Information Society Trends

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EDITORIAL

AT&T merges with TCI and goes local

The leading US long-distance operator AT&T and the leading US cable TV operator TCI said they have agreed to merge in an all-stock transaction valued at about $48 billion. Once the merger is completed, a new subsidiary, AT&T Consumer Services, would be established. It would combine AT&T's long-distance, wireless and Internet operations, and TCI's cable TV, telecoms and high-speed Internet operations.

From AT&T's standpoint, the merger aims to rapidly enter the $100 billion worth US local market by bypassing the need to either pay access charges to local telecoms operators – the Baby Bells – or to heavily invest in a local network. Indeed, TCI's wholly-owned and affiliated cable networks would give AT&T Consumer Services direct access to 33 million US homes. This would also allow to reduce access charges paid by AT&T to Baby Bells to handle long-distance calls. AT&T's previous steps to go local include the purchase, for $11.3 billion, of Teleport Communications, the largest US competitive local exchange carrier, which offers corporate services in 60 large US cities.

The merger would also make AT&T the first US group to be able to offer integrated packages of the full range of communications services, including local, long-distance and wireless communications, Internet access and entertainment, on a nation-wide scale. The Internet is another important driver of the merger. Indeed, AT&T, which is already a leading US Internet access provider with its WorldNet Service, would inherit TCI's Internet operations, TCI-NET, and a controlling stake in @Home Network, a high-speed Internet access provider set up with other leading US cable operators. Furthermore, AT&T would also gain control over TCI's programming arm, Liberty Media Group.

The move is a direct outcome of the 1996 US Telecoms Act and is the latest in a series of mega-mergers that are reshaping the US telecoms industry. This includes SBC-Ameritech ($62 billion), WorldCom-MCI ($37 billion), Nynex-Bell Atlantic ($25.5 billion) and SBC-Pacific Telesis ($16.5 billion). However, none of these ventures offers a similar potential to bring the benefits of liberalisation to the consumer. Indeed, the emphasis has so far been on consolidation rather than fostering competition.

The AT&T-TCI merger could change that by creating a powerful competitor for Baby Bells, most of which are still in a monopolistic situation. It is thus likely that the venture will not raise major anti-competitive concerns. Indeed, US Federal Communications Commission Chairman William E. Kennard said that "If AT&T and TCI make a strong commitment to bring residential consumers more choice in local telephone and high-speed Internet access services, then this proposed merger is eminently thinkable.

EUROPE

Trends: The EU took important steps regarding on-line communications, including a round table of industrialists on the globalisation of communications, proposed guidelines for e-commerce taxation and a Recommendation for the protection of minors and human dignity. At market level, Psion's EPOC OS is gaining further momentum through an alliance with Nokia, Ericsson and Motorola.

MULTIMEDIA SERVICES AND PRODUCTS

The incumbent German telecoms operator Deutsche Telekom has announced the launch of a pilot high-speed data service based on the ADSL technology, which would be followed by commercial roll-out. The move reflects a growing trend in the telecoms industry on both sides of the Atlantic as well as in Asia to increasingly rely on ADSL for the provision of high-speed access to the Internet over regular phone lines.

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French banks said they have agreed to set up a unified Internet payment system to become operational in March 1999. It would be based on a chip card reader connected to a terminal on which the user types his/her code, and would rely on the Secure Electronic Transaction (SET) protocol adopted by the credit card giants Visa, Mastercard and Europay. The incumbent French telecoms operator France Télécom and France's Gemplus, a world leader in smartcards, would be associated to the initiative.

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The US PC software giant Microsoft has said it would pull out of the German Internet access market. It consequently invited the 35,000 German subscribers to its proprietary on-line service Microsoft Network (MSN) to T-OnLine, the on-line service of the incumbent operator Deutsche Telekom, for Internet access.

MARKET AND COMPANIES

Britain's Psion, a leading manufacturer of hand-held computers, and two world leaders in mobile phones, Finland's Nokia and Sweden's Ericcson, said they have agreed to set up a joint venture, Symbian, aimed at imposing Psion's EPOC operating system as an industry standard for wireless computing over hand-held devices, in particular smartphones and personal communicators. Symbian, in which Psion would have a 40%, stake and Nokia and Ericsson a 30% stake each, would be strengthened by another world leader in mobile telephony, America's Motorola, which said it intends to joint the alliance. Symbian intends to license EPOC to other manufacturers. In late 1997, Psion had already licensed EPOC to the Dutch electronics giant Philips.

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Entrust Technologies, a cryptographic company majority-owned by the Canadian telecoms equipment manufacturer Northern Telecom (Nortel), said it has agreed to purchase its Swiss counterpart R3 Security Engineering. The move is aimed at increasing Entrust's ability to deliver cryptographic products and services to the European market, in particular enterprise security solutions based on public-key infrastructures (PKIs). Entrust is Nortel's former Secure Networks business unit specialised in encryption and digital signature products, which was spun-off in 1997.

