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EDITORIAL

BT-MCI merger rocks world telecoms order

For the first time in telecoms history, a single operator looks set to have a strong foothold in two of the world's leading economic regions: Europe and North America.

This would be the result of the decision by BT, the leading UK telecoms operator, to spend over 16 billion Ecu on buying the second largest US long distance operator, MCI.

So far, leading telecoms operators have relied on global alliances to cover the world's three main economic regions: Europe, North America and Asia-Pacific. This includes BT and MCI with Concert, Deutsche Telekom, France Télécom and Sprint with Global One, and AT&T, Unisource, KDD and Singapore Telecom with Worldpartners.

Alliances have so far mainly been transatlantic, thus reflecting the leadership taken by the European Union and the USA in the global telecoms liberalisation process.

The BT-MCI venture, which would be called Concert, is a dramatic departure from this corporate strategy in that it would create an integrated transatlantic telecoms giant.

By buying the 80% stake of MCI it doesn't yet own, BT would create a group with 32 billion Ecu in annual revenue, 183,000 employees and 43 million private and corporate clients in 72 countries. It would also create strong synergy resulting in important savings.

There is little doubt that the creation of Concert, which would be the world's fourth largest telecoms operator after Nippon Telegraph & Telephone (NTT), AT&T and Deutsche Telekom, will pose a serious challenge to other competitors, which could respond by triggering a further consolidation of the global telecoms industry.

Indeed, a new wave of mergers or stake swaps could be required to acquire the critical mass as well as the geographic and business coverage needed to compete with Concert.

To avoid the danger of seeing MCI merging with another telecoms company, BT has already paid a 30% premium for a full merger. But the venture has yet to be cleared by competition authorities on both sides of the Atlantic, a process that could take some time.

On the US side, the purchase of more than 25% of a US telecoms group by a foreign group triggers a Federal Communications Commission (FCC) review to determine whether the buyer's home telecoms market is sufficiently open. If not, the FCC may block the deal. It may also do so for US foreign policy or national security reasons.

In Europe, the fact that MCI owns 15% of the US media giant News Corp., which controls the UK broadcaster BSkyB, could contravene a ban on BT offering entertainment services until 2001. Even though the stake would be diluted, the UK telecoms watchdog Oftel could ask BT to sell it.

The merger must also be approved by the European Commission.

EUROPE

Trends: New steps to bring interactive services to consumers have been taken by BT and CGE. UK telecoms competition is gaining further momentum with the decision by C&W and three cable operators to join forces. In Spain, the mutation of the audiovisual landscape is continuing with the decision by Telefonica and Sogecable to drop their joint cable TV plans and launch rival DSB services. Meanwhile, Alcatel's ADSL technology is emerging as a cheap alternative for the supply of new interactive services.

MULTIMEDIA SERVICES AND PRODUCTS

The leading UK telecoms operator BT said it would invest 65 million Ecu over four years to build Europe's largest network of up to 10,000 multimedia touch-screen kiosks, the Touchpoint terminals, installed in public locations such as shopping centres, hotels and universities. As a pilot step, 200 kiosks would be installed in London before year end.

The terminals would aim to bring new interactive services such as flight and cinema booking and on-line shopping to the general public. Users would have to pay small fees, but BT's main revenue would come from fees of 5% to 40% on sold goods.

CGV, the cable TV arm of the French water utility CGE, said it would launch in January 1997 an interactive digital TV experiment involving 1,000 households.

The service offer would range from the digital satellite bouquet of France's CanaSatelllite and a local TV channel to on-demand multimedia services in the following domains: news, weather forecast, games, banking, culture and Internet access.

MARKET AND COMPANIES

The UK telecoms group Cable & Wireless (C&W) has agreed to merge its telecoms subsidiary Mercury with three North American-owned British cable operators into a new company, Cable & Wireless Communications, in a move to step up pressure on the leading operator BT in the British residential telecoms market.

The move would be the largest consolidation of the UK cable industry to date. The merger between Mercury, Bell Cablemedia, Nynex CableComms and Videotron would give C&W Communications access to six millions British homes.

