will now have to build up their networks, which will include buying or leasing thousands of sites for installing radio transmitters. Experts say it will cost them between \$15 to \$30 per potential customer or \$2 to \$3 for each dollar already spent.

US District Judge Harold H. Greene has ruled that the US regional telecoms group Bell Atlantic be allowed to deliver video and TV programming via satellite nationwide, as well as buy radio and TV stations as well as cable systems outside of its service area.

The ruling will give a boost to Bell Atlantic's plans to become a nationwide provider of new interactive video services, in particular through a partnership with two other Baby Bells, Nynex and Pacific Telesis. Pacific Telesis had already won a court waiver to supply video services but on more restricted terms as it is limited to its service area.

The move suggests that Judge Greene will grant similar right to other Baby Bells.

US Republican Senator Larry Pressler and its Democrat colleague Ernest Hollings have agreed on most of a draft bill to reform the 1934 US Communications Act which would open up local and long distance telephony, and cable TV to full competition.

Three issues still divide Senate Republicans and Democrats: whether a 1992 price cap imposed on cable TV operators should be scrapped; whether rules limiting the number of radio or TV stations a single company can own should be relaxed; and under which terms foreign companies should be allowed into the US communications market.

MARKET

Microsoft, the world's leader in PC software, has agreed to join forces with DreamWorks SKG, Hollywood's eighth movie studio set up in 1994 by film director Steven Spielberg, ex-Disney chief Jeffrey Katzenberg and billionaire David Geffen.

Microsoft will take a minority stake in DreamWorks and is expected to invest around \$100 million in the venture. The two partners will also set a joint venture, DreamWorks Interactive, in which each will own a 50% stake. It will design

interactive games and software based on the characters of DreamWorks' productions and rights bought from other studios. DreamWorks Interactive will have an initial capital of at least \$100 million.

Microsoft's move came only days after Paul Allen, the co-founder of Microsoft, agreed to take a 20% stake and invest \$500 million in DreamWorks.

SOCIAL, SOCIETAL AND CULTURAL

Bell Canada, Canada's former telecoms monopoly, said it would cut its workforce by 22% -- or 10,000 employees -- over the next three years.

ASIA AND PACIFIC

SOCIAL, SOCIETAL AND CULTURAL

Hong Kong Telecoms, which is majority-owned by the British telecoms group Cable & Wireless, announced plans to cut its staff by 2,500 -- or over 15% -- over three years.

The decision comes only a few months before Hong Kong Telecoms will lose its monopoly over domestic phone services. From July, it faces the prospect of tough competition from new entrants backed by leading Hong Kong companies such as Hutchinson Whampoa, New World Development and Wharf Holdings.

The content of the press review does not necessarily reflect the European Commission's views.