

EDITORIAL

Japan revolutionises the world's telecoms landscape

On 13 June 1997, the Japanese Diet passed three legislative amendments aimed at restructuring the domestic operator Nippon Telegraph and Telephone (NTT) and allowing it to enter into the global telecoms market, and at letting the international operator Kokusai Denshin Denwa (KDD) enter the domestic telecoms market.

Amendment to the NTT Law aims to restructure NTT into three companies: the first will be specialised in long-distance and international services, while the two others will be respectively in charge of Eastern and Western Japan. All three companies will be put under the umbrella of a single holding company.

This change required Japan to revise its Antimonopoly Law, which so far banned the creation of holding companies. The law was adopted under US pressure after the second World War to dismantle the Zaibatsus, Japan's powerful industrial cartels.

The deadline for completing the restructuring is the end of fiscal year 1999. But NTT won't have to wait until then to enter the global telecoms market. In fact, it is planning to offer overseas services starting from September 1997, after the Ministry of Posts and Telecoms (MPT) has approved the setting up of its overseas subsidiary.

In the context of global telecoms liberalisation and the emergence of alliances and mergers giving birth to worldwide carriers, NTT seemed to be increasingly disconnected from the reality of the global marketplace. This anomaly is now about to be corrected.

With annual revenues of \$55 billion and a huge investment potential based on its domestic strength, NTT is already the world's first largest telecoms operator. Its entry into the global marketplace is thus likely to revolutionise the world's telecoms landscape.

At domestic level, NTT's restructuring is unlikely to have much impact. It is in fact a watered-down restructuring which largely gives satisfaction to advocates of a unified and powerful NTT while allowing proponents of a radical US-style break-up to save face.

A lot more significant at domestic level is the change to the KDD Law, which allows KDD to enter the domestic market, thus

becoming a credible rival for NTT.

To prepare its entry in the domestic market, probably as early as the summer of 1997, KDD has already agreed to join forces with nine Japanese electricity utilities and is planning an alliance with the long-distance operator DDI. This would allow it to combine local, long-distance and international services.

But however significant the event may be, KDD still has a long way to go before it can pose a real threat to NTT. Indeed, KDD's 1996 pre-tax profit of \$173 million, down 33.5% from the previous year, is still dwarfed by NTT's 1996 pre-tax profit of \$3 billion, up 11% from the previous year.

EUROPE

Trends: Alcatel's Skybridge, the only Europe-led global broadband satellite project, gained further momentum thanks to a rapprochement with Loral's CyberStar. Meanwhile, the UK licensed the DBD consortium for the launch of Europe's first digital terrestrial TV service. At market level, Kirch and Bertelsmann finally managed to solve their lasting dispute over Premiere, while Mannesmann announced the launch of Europe's first integrated mobile-fixed telecoms service. Finally, Microsoft decided to make a major move into the UK to take advantage of Europe's brain power.

INFRASTRUCTURE

The French and US space groups Alcatel Espace and Loral Space & Communications said they have agreed to link up and jointly exploit their planned high-speed interactive satellite systems, respectively Skybridge and CyberStar.

The two systems are complementary as Skybridge, worth 3 billion Ecu, would have a worldwide coverage and CyberStar, worth around 400 million, only a US coverage.

To seal the alliance, the two groups, which already cooperate on other projects, in particular the global satellite-based mobile phone system GlobalStar, would invest an initial 26 million Ecu in each other's project. The two systems would remain separate but the marketing would be integrated to offer a larger scope of services.

Alcatel and Loral will rival six similar US-sponsored systems, including Motorola's M-Star and Celestri, Lockheed Martin's Astrolink, AT&T's Voicestar, Hughes's Spaceway as well as Bill Gates, Graig O. McCaw and Boeing's Teledesic.

The UK telecoms operator Cable & Wireless (C&W) has announced the launch of a global communications service based on a high-speed fibre optic network using the ATM switching technology. The first phase involves a link between Britain and the United States. It would be followed by similar links across Europe and the Far East.

MULTIMEDIA SERVICES AND PRODUCTS

The Belgian cable TV operator TVD-Radio Public has announced plans to offer high-speed Internet access to part of its Brussels' subscribers starting from September 1997.

LEGISLATION AND POLICIES

The UK Independent Television Commission (ITC) has decided to award licenses for digital terrestrial television (DTT) to British Digital Broadcasting (BDB). It outbid Digital Television Network (DTN), a rival consortium led by the US media group NTL.

The move followed the decision by the UK pay-TV leader BSkyB, a subsidiary of the US media giant News Corp., to leave the BDB consortium and sell back its 33% stake to its two partners, Carlton Communications and Granada Group.

BDB will launch Europe's first DTT service, which will enable viewers to receive 30 digital channels via ordinary TV antennas. BDB has signed a programming accord with the public broadcaster BBC, but BSkyB is likely to remain a leading content provider.

