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EDITORIAL

Audiovisual merger mania takes US media market by storm

On August 1, the Walt Disney studio agreed to spend $19 billion on purchasing Capital Cities, a group which owns an empire comprising the US television network ABC, 225 affiliated local TV channels, a 80% share in the leading US sports cable TV channel ESPN, America's largest radio network, as well as publishing assets.

The following day, rival TV network CBS agreed to be purchased for $5.4 billion by the US industry conglomerate Westinghouse, now renamed Westinghouse CBS.

The Disney-Capital Cities venture (the second largest in US history after the $25 billion worth NJR Nabisco-Kohlberg Krabis Roberts & Co merger in 1989) would turn Disney, already the largest US content provider, into America's number one media group.

As for the Westinghouse-CBS deal, it would turn Westinghouse, which already owns TV assets through its Group W subsidiary, into the biggest US broadcaster.

Yet the two deals do not compare.

Disney's strategy is clearly to complement audiovisual production by controlling its own distribution outlet, which was so far limited to the cable TV Disney Channel.

This is in line with Disney's policy of full control over its products: it has never sold the rights of its movies and mainly sells its movie-related products in its leisure parks and in its worldwide network of 300 Disney shops.

The deal would also allow Disney to be present in three key segments of the communications industry: production, distribution and new interactive television services through its alliance with three regional US telecoms operators.

While the Disney-Capital Cities venture would give birth to a media powerhouse adapted to the new multimedia environment, the Westinghouse-CBS deal looks like a traditional business diversification which can be compared to the purchase in 1986 of the NBC TV network by another industry conglomerate, General Electric.

While becoming extremely strong in distribution, Westinghouse would remain weak in content. This could prove a major shortcoming in the multimedia era, since content is crucial to the launch of new interactive TV services such as video-on-demand.

Another rationale is missing in the Westinghouse-CBS venture: a recent US Court decision to allow broadcasters to produce their own prime time programming has scrapped the division line between distribution and production, thus turning studios and broadcasters into direct competitors.

Short-circuiting this new rivalry between content producers and distributors is another key motivation behind the Disney-Capital Cities merger. In fact, the same logic already prevailed behind last year's decision by the US media giant Viacom to spend $9.6 billion on purchasing the US studio Paramount and launch its own TV network, United Paramount Network (UPN).

EUROPE

Trends: A new step towards telecoms liberalisation in Europe has been taken by Ireland, where it has been decided to open up to competition the telecoms market in 2000 instead of 2003. The launch of new applications is also gaining momentum, despite some delay in Deutsche Telekom's trials, with new initiatives launched by France Télécom and Bertelsmann. On the market front, AT&T is further expanding in Europe.

APPLICATIONS

The French national telecoms operator France Télécom has selected five telecoms manufacturers that will build four experimental optical fibre networks worth 75 million Ecus for the launch in 1998 of four interactive multimedia trials involving 10,000 urban, residential and business subscribers each. The companies are France's Alcatel and SAT, Germany's Siemens and a partnership between France's Matra and Sweden's Ericsson.

A series of seven interactive multimedia trials involving over 4,500 homes that the German national telecoms operator Deutsche Telekom planned to launch across Germany in 1995 will be delayed, some well into 1996.

The first trial was initially intended to be launched in Berlin in February 1995. The others are due to take place in Hamburg, Cologne/Bonn, Munich, Nuremberg and Leipzig. The largest will be Stuttgart's with 4,000 test users.

The German media giant Bertelsmann and the US on-line service America OnLine, which in April set up a joint venture to develop on-line services in Germany, have announced the creation of a similar operation in France and later in Britain.

From 1996, they intend to offer a French-language service, which will provide access to the Internet, home-shopping, newspapers, and travel and leisure information.

LEGISLATION AND POLICIES

The Irish government has unveiled plans to liberalise the Irish telecoms market by the year 2000 and sell off 35% of the national telecoms operator Telecom Eireann.

