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EDITORIAL

Germany's communications landscape rocked by dramatic changes

In July, Germany's telecoms and audiovisual landscape was rocked by dramatic regulatory and market changes, in particular the overhaul of the country's communications regulatory environment and the emergence of a new telecoms giant.

The major regulatory event consisted in the final approval by the country's upper house (Bundesrat), which represents the 16 states (Länder), of the bill overhauling Germany's telecoms regulatory framework in view of the European Union liberalisation of 1998.

Another significant regulatory event was the compromise struck by the federal government and the Länder on the regulation of new on-line services.

The Länder won the right to regulate multimedia services such as pay-TV, video-on-demand or teleshopping, which they consider a natural extension of their regulatory power over broadcasting, while the central government will regulate on-line services.

The key market event was the decision by DBKom, the telecoms arm of the German railway company and owner of the country's largest private network, to join forces with the German industrial group Mannesmann, which would take a 49.8% stake in DBKom. Mannesmann also has an option to raise its stake in DBKom to 75% over three years.

Mannesmann said it would merge Communications Network International (CNI), a corporate services provider which it owns 50% (70% after Deustche Bank completes its recently announced withdrawal), with DBKom. The remaining 30% are controlled by the US telecoms giant AT&T and its European telecoms partner Unisource.

The partners said they would invest between 1.6 and 2.1 billion Ecus to get ready for full competition by 1998. The Mannesmann-led alliance now looks set to become the most serious challenger to the incumbent operator Deutsche Telekom.

Another major rival telecoms pole is being built around RWE, Germany's largest electricity utility, which has undertaken to federate the private networks of other electricity utilities. RWE has also agreed to set up a joint venture specialised in telecoms services with the German industrial group Viag and the UK operator BT.

Another important market event was the decision by the UK TV group BSkyB to take a 30% stake in DF1, the digital satellite broadcasting arm of the German TV group Kirch, and invest 250 million Ecus in its digital bouquet to be launched on July 28.

The move shortly follows BSkyB's decision to quit the digital satellite TV alliance led by the German media giant Bertelsmann and the French pay-TV group Canal+. The deal strengthens Kirch's position in the race for dominating the German digital TV market against arch-rival Bertelsmann, which is to launch its own bouquet by the end of 1996.

EUROPE

Trends: At government level, the key events were the approval of Germany's new telecoms bill, the partial privatisation of Telecom Eireann and the Commission's green light to Atlas and Global One. In the telecoms market, the major developments were the Mannesmann-DBKom alliance and the setting up by Swiss energy firms of a new telecoms group. In the audiovisual market, news are topped by the entry of France Télécom in Télévision par Satellite (TPS) and the reinforcing of Kirch's stake in Telepiu. At social level, the Information Society Forum has released its first annual report.

LEGISLATION AND POLICIES

The Irish government has decided to sell off a 35% stake in the national telecoms operator Telecom Eireann to a consortium comprising the Dutch and Swedish telecoms operators KPN and Telia. The consortium will pay 230 million Ecus for an initial 20% and have an option to buy an additional 15% worth 250 million Ecus over three years.

About 280 million Ecus of the proceeds would be reinjected into Telecom Eireann, which currently has over 1 billion Ecus worth of debt due to infrastructure investments despite the fact that it has posted a profit for the seven last years.

The European Commission has cleared Atlas, a telecoms joint venture between the French and German national telecoms operators, as well as Global One, a telecoms joint venture between Atlas and the US long distance operator Sprint.

The approval of the two ventures is accompanied by a series of conditions aimed at ensuring that they do not lead to a dominant position or create obstacles to competition in the context of the gradual liberalisation of Europe's telecoms market by 1998.

Hence, the launch by Global One of its European and global services is pending the award of the two first licenses by French and German authorities for the use of alternative infrastructures to supply telecoms services.

Furthermore, France Télécom and Deutsche Telekom will not be entitled to integrate their public commuted data networks Transpac and T-Data until the full liberalisation of telecoms services and infrastructures by 1998 has been completed in France and Germany.

The Commission will again review Atlas and Global One in 2001, together with Concert, a rival alliance between the UK and US operators BT and MCI.

The European Commission has cleared Holland Media Groep (HMG), a Dutch TV venture comprising the broadcasters Veronica and RTL, following the withdrawal of Endemol, the leading Dutch producer of TV programmes and advertising. In October 1995, the Commission blocked the venture on grounds that it would have created a dominant position in the Dutch TV distribution, advertising and production markets.

The European Commission has decided to open an investigation into Sociedad General de Cablevision (Cablevision), a Spanish cable TV joint venture between the Spanish national telecoms operator Telefonica, the Spanish cable operator Sociedad de Gestion de Cable and the French pay-TV group Canal+ on grounds that it could constitute an obstacle to competition in the Spanish market.