The Spanish national telecoms operator Telefonica has said it would withdraw from Cablevision, a Spanish cable TV joint venture set in July 1995 with Sogecable, the broadcasting unit of the largest Spanish media group, Grupo Prisa.

As a result, Cablevision would be entirely owned by Sogecable. Telefonica and Sogecable are also getting set to launch rival digital satellite broadcasting (DSB) systems.

Sogecable, which is backed by the French pay-TV group Canal+, would launch in January 1996 a 20-channel service jointly operated with the Venezuelan and US TV groups Divtel and DirecTV and based on the Astra satellite system. As for Telefonica, it would launch DSB in March 1997 based on the Hispasat satellite, which it partly owns.

The two groups are likely to compete with the Mexican and Spanish TV groups Grupo Televisa and Television Espanola, which also intend to launch DSB in Spain.

According to the Council of Europe's European Audiovisual Observatory, the audiovisual trade imbalance between the European Union and the USA has deteriorated by a further 16% between 1994 and 1995, reaching 4.9 billion Ecu from 4.2 billion Ecu.

Since 1990, the deficit has doubled from 3.2 billion to 6.3 billion. The figures cover movies, TV series and video tapes. This trend is linked to massive purchase by European broadcasters of US programmes in view of the launch of digital satellite TV channels.

TECHNOLOGY

The Asymmetric Digital Subscriber Line (ADSL) technology developed by the French telecoms group Alcatel is gaining momentum with the decision by the Austrian national telecoms operator (OPT) and four US regional telecoms operators to use it.

OPT and the Joint Procurement Consortium, which comprises the Baby Bells Ameritech, BellSouth, Pacific Bell and SBC Communications, have signed contracts with Alcatel for the supply of ADSL equipment to offer interactive multimedia services.

ADSL is a technology that allows for the high-speed transmission of digitised information over regular twisted copper pair telecoms networks in parallel to analogue voice telephony. It could become a cheap alternative to optical fibre and switching technologies such as ATM for the provision of advanced services or fast Internet access.

According to Alcatel, the Baby Bells would equip 1 million lines by the year 2001 at a price of less than 400 Ecu per line plus 400 to 500 Ecu for the reception equipment.

The leading UK operator BT too is experimenting ASDL with 3,000 subscribers.

NORTH AMERICA

Trends: Consolidation of the US telecoms landscape is gaining momentum with the Justice Department's green light to the SBC-Pacific Telesis and US West-Continental Cablevision mergers. At market level, DVDs are now set to take off thanks to the deal struck between Hollywood studios and electronics manufacturers.

MULTIMEDIA SERVICES AND PRODUCTS

The US business and education publisher McGraw-Hill Companies said it would launch a Internet service, McGraw-Hill Science Online, to supply electronic journals.

Trials would begin in early 1997 with up to five scientific publications, while full service is due to begin in the second half of 1997. The move is part of McGraw-Hill's strategy to rival other science publishers such as the Anglo-Dutch group Reed Elsevier, which already offers electronic versions of its own publications.

LEGISLATION AND POLICIES

The US Federal Communications Commission (FCC) has blocked plans by the US leading cable TV operator TCI to launch a 200-channel digital satellite broadcasting (DSB) in the USA based on Canadian satellites due to a shortage of US orbital slots.

While TCI was hoping to rival DirecTV, the successful DSB service of General Motors' Hughes Electronics, it said it would settle for a less ambitious service based on its own satellite to be launched in February, but which only has a 77-channel capacity.

The US Justice Department has cleared two major US telecoms mergers, a $17 billion venture between the regional telecoms operators, or Baby Bells, SBC Communications and Pacific Telesis, and a $10.8 billion merger between the Baby Bell US West and the US cable TV operator Continental Cablevision.

While some conditions have been imposed on the US West-Continental merger, the two mergers have yet to be cleared by the US Federal Communications Commission (FCC) and state regulators. Meanwhile, the Justice Department is pursuing its review of a third merger worth $22 billion between the Baby Bells Nynex and Bell Atlantic.

MARKET AND COMPANIES

After months of negotiations, Hollywood studios and world leading electronics groups have finally sealed a copyright protection accord for Digital Video Discs (DVDs).