While the European Union's telecoms market will is scheduled to be liberalised in 1998, Ireland is among those countries that obtained a derogation until 2003.

The Belgian government has announced that it will sell off 49.9% of the national telecoms operator Belgacom later this year.

The three remaining contenders for the stake are America's Ameritech, an alliance of Britain's BT and the US group Bell Atlantic, and a partnership between the Swiss and Dutch national telecoms companies, Swiss Telecom and Koninklijke PTT Nederland.

The Polish government said it intends to break up the monopoly of Centertel, a mobile operator 51% controlled by the national telecoms operator Telekomunikacja Polska, by awarding three cellular licenses in 1995 and 1996.

The European Commission has decided to block Nordic Satellite Distribution (NSD), a planned Scandinavian satellite and cable television joint venture on grounds that it would dominate the Nordic satellite and cable TV market. The Commission said however that it would remain open to new proposals from NSD.

NSD comprises the Danish national telecoms operator Tele Danmark, Norway's Norsk Telekom, a subsidiary of the Norwegian telecoms group Telenor, and the Swedish media group Industriforvaltnings AB Kinnevik, the second largest broadcaster of advertising-financed TV in Denmark, Sweden and Norway.

The European Union's Council of Ministers has approved a Directive that creates a regulatory framework for the transmission of digital television signals.

It recognises that standards are an important element of promoting the development of the market but does not target the introduction of particular services and technologies. It also recognises that conditional access is an important issue for broadcasters.

The Directive also requires that customers be able to receive all digital TV signals with a single set top box, and requires that manufacturers incorporate an open interface socket on all TVs with screen larger than 42 cm to make sure that all customers investing in new equipment will be able to connect digital TV decoders without problems. Finally, it ensures that cable TV operators will supply wide-screen services in the 16:9 format.

MARKET AND COMPANIES

The US telecoms giant AT&T has said it will buy the public network operations of the Dutch electronics giant Philips, including Germany's Philips Kommunikations Industrie (PKI) and France's Télécoms Radioélectriques et Téléphoniques (TRT).

The two companies comprise Philips' cellular infrastructure systems, managed transport networks, microwave transmission and access, and transmission business. They have a global workforce of 3,000 and are worth an estimated 600 million Ecus.

The deal would strengthen AT&T's cellular operations, by giving it access to the GSM technology. As for Philips, it will concentrate its efforts on personal communications, including cellular, corded and cordless phones, faxes and pagers, business communications systems, data communications, private mobile radio, and smart cards and systems.

The Spanish national telecoms operator Telefonica de Espana and the largest Spanish media group Promotera de Informaciones (Prisa) have agreed to jointly offer cable television across Spain. They intend to start broadcasting in Madrid in September. Telefonica would provide the cable TV network and Prisa the programming.

Cable TV in Spain is embryonic with a less then 2% penetration rate compared to over 23% in the European Union. One obstacle to the development of cable TV is that the market is still unregulated. However, the Spanish Constitutional Court recently ruled that the legal vacuum cannot legally prevent operators from offering cable TV services.

Fininvest, the media group owned by the Italian media mogul and former Prime Minister Silvio Berlusconi, said it intends to enter the mobile phone business as well as getting on-line to distribute its audiovisual programming. Fininvest, which is expected to invest an initial 500 million Ecus in telecoms, said it is also looking for a partner.

The French movie producer and distributor UGC and the US Hollywood studio 20th Century Fox have agreed to set up a joint venture, UFD, to collaborate on the production and global distribution of films. While each partner will retain its independence, UFD will promote synergies, information exchange and a joint strategy.

NORTH AMERICA

Trends: The Disney-Capital Cities and Westinghouse-CBS deals have taken the US communications industry by storm. Also of major importance was Oracle's new initiative to establish a partnership of leading US corporations in the multimedia sector.