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The American-owned UK cable TV operator NTL said it has agreed to purchase its counterparts Comtel and Diamond Cable for a total amount of close to 2 billion Ecu in a move that amplifies the consolidation of the British cable industry. This follows NTL's recent purchase of US-owned Comcast UK and the purchase by US-owned Telewest of General Cable, a subsidiary of France's Vivendi. This would cut down the number of major British cable operators to five, compared to 24 only five years ago.

LEGISLATION AND POLICIES

The European Commission has held a Round Table of industrialists aimed at evaluating the need for strengthened international cooperation in the context of the emergence of the on-line economy. Participants agreed that improved coordination between the public and private sectors at global level are necessary to lift obstacles resulting from divergent rules and policies, in particular as regards taxation, tariffs, intellectual property, encryption, authentication, data protection and liability. Industrialists agreed to launch a Global Business Dialogue on these issues which will held a first conference in the first half of 1999. The initiative is a direct outcome of the Commission's Communication on globalisation and the information society.

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The European Commission has adopted a Communication proposing a number of guidelines on how to apply indirect taxation to electronic commerce. The guidelines, which aim to serve as a basis for discussion will all interested parties, are designed to ensure that taxation is certain, simple and neutral in order to avoid any distortion of the market and to promote the growth of electronic commerce. The document aims to set the basis of the European Union's contribution to the OCDE

Ministerial Conference to be held in Ottawa in October 1998.

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The European Commission has cleared Wind Telecomunicazioni, an Italian telecoms joint venture between the French and German incumbent operators France Télécom and Deutsche Telekom, and the Italian electricity utility ENEL. Wind would aim at providing a full range of telecoms services in Italy.

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A consortium comprised of the state-owned Swedish and Finnish telecoms operators, Telia and Sonera, won a bid for a 60% stake worth 440 million Ecu in the state-owned Lithuanian operator Telekomas. The move would strengthen the two partners' operations in the Baltic states, where they already own 24.5% each in the Estonian telecoms operator, Eesti Telefon. Sonera also has a minority stake in the Latvian operator Lattelekom. In addition, both groups have mobile assets in Estonia and Latvia.

SOCIAL, SOCIETAL AND CULTURAL

The European Union Culture/Audiovisual Council has approved a Recommendation that offers guidelines for the development of national self-regulation aimed at protecting minors and human dignity in audiovisual and information services. This concerns both broadcasting, with new digital methods of parental control such as personal codes or filtering software, and Internet service providers, with codes of good conduct.

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The incumbent French telecoms operator France Télécom said it has agreed to lower the interconnection fee it charges rival operators for the supply of Internet services for schools. The move follows a decision by the French Competition Council to block France Télécom's connection offer for schools as the proposed tariffs could not be matched by new entrants due to the cost of connecting to the operator's local network.

NORTH AMERICA

Trends: The consolidation of the North American telecoms industry is gaining further momentum with a series of new mergers: AT&T-TCI, Teleglobe-Excell and Nortel-Bay Networks. This underline that convergence, driven by liberalisation and Internet growth, is now fully at work in the network and equipment segments of the communications industry. Meanwhile, Microsoft and Intel are investing in a cable modem venture, Road Runner, a move that, together with the AT&T-TCI venture, underlines the importance of cable TV networks to bring new services to the residential market. At policy level, the US Department of Commerce adopted its final policy statement on the DNS, while the US Federal Trade Commission filed an anti-trust suit against Intel.

MULTIMEDIA SERVICES AND PRODUCTS

The US PC software giant Microsoft and the world's largest PC manufacturer Compaq have agreed to invest $212 million each for a 10% stake in Road Runner, a high-speed on-line venture set up by the US media giant and cable TV giant Time Warner, the US broadband communications group MediaOne Group and Advance/Newhouse. Road Runner offers high-speed Internet access over cable TV networks as well as content and applications to 90,000 US customers and has access to 27 million US homes passed by cable. Microsoft would bring its software expertise and software technology, while Compaq would supply cable modem-equipped PCs.

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The US PC software giant Microsoft said it has agreed to sell Softimage, a Canadian subsidiary specialised in digital video, film and audio solutions, to Avid Technology, a US leader in digital content creation tools for professional film, video and audio post-production, in a deal valued at $285 million. In exchange, Microsoft would take a 9% stake in Avid. Microsoft bought Softimage for $130 million in 1994.

MARKET AND COMPANIES

The Canadian long-distance operator Teleglobe and the fifth-largest US long-distance operator Excel Communications said they have agreed to a $3.5 billion worth "merger of equals" that would result in the creation of the fourth-largest US long-distance operator. The merged company, which would keep the Teleglobe name and Montreal headquarters, would combine Teleglobe's global network with Excel's marketing and retail operations. It would have annual combined revenues of $3.5 billion.

