Information Society Trends

Issue number: 75 - (4.11.1997 - 30.11.1997)

EDITORIAL

WorldCom-MCI merger: A bad omen for European carriers?

On November 10, the second-largest US long-distance operator MCI accepted the $37 billion purchase offer of WorldCom, the fourth-largest US long-distance operator.

The merger would be achieved through stake swaps. Upon completion of the merger, MCI shareholders would own 45% of the new combined company, MCI-WorldCom.

It would result in the creation of the only US carrier that offers a full range of services with presence in 100 US local markets, a consolidated second position in the long distance-market and control over 50% of US Internet traffic. At global level, the combined group would have offices in 65 countries and be the leader in Internet access.

A key feature highlight of the venture is its Internet strength. This reflects WorldCom Internet Division Chief John Sidgmore's conviction that with Internet traffic growing by 1,000% a year compared to 10% for voice, the Internet is the industry's future.

This Internet strength, however, could also prove to be MCI-WorldCom's major weakness when it comes under scrutiny of competition authorities.

As for the leading UK operator BT, which was to merge with MCI before WorldCom made its bid, it would receive $7 billion in cash for its 20% stake in MCI and a $456 break-up fee. This represents a $2.25 billion pre-tax profit on BT's investment.

While this amounts to an excellent financial operation, longer-term prospects are grimmer as the MCI-WorldCom venture would undermines BT's global strategy.

BT would lose access to the US telecoms market, which was a cornerstone of its expansion strategy. It would have to find a new partner to fill in the blank.

As regards Concert, the joint venture between MCI and BT, MCI-WorldCom has agreed to remain a non-exclusive distributor for Concert services. But BT has said it would buy back the 25% owned by MCI once the MCI-WorlCom merger is finalised.

BT may also have to clarify its ties with the Spanish and Portuguese operators Telefonica and Portugal Telecom, with which it and MCI had agreed to join forces.

The BT-MCI case also suggests that, in the context of the accelerated consolidation and vertical integration of the US telecoms industry, the French and German operators France Télécom and Deutsche Telekom could have an interest in securing their ties with the third-largest US long-distance operator Sprint to avoid a similar misadventure.

The history of WorldCom also underlines the key role of US stock markets in reshaping the world's high-tech industry. They played an instrumental role in enabling a second-rank company such as WorldCom to become a global giant in a matter of a few years. Stock markets in Europe seem unlikely to play a similar role.

This suggests that European companies may lack the structural capacity to grab new opportunities as rapidly as US ones and that they may come under yet increased pressure of aggressive, young and fast-growing US companies such as WorldCom.

EUROPE

Trends: At policy level, the Commission is taking steps to ensure that EU countries meet the 1998 deadline for telecoms liberalisation and launched initiatives regarding the safe use of the Internet and audiovisual services. On the market front, France Télécom and Deutsche Telekom are strengthening their alliance by teaming up in Italy, while Italia Telecom confirms its partnership with AT&T-Unisource. Meanwhile, educational multimedia is gaining further momentum with a French initiative and the Euro-Netdays.

INFRASTRUCTURE

GE Capital Satellites, the European satellite arm of the US electronics giant General Electric (GE), said it would offer pan-European digital TV satellite transmission services in competition with Eutelsat and Société Européenne des Satellites (SES) over the Sirius 2 satellite which was recently put into orbit by the European launcher Ariane.

Earlier this year, GE Capital Satellites signed an agreement with Nordiska Satellitaktiebolaget (Nsab), a joint venture of Swedish Space Corporation and Tele Danmark that operates Sirius 2, to use 16 transponders out of 26.

MULTIMEDIA SERVICES AND PRODUCTS

The French telecoms giant Alcatel said the French and Spanish national telecoms operator France Télécom and Telefonica would test its ADSL technology, which allows for the high-speed transmission of digitised data over regular phone lines.

Other companies that are testing or commercially deploying Alcatel's ADSL include Ameritech, Belgacom, Bell Canada, BellSouth, BT, Pacific Bell, Singapore Telecom, SouthWestern Bell and Telia, thus giving Alcatel 30% of the world's ADSL market. Pilot projects have also been ordered in Denmark, Japan and South Korea.

LEGISLATION AND POLICIES

The European Commission has announced that it will initiate formal infringement procedures against seven European Union Member States and send a reasoned opinion (second stage of the infringement procedure) to another Member State to speed up the transposition into national law of the EU 1998 telecoms liberalisation package.

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The European Commission has cleared the purchase by the Italian public energy utility ENI of a 35% stake worth 89 million Ecu in Albacom, a telecoms joint venture between the leading UK operator BT, the Italian bank Banca Nazionale del Lavoro (BNL) and the Italian media group Mediaset.

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The European Commission has adopted an Action Plan for 1998 to 2001 on promoting the safe use of the Internet which identifies key areas where measures are needed and could be supported by the European Union.

This concerns in particular a hot line where Internauts could report presumably illegal content, industry-led self-regulation and content-monitoring schemes, internationally compatible and interoperable rating and filtering systems as well as awareness.