The German government said it would accelerate the sell-off of a further 25% over the next two years of the national telecoms operator Deutsche Telekom. The German state would thus surrender its majority stake in Telekom, in which it currently owns a 74% stake. The move would be aimed at addressing Germany's budget deficit.

The Dutch government said it would split the national postal and telecoms company Koninklijke PTT Nederland (KPN) into two separate companies in the spring of 1998.

The move could strengthen the European telecoms group Unisource as it would allow KPN's telecoms arm to swap stakes with its Swiss and Swedish partners.

The European Commission has decided to open infringement proceedings against the Spanish government regarding its legislation on pay-TV and digital TV services.

In a "letter of formal notice," the Commission considers in particular that the Spanish law could have potential adverse effects on the digital TV market in Spain.

The recently approved legislation requires digital TV operators to use a new decoding technology if they fail within two months to agree on the use of the technology already used by the digital satellite broadcaster Canal Satellite. But Canal Satellite argues that the aim is to support its rival, DTS, whose TV service is due for launch later this year.

Separately, the Commission has agreed to clear the acquisition of the Spanish cable TV operator Cableuropa by America's Bank of America and General Electric (GE).

MARKET AND COMPANIES

The German industrial group Mannesmann has unveiled plans to offer combined telecoms services based on its mobile and fixed networks D2 and Arcor.

Starting from 1999, the new service would allow subscribers to use their mobile phone both at home (fixed-wireless service) and outside their home (mobile/GSM service).

The move, which would be the first of its kind in Europe, would be aimed at expanding Mannesmann's territorial coverage in Germany to step up competition against the incumbent operator Deutsche Telekom.

The management of the two networks would remain separate as they do not involve the same partners. D2 is operated by Mobilfunk, a joint venture owned 65% by Mannesmann and 35% by the US group AirTouch. As for Arcor, it is 50.2% owned by the German national railway company Deutsche Bahn alongside Mannesmann, Airtouch and the Euro-American telecoms group AT&T-Unisource Services.

The Dutch electronic giant Philips and the US telecoms equipment manufacturer Lucent Technologies have announced the merger of their consumer communications products business, including corded, cordless and mobile phones.

The new joint venture, Philips Consumer Communications, would be owned 60% by Philips and 40% by Lucent, and would have a turnover of about 2.2 billion Ecu.

The French telecoms equipment manufacturer Alcatel and the US network equipment manufacturer Cisco Systems said they have agreed to jointly offer solutions for the integration of Internet and Intranet services with public telecoms networks.

They would build upon Alcatel's strength in public commuted networks and high-speed technologies and Cisco's strength in data transmission and Internet-based services.

The German media groups Kirch and Bertelsmann said they have agreed to settle their lasting dispute in the German pay-TV market by taking joint control of Premiere.

Kirch and CLT-UFA, the largest European TV group which is comprised of the TV assets of Bertelsmann and the Luxembourg-based media group CLT, would take 50% each of Premiere, Germany's leading pay-TV channel, following the

sell-off of the 37.5% stake currently owned by Canal+, the leading French pay-TV group.

The move, which has yet to be approved by German competition authorities, would help restore Kirch's financial fitness and secure the future of Premiere, which largely depend upon access to Kirch's large movie library.

TECHNOLOGY

Microsoft, the world's leader in PC software, has unveiled plans to invest 70 million Ecu in the establishment of its first overseas research laboratory in Cambridge, England, in collaboration with the University of Cambridge.

The move is aimed at attracting top-level European computer scientists that would otherwise not join Microsoft's US-based research facilities.

In addition, Microsoft said it would set up a 14 million Ecu worth venture fund to support the development of high-tech start-ups in the Cambridge area.

NORTH AMERICA

Trends: Yet another global broadband satellite system has been unveiled by Motorola, thus confirming the US leadership in this promising market. While SBC decided to significantly scale down its interactive TV plans, the USA demonstrated again their leadership in Internet services with the launch of new services by WebTV, Netscape-Concentric and Quicken-Excite. At legislative level, the US Supreme Court decided to bury the Decency Act while the US government further relaxed restrictions over the export of encryption software. Finally, SBC and AT&T dropped their merger plans.

INFRASTRUCTURE

The US telecoms equipment manufacturer Motorola has unveiled plans to launch Celestri, a new \$13 billion worth very high-speed global multimedia satellite transmission system for multinational corporations, broadcasters and telecoms companies based on a combination of geostationary and low-earth orbit (LEO) satellites.

It would be Motorola's third global satellite communications systems after Iridium, a mobile phone system currently being deployed in which it owns 21%, and M-Star, a planned \$6 billion worth global high-speed multimedia system.

