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# EDITORIAL

## AT&T diverges while others converge

The US telecoms giant AT&T has unveiled plans to split itself into three separately quoted companies specialising in telecoms services, telecoms equipment and computers.

It is AT&T most radical structural change since 1984, when US authorities broke up its telecoms monopoly, thus giving birth to seven regional telecoms monopolies, the Baby Bells, and reducing AT&T to a long distance operator and equipment manufacturer.

The firm comprising AT&T's long distance services, global network operation and credit card business will not be renamed while the name of the two others is still unknown.

AT&T's Bell Laboratories will be split between the new services and equipment firms. As for the financial services division, AT&T Capital Corporation, they will be sold off.

GIS (formerly NCR), AT&T's loss-making computing division, will abandon the manufacturing of personal computers and concentrate on electronic equipment for banks and retailers, and its workforce will be slimmed down to 34,500 from 43,000.

The overall restructuring is expected to be finalised by the end of 1996.

A striking issue behind the move is that it questions the current convergence within the information-related industry (telecoms, cable TV, computers, electronics and content). That especially concerns the vertical integration of telecoms operators and equipment manufacturers, and the marriage of telecoms and computers.

Indeed, AT&T's decision is largely motivated by the fact that its different activities tended to impede one another. This trend would have been reinforced by the US communications deregulation which will allow the Baby Bells and the long distance operators to enter each other's business with almost no restrictions.

The Baby Bells for instance are less willing to buy AT&T's equipment as they face the prospect of competing with AT&T in both the local and long distance market. The same applies to European operators, which will soon be rivalled by AT&T at home.

Hence, to protect equipment contracts, AT&T would have to adopt a milder stance in the service market. Separated firms instead will be free to compete more aggressively.

The AT&T case tends to highlight the limits of the integration of telecoms services and equipment. However, the same limits seem to apply less to telecoms and computers as the decision to spin off GIS seems rather motivated by the fact that the computer business was not profitable, thus diverting important financial resources.

Nevertheless, recent alliances such as MCI/News Corp., Turner/Time Warner, Microsoft/NBC, Walt Disney and three Baby Bells, France Télécom/Hachette and Telefonica/Prisa suggest that convergence patterns will increasingly focus on the content industry rather than on operators, electronics and computers with one another.

Recent alliances, for instance Disney/Capital Cities, Turner/Time Warner and Bertelsmann/Canal+, also suggest that vertical integration in the media industry between distributors and content providers is more promising than in the telecoms industry.

## EUROPE

Trends: On the market side, the key event in Europe is the setting up of an Italian cable TV joint venture between Olivetti and US West. Also important was the Deutsche Telekom/France Télécom's proposal to settle the Commission's investigation into Atlas.

## MULTIMEDIA APPLICATIONS AND PRODUCTS

In October 1995, Infogrames Entertainment, the leading French interactive game software manufacturer, will launch Infonie, France's first on-line multimedia PC service.

Infonie will offer services ranging from electronic version of newspapers (Le Monde, Les Echos, etc.) to distance education and video games, as well as access to the Internet.

## LEGISLATION AND POLICIES

The French and German national telecoms operators France Télécom and Deutsche Telekom have made proposals to overcome European Commission concerns that the planned Atlas venture could threaten competition in the European telecoms market.

The two partners have pledged to support the liberalisation of alternative telecoms infrastructure before the 1998 deadline for liberalising all telecoms services and infrastructures in Europe. The Commission has in fact said that it will adopt before the end of the year a Directive requiring such liberalisation as early as January 1, 1996.

France Télécom and Deutsche Telekom also said that they would proceed with the merger of their data transmission subsidiaries, Transpac and Datex-P, which enjoy a quasi-monopoly, but that the two entities would retain separate commercial structures even though they would sell the same products. They added that they would provide competitors with non-discriminatory access to their data transmission networks.

Recent declarations by the French and German telecoms ministers, François Fillon and Wolfgang Boetsch, could also contribute to facilitating the acceptance of Atlas. Mr. Fillon was reported to have said that France could liberalise alternative infrastructures by July 1996 while Mr. Boetsch said Germany could do the same by October 1996.