The move is the latest in a series of ventures that consolidate the North American telecoms industry. It shortly follows a comparable $4.4 billion worth merger between the US long-distance operators Qwest Communications International and LCI International, that would become the fifth largest US long-distance operator after AT&T, MCI-WorldCom, Sprint and expand Teleglobe with revenues of $2.3 billion.

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The Canadian telecoms equipment manufacturer Northern Telecom (Nortel) said it has agreed to spend $9.1 billion on purchasing the US network equipment manufacturer Bay Networks. The move is a further illustration of the telecoms equipment sector's strategy to mind the gap, through take-overs, with fast-growing networking companies such as Cisco

Systems, 3Com or Ascend, which have emerged as key players in the rapidly expanding Internet-driven market for broadband communications networks.

The Nortel-Bay Networks venture is the largest in a series which include the purchase for 4.4 billion by the French equipment giant Alcatel of America's DSC Communications, and the $1 billion worth buy-out by the US equipment giant Lucent Technologies of Yurie Systems, a US company specialised in high-capacity networks.

In parallel, the data network industry, which is dominated by US players, is also undergoing a rapid consolidation process which started in 1997. The major mergers include Tellabs-Ciena ($6.9 billion), Cisco-NetSpeed ($3.7-4 billion), 3Com-US Robotics ($6 billion), Ascend-Cascade ($3.7 billion) and Cisco-StrataCom ($4 billion).

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The shareholders of the US computer manufacturer Digital Equipment have approved the $9 billion worth buyout offer of rival Compaq, a move that would result in the creation of the world's second largest computer group after IBM.

LEGISLATION AND POLICIES

The US Department of Commerce (DoC) has released a policy statement on the Internet Domain Name System (DNS) which describes the US policy regarding privatisation of the DNS in a way that would allow for the development of competition and facilitate global participation in the management of Internet names and addresses. The DoC said that "the policy statement describes a process whereby a new, not-for-profit corporation formed by the private sector would assume various responsibilities for DNS administration that are now performed by or on behalf of the US government, or by third parties under agreements with the US government". It invites "Internet stakeholders from around the world to work together to form this new entity".

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The US Federal Trade Commission (FTC) has charged the US microprocessor giant Intel to have used its monopoly in general-purpose chips to cement its market dominance, thus impeding innovation and stifling competition. The FTC alleged that Intel illegally used its market power when it denied three of its customers, the US PC makers Digital Equipment, Intergraph and Compaq, continued access to technical information necessary to develop computer systems based on Intel chips, and took other steps to punish them for refusing to license key patents on its terms. The FTC is seeking a notice of contemplated relief to prevent a similar behaviour in the future.

SOCIAL, SOCIETAL AND CULTURAL

The US telecoms equipment manufacturer Motorola has announced that it would axe 10% of its work force, or 15,000 employees, as a result of the erosion of its profits.

ASIA AND PACIFIC

MARKET AND COMPANIES

Telstra, the incumbent Australian telecoms operator, said it has agreed to take a 10% stake in WorldPartners, the global telecoms alliance specialised in corporate services led by the US telecoms giant AT&T. The move would further strengthen WorldPartner's Asian operations. Other key allies in WorldPartners are Europe's Unisource, Japan's KDD and Singapore Telecom with a 10% stake each.

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Barthi Telenet, a joint venture owned 70% by India's Bharti Enterprises and 30% by the incumbent Italian telecoms operator Telecom Italia, has launched India's first private-owned fixed telephone network in Indore, Madhya Pradesh.

LEGISLATION AND POLICIES

A panel of the Japanese Ministry of Posts and Telecoms (MPT) has said that new common carriers (NCC) should create a fund to subsidise certain operations of the incumbent telecoms operator, Nippon Telegraph and Telephone (NTT), when it cuts down network interconnection charges in 2000. It would aim to prevent a deterioration of NTT's finances, which could impede the supply of unprofitable services such as connecting homes, providing local phone services and installing pay phones.

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Five major Japanese broadcasters have applied with the Japanese Ministry of Posts and Telecoms (MPT) for digital satellite broadcast (BS) licenses. Licenses could be awarded as early as September 1998 and service would start in the year 2000. The broadcasters, which include Asahi National Broadcasting, Fuji Television Network, NHK, Television Tokyo Channel 12 and Tokyo Broadcasting System, all intend to set up new subsidiaries to handle the BS business, in which other firms would have equity stakes, in particular electronics groups, trading houses and movie producers. Most companies plan to offer some high-definition television (HDTV) programming.

AFRICA AND MIDDLE-EAST

MULTIMEDIA SERVICES AND PRODUCTS

America OnLine (AOL), the world's leading commercial on-line service, said it has agreed to spend 248 million Ecu on purchasing the young Israeli Internet start-up Mirabilis, a fast-growing company that produces the ICQ ("I seek you") software. Launched in November 1996, ICQ informs Internauts when counterparts are on-line, thus allowing them to exchange messages and files in real-time, or to play games. As much as 12 million users have already registered to use ICQ.

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