Under the provisional agreement, DVD piracy would be prevented by licensing a technology that will unscramble information stored on DVDs.

Hollywood fears that the possibility to make perfect copies from DVDs could damage its interests and therefore seeks a high-level protection of copyrights.

In fact, the risk of pirating DVDs is limited in the short term as DVD players won't have a recording facility for another few years. The copyright issue might arise again in 1997 with the launch of DVD-ROMs, which would allow for computer-based copying.

The launch of DVD players, planned after the summer of 1996, has been seriously delayed by the negotiations. Matsushita has launched DVD players in Japan this month, but other manufacturers will only follow suit in the course of 1997.

Competition is heating up in the emerging US market for network computers (NCs), cheap and easy-to-use computers stripped down of their hard-drive and relying on network intelligence, with proponents of the new devices as well as companies which originally played-down their market potential taking steps to enter this new market.

But while NCs were originally foreseen as being of interest to both residential and corporate users and costing no more than

$500, all the machines unveiled so far are specifically targeted at business users and would cost between $700 and $1000.

This reflect the fact that firms wishing to cut maintenance costs of PCs are the most promising outlet, while the take-off of the residential market is likely to depend upon the generalisation of high-speed links needed for the optimal use of network-relying devices.

The computer groups Sun Microsystems has unveiled its JavaStation, a $750 NC mainly designed for use with its Java network programming language, while Oracle will launch its own machines in the first semester of 1997. As for IBM, it recently unveiled a $700 worth NC whose maintenance cost would be half that of a PC over five years.

As for Microsoft and Intel, whose control of the PC software and chip markets are threatened by NCs, they announced the launch of a NetPC, a simplified and low maintenance cost PC relying on Windows and Intel chips, priced less than $1,000.

Oracle and Netscape, the world leaders in databases and Internet navigation software, have sealed an accord to exclusively promote their respective products.

Oracle would integrate Nestcape's Navigator software in its network computers to be launched in 1997 while Nestcape's commercial applications would integrate Oracle databases. The partnership also covers the two companies' future products.

Plans by the eighth Hollywood studio, DreamWorks, to build $8 billion worth major new state-of-the-art studio facilities, the Playa Vista project, in partnership with the leading US computer groups IBM and Silicon Graphics, are threatened by financial difficulties encountered by the project developer, Maguire Thomas Partners.

With Playa Vista already one year behind schedule, DreamWorks is now looking at other options, while IBM and Silicon Graphics are reconsidering their involvement.

DreamWorks was created in 1994 by film director Steven Spielberg, ex-Walt Disney chief Jeffrey Katzenberg and billionaire David Geffen. In 1995, it received the baking of the software giant Microsoft and Microsoft co-founder Paul Allen. IBM was to set up a digital film library allowing for instant storage and retrieval, while Silicon Graphics was to create a digital studio for the production of cartoons, movies and TV series.

America OnLine (AOL), the world's leading commercial on-line service with six million subscribers, has introduced a flat-rate price providing unlimited use for $19.95 a month in a move to counterattack against rival on-line services such as the Microsoft Network (MSN) with 1.6 million subscribers as well as Internet access providers.

SOCIAL, SOCIETAL AND CULTURAL

US entertainment software, video game and game stations producers have started developing new products specifically designed to appeal to girls as sale figures suggest that close to 90% of customers in this $12.5 billion worth market are boys.

This includes for instance Mattel with its new "Barbie" software, Walt Disney with its "Madeline Thinking Games" and Her Interactive with its "Vampire Diaries". The European electronics giant Philips is following suit with a "Baby Sitters Club" game.

AFRICA AND MIDDLE-EAST

LEGISLATION AND POLICIES

The Israeli government has awarded overseas telecoms licenses to two foreign-led consortia, the Golden Lines Group and the Barak Group, in a move to break up the monopoly of the national overseas carrier Bezeq, in which Britain's C&W owns 10%.

Golden Lines comprises the US and Italian operator SBC Communications and STET, and three Israeli groups, while Barak includes the French, German and US operators France Télécom, Deutsche Telekom and Sprint, and two Israeli groups.

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