In addition, Germany has authorised the operators of the country's three mobile phone systems, D1, D2 and E-Plus, to set up and operate their own networks, interconnect them and link them to Deutsche Telekom's, in a move to further liberalise German telecoms.

The European Commission has decided to open an investigation concerning the creation and operation of the Luxembourg-based European on-line service Europe Online, which comprises the British, French and German publishers Pearson, Matra-Hachette, Burda and Axel Springer, as well as the US telecoms giant AT&T.

The investigation, whose aim is to prevent any obstacle to competition, will investigate the following aspects: access under fair conditions by other on-line services to the publications controlled by Europe Online's founders; possibility for other groups to offer content under conditions similar to those enjoyed by Europe Online's founders; existence of anti-competitive agreements with third companies.

Meanwhile, Pearson and Matra Hachette said they would sell their stake in Europe Online, while Vebacom, a telecoms joint venture of the British telecoms group Cable & Wireless and the German energy-based conglomerate Veba, could buy a 10% stake.

## MARKET AND COMPANIES

The Italian computer giant Olivetti and the US regional telecoms group US West have agreed to set up a joint venture, Videostrada, in which they will respectively own a 51% and a 49% stake, that will specialise in building and operating cable TV networks in Italy.

The two partners plan to spend between 1 and 3 billion Ecus to wire up five million urban homes. Videostrada also plans to offer a wide roster of services ranging from basic telephony, cable television and interactive multimedia services.

The new venture is part of Olivetti's plans to become a leading player in the Italian communications market. It has already agreed with the US regional telecoms group Bell Atlantic to set up a telecoms joint venture, Infostrada. Olivetti and Bell Atlantic are already partners in Omnitel Pronto Italia, Italy's second digital mobile phone network.

The French national airline Air France has unveiled plans to become a supplier of data transmission services in France, with a view to grabbing a 5 to 10% market share within three or four years. Air France will build on its existing private telecoms network.

As the European Union strives to liberalise its telecoms market by 1998, the situation of the former Swedish monopoly, Telia, provides an outlook of what the situation of Europe's national telecoms operators could be like once liberalisation has been completed.

Since Swedish telecoms was liberalised in mid-1993, Telia has come under mounting pressure of foreign and domestic new comers in all market segments (international, long distance, mobile, data and corporate services) except local telephony.

For instance, it faces competition from the British, Danish and Norwegian operators BT, Tele Danmark and Telenor, who have set up Telenordia, a joint venture specialising in corporate services, and from the French national operator France Télécom. There are also about 40 companies offering call-back services, which consist in routing international calls via third countries, in particular the United States.

As a result, Telia has lost a 30% market share in international calls and posted a 60% loss in the first half of 1995. Meanwhile, the price of international calls has dropped 30%.

To live up to competition, Telia has cut its workforce to 30,000 from 48,000 in 1991 and formed Unisource, a venture specialising in global corporate services, with the Dutch, Swiss and Spanish national operators. It has also won a UK license to offer international calls and has taken a stake in mobile ventures in countries such as Italy.

## NORTH AMERICA

Trends: The US information industry has been taken again by storm by the merger of Turner and Time Warner and AT&T's

decision to split into three companies.

## MULTIMEDIA APPLICATIONS AND PRODUCTS

The US bank Bank of America and one of its customers, the Lawrence Livermore National Laboratory, have agreed to launch a pilot project to test the practicality and security of real-time commercial transactions on the Internet.

They will test encryption technology and electronic lockers. Involved money amounts will not exceed a few thousand dollars as the two companies anticipate hacker attacks

Further doubts over Internet security have been raised recently, when Damien Doligez, a computer specialist with the French national computer research institute Inria, broke a secret code of Netscape Communications' Internet navigation software. America's Netscape its the main supplier of Internet navigation software with a 75% market share.

## LEGISLATION AND POLICIES

A US government report on the protection of intellectual property rights (IPR) in the context of the development of information superhighways calls for limited changes of existing legislation, in particular the Copyright Act, to enable the United States to take a global leadership in digital transmission.