MULTIMEDIA SERVICES AND PRODUCTS

WebTV Networks, a US company specialised in Internet broadcasting which was recently purchased by Microsoft, has unveiled WebTV Prime Time for Developers, a package of on-line technical, artistic and marketing resources aimed at helping content providers develop programming for Internet broadcasting.

Netscape Communications, the world's leader in Internet browsers, has agreed to join forces with Concentric Networks, a US networking service provider, to launch in August 1997 the Netscape Virtual Office by Concentric, an Internet-based service that will allow companies to set up Intranets linking their employees in different locations.

The US regional operator SBC Communications said it has decided to scale down its on-line video service plans by as much as \$500 million. The move casts a new shadow over the rapid development of advanced multimedia services in the USA.

The retreat would include dropping an interactive TV trial in Texas and the development of an advanced cable network in Southern California, as well as reducing SBC's involvement in two ventures with other Baby Bells, Tele-TV and Americast.

Intuit, the world's leader in financial software with Quiken, has agreed to join forces with the US Internet search company Excite to launch in the summer of 1997 an Internet service offering financial and information services as well as financial

products.

To seal the partnership, Intuit also agreed to spend \$40 million for a 19% stake in Excite. The service would combine Excite's estimated 2.5 million daily users and Intuit's Quicken Financial Network, which is used by Quicken's 10 million users. The service would generate revenues from usage fees and advertising.

LEGISLATION AND POLICIES

The US Supreme Court, has ruled that legal provisions of the 1996 US Telecoms Act, the so called Communications Decency Act, which outlaw the transmission over PC networks of indecent or patently offensive material to minors, are unconstitutional as they breach freedom of speech protected under the US Constitution's First Amendment.

The US Federal Communications Commission has refused to allow the US regional operator SBC Communications to offer long-distance services in the state of Oklahoma.

Similarly, the US Justice Department has refused to let another Baby Bell, Ameritech, offer long-distance services in the state of Michigan.

Both decisions were motivated by the fact that SBC and Ameritech's home market are insufficiently open to competition, as is required by the 1996 US Telecoms Act.

The US Department of Commerce has agreed to award Netscape Communications, and Microsoft licenses for the export of sophisticated 128-bit encryption software.

The licences only cover banking communications.

MARKET AND COMPANIES

The US computer manufacturer Compaq has agreed to spend \$3 billion on purchasing Tandem Computers, a US manufacturer of high-performance mainframe computers.

The move seems aimed at rivalling the US computer giant IBM.

The US regional telecoms operator SBC Communications and the US telecoms giant AT&T said they have dropped \$50 billion worth giant merger plans. The move followed comments by FCC Reed Hundt that the merger was "unthinkable".

The US computer manufacturer Digital Equipment has dropped plans to spin-off Alta Vista, a subsidiary that operates one of the Internet's most popular search engine, and integrate it instead with its other Internet-related operations.

TECHNOLOGY

A group of 11 leading computer groups led by America's IBM have agreed to jointly develop standards for the next generation of low-cost mobile communications devices such as smart cellular phones and laptops in a move to rival the market leaders Microsoft and Intel. Equipment based on the new standards could be shipped in one year or two.

Other companies include: America's Apple, Netscape, Oracle and Sun Microsystems, Europe's Nokia, and Japan's Hitachi, Fujitsu, Mitsubishi and Toshiba.

The US computer group Sun Microsystems said it is developing in its Israeli-based research facility, the JavaSoft Development Centre, a new software, Java PC, that would allow to turn old-fashioned PCs into effective Internet terminals.

SOCIAL, SOCIETAL AND CULTURAL

Microsoft Chairman Bill Gates has decided to donate \$200 million to form the Gates Library Foundation, whose goal will be to provide Internet access for libraries in low-income communities in the USA and Canada, and to provide librarian training.

Microsoft will offer a further \$200 million in software and technical support.

ASIA AND PACIFIC

MULTIMEDIA SERVICES AND PRODUCTS

The Japanese software company Softbank and the US Internet company GeoCities have agreed to set up a joint venture, GeoCities Japan Corp., in which they would respectively own 60% and 40% stakes, which, starting from September 1997, would offer Japanese Internet users tools to create their own home page.

MARKET AND COMPANIES

The US media giants Turner Broadcasting System (TBS) and Time Warner Entertainment and the Japanese trading house Itochu have unveiled plans to launch a 24-hour cartoon channel, Cartoon Network Japan, in September 1997. It would be available to viewers via satellite and cable TV and will show US and Japanese cartoons.

The UK telecoms operator Cable & Wireless (C&W) has agreed to spend 630 million Ecu on buying the US telecoms operator BellSouth's 24.5% stake in Optus Communications, Australia's second largest telecoms operator after Telstra.

C&W would thus raise its stake in Optus to 49% and gain management control.