MARKET AND COMPANIES

America's Oracle, the world's second largest software manufacturer and leader in data base software, has created Object Definition Alliance, a venture that groups leading US companies, which aims at developing new interactive TV services, multimedia networks and electronic commerce as well as technical standards for multimedia software.

It comprises the media giant Time Warner , the financial institutions MasterCard, Visa Interactive and Wells Fargo, the retailer PriceCostco, the telecoms groups MCI and VeriFone, and the computer groups Apple, Compaq and Xerox.

The move is part of Oracle's strategy to develop multimedia products and technology. It has already joined forces with Intel, the world's leader in microprocessors, to develop on-line PC services, with the British telecoms operator BT for interactive TV trials, with the Japanese electronics giant Sony for the creation of multimedia products, and with MasterCard, within the Set-Top Alliance, for the development of decoders.

Gannett, a leading US media group which owns 82 newspapers -- including USA Today --, 10 TV channels and 11 radio stations, has agreed to spend $3.8 billion on purchasing rival Multimedia, which controls 49 publications, five TV channels, two radio stations and cable TV operations with 450,000 subscribers. The move marks Gannett's entry into the cable TV business.

TCI, the leading US cable operator, has agreed to purchase the cable TV assets of the US media giant Viacom, which are worth $2.25 billion.

3Com, a leading US computer network equipment manufacturer, has agreed to take over Chipcom, a US producer of switching system for data networks, for $775 million.

The move follows the merger last October of America's SynOptics and Wellfleet Communications, which have created Bay Networks, the leader in network equipment, thus further confirming the consolidation of the fast expanding US networking industry.

TECHNOLOGY

The US computer giant IBM said it is developing a virus protection system for computer networks which it intends to market in a couple of years. The technology will allow for the automatic detection and destruction of new viruses within minutes.

Virus infection has become a dramatic problem for networkers with more than 6,000 listed viruses and three to five new ones discovered every day.

ASIA AND PACIFIC

TECHNOLOGY

A group of 35 electronics and telecoms companies, most of them Japanese, have agreed to jointly support the "Personal Handy-Phone" or PHS standard for digital mobile telephony and promote it as a worldwide standard.

PHS, whose installation is less costly than GSM, is mainly designed for urban usage. It is already used by two mobile networks launched in July in Tokyo and Hokkaido.

Supporters of PHS include Japan's NTT, Matsushita, Hitachi, NEC, Fujitsu, Sony, Sharp and Sanyo, America's Motorola and AT&T, and Britain's Cable & Wireless.

SOCIAL, SOCIETAL AND CULTURAL

The Malaysian government has unveiled plans to drop in early 1996 its current closed-sky policy forbidding the reception of foreign television channels while maintaining a minimum level of censorship over programme content.

A new regulatory framework to be established this year would lift a ban on private satellite dishes and authorise the launch of two satellite TV systems as well as several cable and hertzian TV channels. But restrictions would remain on pornography and material that could threaten social harmony in Malaysia.

REST OF THE WORLD

LEGISLATION AND POLICIES

The Senegalese government has unveiled plans to partially privatise the country's national telecoms operator Société Nationale des Télécommunications du Sénégal (Sonatel). It would also seek an international telecoms partner to form a strategic alliance.

MARKET AND COMPANIES

News Corp., the group of the Australian American media magnate Rupert Murdoch, and Globo, Brazil's largest media group, have agreed to invest between 200 and 350 million Ecus over five years to launch a satellite television service in Brazil.

The system, to be launched in early 1996, would offer a roster of 100 TV channels in a market of 400 million people. News Corp. is already present in the region since 1993 with the cable channel El Canal Fox. Globo's assets include a radio and a TV network, a cable TV operator, and the country's second largest magazine publisher and newspaper

The two partners will face stiff competition from Globo's main rival, TV Abril, which has joined forces with America's Hughes Communications for the launch of a 144 channel satellite system, and Mexico's leading broadcasting company Grupo Televista.