In conformity with the "TV without Frontiers Directive," a large majority of European TV channels have broadcasted a majority of European programming in 1994, according to a monitoring report of the European Commission.

While most traditional generalist channels have met the directive's requirement, the report notes that most channels that did not meet the requirements are either satellite channels, new channels with a small audience or pay-TV channels.

MARKET AND COMPANIES

Six Swiss public and private electricity companies said they have formed a telecoms joint venture, Diax, which would build upon their interconnected private networks in view of the 1998 liberalisation of telecoms services and infrastructures in Switzerland.

Diax would compete with the national operator Swiss Telecom and another Swiss consortium recently formed by the Union Bank of Switzerland, the national railway company and the Swiss cooperative retailer Migros.

The latter and Diax are now both seeking an international telecoms partner. As for Swiss Telecom, it is already part of the European consortium Unisource which has also ties Uniworld, a global telecoms alliance led by the US telecoms giant AT&T.

France's public broadcaster, France Télévision, has decided to reduce to 8% from 25% its stake in the French satellite digital

TV venture Télévision par Satellite (TPS), hence allowing the national telecoms operator France Télécom to take a 17% stake.

France Télécom's participation was conditioned by TPS' choice of its digital decoding technology, Viaccess. TPS intends to launch a French language bouquet of digital satellite channels by the end of 1996 in competition with the bouquet of Canalsatellite, a subsidiary of the French pay-TV group Canal+, launched in April 1996, and the planned launched by the French TV producer AB Productions of a third satellite bouquet.

Other partners in TPS include the French TV groups TF1, M6 and Lyonnaise des Eaux, and the European broadcaster CLT, with respectively 25%, 20%, 10% and 20%.

The German TV group Kirch has agreed to raise its stake in the Italian pay-TV group Telepiu to 57% from 34%. According to Telepiu, Kirch would share the stake with another shareholder, the South African media group Nethold, so that each would end up with a 45% stake. The Italian media group Fininvest owns the remaining 10%.

After a series of defections in 1995, the commercial on-line service Europe Online was rocked again by its most serious defection to date when its main shareholder with a 33% stake, the German publisher Burda, announced it would withdraw from the venture.

SOCIAL, SOCIETAL AND CULTURAL

Europe's people, institutions and companies are not fully prepared for the rapid emergence of the information society, according to the first annual report of the Information Society Forum, an advisory group on social, societal and cultural aspects of new technologies set up in 1995 by the European Commission.

This lack of preparation is an obstacle to Europe's capacity to reap the information society's benefits in terms of economic growth, employment and quality of life.

The report therefore advocates a people-centred approach aimed at giving European citizens the required know-how, developing a life-long learning society, meeting the real needs of users and guaranteeing pluralism and open access to information.

The Forum stresses that the keys to a successful transition to the information society include raising public awareness, securing public access to basic on-line services such as public information, education and health, supporting sustainable development, as well as greater government readiness to managing the process of change.

The full text is available on-line: URL/http:/www.ispo.cec.be/infoforum/pub.htlm

NORTH AMERICA

Trends: The major government-related events were the FTC's green light to the Time Warner-TBS merger and the US Administration's decision to let Netscape sell an Internet encryption software without however relaxing its restrictive export rules. Business news concentrate on the audiovisual market with the launch by NBC and Microsoft of MSNBC, further vertical integration with an alliance between CBS, Sony and 3 Arts as well as further concentration of broadcasters with New Corp.'s purchase of New World. At social level, the US cable industry pledged to wire up US schools.

MULTIMEDIA SERVICES AND PRODUCTS

Microsoft, the world's leader in PC software, and the US TV network NBC have launched MSNBC Interactive and MSNBC, respectively an on-line "news-on-demand" service available on the Microsoft Network and an all-news cable TV channel.

The two partners set up the two ventures in December 1995 and agreed to invest $200 million each over five years, thus expanding a strategic multimedia alliance set up by Microsoft and NBC in May 1995 to jointly develop and market on-line products.

MSNBC will compete directly with CNN, the cable news channel of the US media giant Turner Broadcasting, which is also planning to launch a news-on-demand service.

The Dutch and Japanese electronics giant Philips and Sony have unveiled plans to market in the USA a set-top box that would provide Internet access via the TV set.

The device, which would connect between a TV set and a phone line, would use software produced by WebTV Networks, a start up set up in 1995 by three former Apple executives which plans to launch an on-line service to connect TV sets to the Internet.

The set-top box, which could be priced $200, could be a serious challenger for the $500 worth Network PC supported by Oracle, IBM, Sun, Apple and Netscape.

LEGISLATION AND POLICIES

The US Federal Trade Commission (FTC) has approved in principle the planned $7.5 billion worth merger between the two

US media giants Time Warner and Turner Broadcasting System (TBS), which will give birth to the world's largest media group.