The report says that safeguards are needed to make sure that content producers are not reluctant to use new on-line services such as the Internet, on which information security is a endemic problem, for the dissemination of digitised material.

The report also calls for the development of industry-driven encryption and coded access technologies that will meet the needs of the global market.

US Senate Republicans have unveiled plans to auction digital TV licenses in the country's top 25 media market in a drive to balance the federal budget by the year 2002.

According to the Republicans' proposal, big broadcasters would be required to compete with other industries to purchase the spectrum, which they would be able to use in any way they want. Auctions for smaller markets would eventually follow suit.

The move would mean a radical change from current government plans, under which the US Federal Communications Commission (FCC) would provide each broadcaster with a second so it can simultaneously transmit both analogue and digital signals. One of the two channels would have to be given back after a 15-year period.

As part of a drive to slash budget deficit, the US Congress has decided to raise $14 billion over seven years from new spectrum auctions and fees. According to the Republicans, the overall value of the digital spectrum amounts to $37 billion. Earlier this year, the auction of 100 wireless communications licenses had raised $7 billion.

## MARKET AND COMPANIES

The US media group Turner Broadcasting System (TBS) has agreed to a $7.5 billion purchase offer by the US media and cable giant Time Warner in a move that would create the world's largest media group with a $18.7 billion turn over.

The deal would be a perfect fit creating strong synergies between Time Warner's content and cable TV assets and TBS' distribution and programming skills.

Time Warner controls the leading Hollywood studio Warner Bros. and is the second largest US cable TV operator after TCI. It also owns Warner Music, one of the world's five largest music groups, and the subscription cable channel Home Box Office (HBO).

As for TBS, it controls the global news channel CNN, a series of other cable channels specialising in documentaries, sports, cartoons, old American movies, as well as two small but dynamic film producers, New Line Cinema and Castle Rock Entertainment.

Time Warner, which already owns an 18% stake, would buy the remaining 82%. But the deal could face several hurdles before it is completed. The US regional telecoms company US West, who owns 25% of Time Warner Entertainment, has announced that it would launch legal action against the merger. Other rivals could follow suit.

## ASIA AND PACIFIC

## LEGISLATION AND POLICIES

Microsoft, the world's leader in PC software, has signed an agreement with the Chinese government to develop a Chinese version of its new Windows 95 software.

The Ministry of Electronics and the China Bureau of Technology Supervision have agreed to work with Microsoft to create a Chinese language version of the programme and to endorse it as a preferred product which they will recommend to Chinese users. In exchange, Microsoft has pledged to support the development of China's software industry.

The move is a radical change form China's previous attitude towards Microsoft, which consisted in refusing to endorse Windows and actively discouraging its use.

The Taiwanese government has unveiled plans to open up to private investment by the end of 1995 three sectors of the telecoms industry, trunked radio, VSAT and mobile data transmission, in a first move to liberalise the country's telecoms market.

One third of the liberalised industries would be opened up to foreign investors.

MARKET AND COMPANIES

Hughes Communications, the telecoms arm of America's General Motors, is joining forces with three Japanese media and satellite groups, Culture Convenience Club, Dai Nippon Printing and Space Communications, a subsidiary of the electronics group Mitsubishi, to launch a 100-channel satellite television service in Japan.

They plan to set up a joint venture that will invest 1.6 billion Ecus in the new service, that will offer sports, movie and music video programming. It would rival a similar 50-channel service which would be launched in early 1996 by four Japanese trading companies, Mitsui, Itochu, Sumitomo and Nissho Iwai.

WORLD-WIDE

TECHNOLOGY

The world's leading electronics firms have struck a struck a compromise on a common standard for digital video disks (DVD) which ends months of rivalry and defuses the prospect of a lengthy and costly format war for imposing one standard over the other.

The Dutch and Japanese electronics giants Philips and Sony have endorsed a standard that incorporates most aspects of the technology of the SD Alliance led by their Japanese rival Toshiba. The common standard will use Sony and Philip's information coding system, thus reducing the length of single sided DVD from 142 to 130 minutes.

The first generation of DVD players, which should be marketed in September 1996, will not have a recording facility, a function that should be introduced within three years.