(http://www2.echo.lu/legal/en/internet/actplan.html).

The European Commission has adopted a Communication and a draft Council Recommendation on the protection of minors and of human dignity in audiovisual services. The documents define common objectives and cooperation fields at Community level. The underlying idea is that self-regulation schemes at national level are the most appropriate answer as regards both television and the Internet.

(http://europa.eu.int/en/comm/dg10/avpolicy/new_srv/comlv-en.htm).

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According to a study commissioned by the leading UK telecoms operator BT and carried out in nine European countries, 86% of European business leaders are eagerly awaiting the benefits of telecoms liberalisation, in particular with respect to lower prices, increased choice, a wider range of services and improved quality of service.

About 85% of European businesses leaders emphasised the importance of telecoms for global competitiveness and said that liberalisation will benefit their business. Only 31% were happy with their current supplier and 83% said they were willing to switch supplier.

While the benefits of liberalisation depend on fair competition according to 87% of respondents, 75% said they believe that competition would be fairer if all countries were regulated by the same rules and the same regulatory organisation.

However, 66% of respondents criticised the pace of liberalisation in their country (as much as 73% in non-liberalised countries) and 55% were unaware of the significance of the 1 January 1998 full liberalisation of telecoms in the European Union.

MARKET AND COMPANIES

The national French telecoms operator France Télécom said it has agreed to join forces with the Italian telecoms joint venture set up by its German counterpart, Deutsche Telekom, and the Italian electricity utility Enel to offer a full range of telecoms services.

France Télécom was originally due to take a 49% stake in Infostrada, a joint venture between Italy's Olivetti and America's Bell Atlantic. But the plan collapsed after Germany's Mannesmann, which has a stake in France Télécom's domestic rival Cégétel, agreed to take a 49.9% stake in OMTS, Olivetti's telecoms holding company.

Another conflict of interest would have resulted from Infostrada competing with Enel and Deutsche Telecom, the latter being France Télécom's international partner in Global One, a joint venture set up in partnership with America's Sprint.

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The national Italian telecoms operator Telecom Italia has confirmed that it would take a 30% stake in AT&T-Unisource Communications Services, a joint venture between the US telecoms giant AT&T and the European telecoms alliance Unisource, which would be left respectively with 30% and 40% stakes.

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The US media giant Warner Bros. said it has agreed to spend about 60 million Ecu to buy a 10% stake in the leading French digital satellite TV bouquet Canal Satellite.

Canal Satellite is currently 70% owned by the French pay-TV giant Canal+, 20% by the French media group Pathé and 10% by the French water and telecoms group CGE.

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Four UK cable TV operators, Diamond Cable, General cable, NTL and Telewest, said they are preparing the launch of a pay-per-view (PPW) movie channel that would compete with Sky Box Office, the PPW channel of the UK TV group BSkyB.

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The national German telecoms operator Deutsche Telekom has said that it would separate its cable TV operations from its core telecoms business.

SOCIAL, SOCIETAL AND CULTURAL

The French government has launched a three-year initiative to give all students, pupils and teachers access to educational multimedia tools and an e-mail address.

All players would be connected to an nation-wide network, Educnet. Priority would be given to schools in difficult neighbourhoods while isolated schools would be wired up by satellite. Overall, the government would contribute 15 million Ecu, but total spending should be worth 2.3 billion Ecu including the participation of local authorities. French telecoms operators are invited to offer schools preferential tariffs.

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European Netdays were successfully organised in the European Union Member States between 18-25 October 1997 in the framework of the European Commission's Action Plan "Learning in the information society" with the aim of raising awareness of the pedagogical opportunities offered by new information and communications technologies.

Overall, 700 events were held, 15,000 schools participated, the Netdays Web site had 500,000 visitors and 5,000 new schools were or will be connected to the Internet.

While US Netdays are devoted to connecting schools to the Internet, Euro-Netdays focused on three mains issues: networking, awareness-raising and content.

The first Euro-Netdays received support from the European Education Partnership, businesses, European institutions, the Member States and regional and local authorities.

NORTH AMERICA

Trends: Topping the news are the FCC's Orders aimed at opening the US telecoms market in line with the WTO accord, but which still foresee some restrictions. Also striking are the latest figures on the US high-tech sector's contribution to employment.

MULTIMEDIA SERVICES AND PRODUCTS

The US electronics company Zilog has unveiled a new low-price Internet terminal that connects to the TV set, the Internet Television Appliance (ITA). The ITA, which would cost about 215 Ecu, would be targeted at the residential and educational markets.

LEGISLATION AND POLICIES

The US Federal Communications Commission (FCC) has adopted two Orders governing respectively access to the US telecoms market and access to non-US licensed satellite systems for carriers of World Trade Organisation (WTO) member countries.

The Orders aim to enforce the February 1997 WTO Basic Telecoms Agreement which enters force on 1 January 1998. They do not concern carriers from non-WTO countries, for which existing rules will continue to apply.

The FCC said the new orders replace in particular the "effective competitive opportunities (ECO) test". However, the FCC said it reserves the right to attach additional conditions to authorisations in case of potential anti-competitive harm and to deny authorisations if a very high risk for competition cannot be addressed by safeguards.