The US Administration has entitled Netscape, the world's leader in Internet navigation software, to market in the USA encryption software developed with the US credit card giants Mastercard and Visa to improve transaction security on the Web.

To ensure that the programme, which will be sold over the Net, is only available to US customers, buyers will have to provide their name, address, phone number and e-mail address. The software also searches a user's US e-mail address each time it is operated.

MARKET AND COMPANIES

The US TV network CBS has agreed to form a joint venture, 3 Arts Television, with the US TV production arm of Japan's Sony and a US talent brokerage agency, 3 Arts Entertainment, to produce prime-time TV programming.

The alliance follows by a year the purchase of CBS for $5.4 billion by the US industry conglomerate Westinghouse, which created America's largest broadcaster.

The move marks a further step towards vertical integration between distributors and producers in the US audiovisual industry following last year's giant mergers between Walt Disney and Capital Cities, and between Time Warner and Turner Broadcasting.

While the Disney-Capital Cities and Warner-TBS mergers created strong synergies between production and distribution, the Westinghouse-CBS deal looked weak in content.

Westinghouse and CBS seems now committed to overcoming this shortcoming.

The US media giant News Corp., which already owns Fox, the fourth US TV network, has agreed to spend $2.5 billion on buying New World Communications, a US owner of TV stations as well as a producer and distributor of TV programming.

The move would turn News Corp. into the largest US owner of TV stations. It would also further amplify the trend towards concentration of the US broadcasting industry.

SOCIAL, SOCIETAL AND CULTURAL

The US National Cable TV Association has pledged that the US cable industry would connect for free to the Internet all

US elementary and secondary schools in areas served by cable networks. About 3,000 schools would be wired up and equipped with cable modems during the first year. This figure would eventually rise to 75,000.

ASIA AND PACIFIC

Trends: In Japan, the core news are business-related with the launch of a satellite-based on-line service by Nintendo, Microsoft and Nomura, as well as the launch of a pan-Asian satellite TV venture by Sumitomo and TCI.

MULTIMEDIA SERVICES AND PRODUCTS

The Japanese video game giant Nintendo, the world's leader in PC software Microsoft and the Nomura Research Institute, a subsidiary of Japan' largest broker Nomura Securities, said they have agreed to set up by the end of 1996 a joint venture respectively owned 40%, 30% and 30% to offer by mid-1997 satellite on-line PC services in Japan.

The three partners would invest an initial 7.5 million Ecus in the venture, which would allow PC users to enjoy on-line services ranging from edutainment to home-shopping and corporate services as well as access to the Internet and Microsoft's commercial on-line service Microsoft Network for a monthly subscription fee of about 7.5 Ecus.

The choice of satellite delivery is motivated by the fact that 10 million Japanese homes are already equipped with satellite TV dishes. Furthermore, it allows to bypass high-priced phone communications, thereby making the service financially more attractive.

MARKET AND COMPANIES

The Japanese trading house Sumitomo and the leading US cable TV operator TCI said they have agreed to launch in January 1997 Jet TV, a new TV station that would broadcast Japanese programming to 10 countries in the Asia-Pacific region, thus rivalling Star TV, the Hong Kong-based satellite TV group of the US media giant News Corp.

Jet TV would be based in Singapore and owned 65% by Jupiter, a Japanese cable TV joint venture between Sumitomo (60%) and TCI (40%) and 5% by Sumitomo. The remaining 30% would be divided between five Japanese commercial TV stations responsible for providing programming, including shows, series and documentaries.

Jet TV would initially supply a single channel to 5 million cable and satellite subscribers in Australia, China, Hong Kong, Indonesia, Malaysia, New Zealand, the Philippines, Singapore, Taiwan and Thailand. Viewers would have the possibility to chose one of four languages: Chinese, English, Japanese or Thai.

LATIN AMERICA

LEGISLATION AND POLICIES

The Brazilian government has passed legislation liberalising the country's mobile telephony sector. Licenses are due to be awarded in the second half of 1996, thus allowing new entrants to launch operations in the course 1997. As for the mobile operations of the national telecoms operator Telebras, they would be privatised in 1998.

Leading US and European telecoms groups such as AT&T, AirTouch, BellSouth, GTE, Motorola, Nynex, SBC, STET and Telia are planning to bid for a license, despite a 49% limit on foreign ownership of a mobile operator. However, analysts believe the limit is unconstitutional and could therefore be challenged in court.

The Argentine subsidiary of Microsoft, the world's leader in PC software, has said it would take legal action against all levels of Argentine government, whether local, regional and national, for allegedly using illegal copies of its software. According to Microsoft, 90% of PC software used by public administration are pirated.