The US Department of Justice has recommended to the US Federal Communications Commission (FCC) to reject the bid of the regional telecoms operator BellSouth to enter the US long-distance market on grounds that its local market is insufficiently open to competition. The FCC ruling is due by 29 December 1997. The FCC has already rejected similar bids by the regional operators Ameritech and SBC.

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US state and local governments led by the National Governors' Association (NGA) are pursuing their efforts to block federal legislation that would impose a six-year moratorium, until 2004, on Internet taxation. While supporters of the bill argue that the moratorium is necessary to prevent hindering the growth of the Internet and electronic commerce, the NGA argues that it would undermine the state and local taxation base.

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The incumbent Mexican telecoms operator Telmex said it would accept conditions set by the US Federal Communications Commission (FCC) for awarding it a license to offer long-distance services in the USA. The FCC has asked Telmex to reduce settlement rates by 52% over three years, a move that would cut its revenues by $400 million a year.

SOCIAL, SOCIETAL AND CULTURAL

The high-technology sector was the largest US manufacturing employer in 1996 with 4.3 million employees and the driving force of US growth accounting for 6.2% of the nation's Growth Domestic Product (GDP), according to Cybernation, a new study published by the American Electronics Association and Nasdaq.

The contribution to GDP only comes next to private health services, which contributed 6.5% to the US GDP. The high-tech sector was also the leading US exporter with $4.8 billion in 1996, up 263% since 1990, with Europe being the main export market.

California is still leading the country in high-tech employment with 724,000 jobs, up 8% in 1996. But high-tech job growth was higher in other US states, for instance Texas with 9.5% up to 343,000 and Washington with 12% up to 88,500.

Cisco Systems and Intuit were the champions of high-tech job growth in 1996 with respectively 3,357% up to 8,782 jobs and 2,795% up to 3,184 jobs. The study also found that high-tech workers' wages were 73% higher than average wages in the private sector.

The high-tech sector also dominated US research and development expenditures with $40 billion or 37% of all spendings. The leading investors were Hewlett-Packard with $2.7 million or 7.1% of total sales, and Intel with 1.8 million or 8.7% of total sales.

ASIA AND PACIFIC

Trends: Consolidation of the telecoms industry is also accelerating in Japan, as is illustrated by the KDD-Teleway merger plans.

MULTIMEDIA SERVICES AND PRODUCTS

The telecoms operator Hong Kong Telecom has said it would launch before the end of 1997 the large-scale commercial deployment of interactive TV, including music- and video-on-demand, and karaoke services. This follows a three-year experiment.

MARKET AND COMPANIES

The Japanese overseas telecoms operator Kokusai Denshin Denwa (KDD) and the Japanese long-distance operator Teleway Japan, a subsidiary of the Japanese car manufacturer Toyota, have agreed to merge by 1 October 1998.

The merger would follow the full privatisation of KDD, which the Ministry of Posts and Telecoms (MPT) intends to carry out by the summer of 1998. It is envisaged that the 20% ceiling on foreign ownership of KDD would be lifted on this occasion.

The merger would mark a further consolidation of the Japanese telecoms industry triggered by the introduction of competition in the sector earlier this year. It would follow a recent 480 million Ecu worth merger between the private domestic and overseas operators Japan Telecom (JTC) and International Telecom Japan (ITJ).

The trend towards consolidation is aimed at reaching a critical size to face competition by the leading domestic operator Nippon Telegraph and Telephone (NTT).

The new Japanese telecoms landscape is now set to be dominated by four players: NTT, KDD-Teleway, JTC and the private long-distance and mobile operator DDI.

A further consolidation of the industry is not unlikely, in particular considering the fact that NTT so far seems to be the primary beneficiary of liberalisation. Indeed, it is the only operator that is expected to post a significant increase of its profit in 1997.

WORLD-WIDE

INFRASTRUCTURE

The 1997 World Radiocommunications Conference (WRC 97), a global forum on the use of radio frequencies and satellite orbits, has reached agreement on how to proceed with new global satellite-based broadband systems, in particular Non-Geostationary Mobile Satellite Systems (NGSO) operating into the Ka and Ku bands, thus allowing for an efficient usage of spectrum and opening up this market to competition.

The approach of WRC 97 is to attach to existing radio-regulations a methodology imposing limits on the use of radio-frequencies to allow for the coexistence of NGSO systems with other systems, notably geostationary (GSO) systems. An exception was made for 500 Mhz in the Ka band where the regime will be maintained as proposed at WRC 95, i.e. co-priority status for GSO and NGSO systems.

In practice, the accord allows notified systems to take off. This concerns in particular Celestri, Teledesic and Skybridge. Celestri was launched by the US telecoms group Motorola, Teledesic is led by Bill Gates, Graig O. McCaw and Boeing, and Skybridge is sponsored by France’s Alcatel, in partnership with America’s Loral Space and Communications, France’s Aérospatiale, and Japan’s Toshiba, Mitsubishi and Sharp.

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