Information Society Trends

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EDITORIAL

AT&T and BT form global alliance

On 26 July 1998, the leading US long-distance operator AT&T and the leading UK telecoms operator BT said they have agreed to combine all their international assets and operations, including their existing international networks, international traffic and international products for business customers. The joint venture, to be named later, would be owned equally by the two partners and would have its international headquarters in the USA. The new company would initially employ 5,000 people worldwide and is expected to have annual revenues of over $10 billion growing in excess of 15% a year.

AT&T and BT said they would develop an Internet Protocol (IP)-based global network to be implemented by the joint venture to provide services such as global electronic commerce and new Intranet-based solutions to support global organisations and executives on the move. In a related but separate development, the two partners said they have agreed to invest $1 billion, split equally between them, in US businesses involved in high technology and emerging communications markets.

The move would allow BT to rebound after its global development strategy was badly hit, in October 1997, by the collapse of its plans to purchase the second-largest US long-distance operator MCI, with which it had set up Concert, a joint venture specialised in global corporate services. This was the result of a surprise bid by WorldCom, the fourth-largest US long-distance operator, to purchase MCI. The alliance with AT&T would give BT access to the US market while strengthening Concert, which would be integrated in the venture. To this end, BT would purchase the 25% stake MCI still owns in Concert.

As for AT&T, the venture indicates a major shift away from its current WorldPartners alliance, which comprises Unisource from Europe, KDD from Japan, Singapore Telecom and Telstra form Australia with 10% each, towards a simplified and more stable and efficient structure. The discontinuation of WorldPartners at the end of 1999 would a serious setback for AT&T's current allies, which would be left without an international partner. While KDD has already indicated that it would try to join the new alliance, a move that could strengthen the AT&T-BT alliance in Asia, the shift of alliance would be a lot more bitter for Unisource. Indeed, AT&T has indicated that it would also discontinue, in July 2000, AT&T-Unisource, its joint venture with Unisource, which competes with BT in Europe. The new alliance also marks the emergence of a more powerful rival for Global One, the global corporate communications venture of Deutsche Telekom, France Télécom and Sprint.

But before it becomes operational, the AT&T-BT venture is set to come under close scrutiny of competition authorities on both sides of the Atlantic.

EUROPE

Trends: Topping the news are the Commission's conditional clearance of WorldCom-MCI and the failure of C&W and Telecom Italia to pull their alliance off the ground.

MARKET AND COMPANIES

The three-month old alliance between the Italian incumbent operator Telecom Italia and the UK telecoms group Cable and Wireless (C&W) is ailing after the two companies decided not to go ahead with the planned acquisition by Telecom Italia of C&W worldwide assets worth over 1.7 billion Ecu. This would have included a 20% stake in the private French operator Bouygues Telecom, in which Telecom Italia alaredy owns 10.8%, 20% of C&W West Indies, and 5% of C&W Inc. in North America.

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The incumbent Spanish telecoms operator Telefonica and the Spanish media group Sogecable said they have agreed in principle to merge their rival digital TV platforms. The accord, which should be concluded by the end of September, would end a bitter dispute over decoding technologies between Via Digital and Canal Satelite Digital. Via Digital is owned 35% by Telefonica alongside the public broadcaster Television Espanola (TVE), the Mexican TV group Grupo Televisa and the UK media group Pearson. As for Canal Satelite, it is 90% owned by Sogecable, a joint venture between the Spanish media giant Grupo Prisa and the French pay-TV group Canal+.

LEGISLATION AND POLICIES

The European Commission has given conditional clearance to the planned merger between the US long-distance operators WorldCom and MCI, subject to a divestiture of MCI's Internet assets, as it found significant overlaps between the two groups which, together, would account for over 50% of the Internet access market. A similar approval was given by the US Department of Justice. MCI swiftly responded by agreeing to sell its Internet business to the UK telecoms group Cable & Wireless (see below).

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The European Commission has adopted a Communication on Internet governance which presents the Commission's views on the US policy statement on the Internet Domain Name System (DNS) and proposes a number of actions aimed at

ensuring the involvement of relevant European actors in the work of the Internet Assigned Numbers Authority (IANA) (http://www.ispo.cec.be/eif/dns/).

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The European Commission has adopted a Working Document that summarises the results of the five-month consultation on its Green Paper on convergence. This will be followed by the adoption of a Communication on convergence before the end of the year.

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Following an inquiry into mobile communication prices charged in European Union Member States, the European Commission has concluded that at least 14 cases call for in-depth investigations based on preliminary indications of possibly excessive or discriminatory prices. The Commission has indicated that it will investigate nine out of the 14 cases, while the remaining five will be addressed by national authorities.

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The European Commission has cleared a concentration by which Vereinigte Telekom Österreich Beteiligungs (VTÖB), a holding company formed by Austria's nine regional electricity utilities, and the incumbent Swiss telecoms operator Swisscom, would take joint control of UTA Telekom, a new entrant in Austria's fixed-line market.

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The French government has said that it would sell-off a further 17 to 18% stake of the incumbent operator France Télécom in the Autumn. This would include a 2% stock swap with its German counterpart Deutsche Telekom, aimed at strengthening the two companies alliances. This would follow an initial sell-off of 20% in the Autumn of 1997.

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The Bulgarian government has announced that it would sell-off 51% of the national state-owned telecoms operator Bulgarian Telecoms to a single investor.

NORTH AMERICA

Trends: The main US news are the planned merger between Bell Atlantic and GTE, and C&W's purchase of MCI's Internet business.

MARKET AND COMPANIES

The US regional telecoms operators Bell Atlantic and GTE said they have agreed to a merger of equals that would create a telecoms giant with $53 billion in combined annual revenues, a combined market capitalisation of $125 million and 250,000 employees. The merged company would be the largest US local exchange carrier with 63 million access lines, or over one third of the total, and the leading cellular operator with 10.6 million subscribers, or a 20% market share.

The merged company would also have strong positions in the data transmission business, where both Bell Atlantic and GTE are heavily investing in the ADSL technology, which allows for high-speed data transmission over regular phone lines. At global level, the two groups have assets in 30 countries around the world with no overlap.

The move is the latest in a series of mega-mergers that have led to the rapid concentration of the US telecoms sector, a process which was triggered by the adoption of the 1996 US Telecoms Act. Bell Atlantic and GTE explained that the merger is aimed at acquiring the financial, operational and technological resources to compete effectively with other emerging US communications giants, in particular AT&T-TCI, SBC-Ameritech and WorldCom-MCI. But these mergers have different rationales.

AT&T's strategy is to gain access to the US local market through TCI's cable TV network. The WorldCom-MCI merger has both a strong US and global rationale, and aims at covering the full range of telecoms services, with a strong emphasis on the Internet. In both cases, competition concerns seem limited. As for SBC-Ameritech, it is a merger between Baby Bells on the same model as SBC-Pacific Telesis and Bell Atlantic-Nynex, but on a much larger scale, as it would cover over 30% of US access lines. The regulatory hurdles may therefore prove a lot more difficult to overcome.

The same may apply to Bell Atlantic-GTE, as GTE is mainly a local carrier, even though it also has long-distance assets. But even there, it could be forced to sell them in the regions where Bell Atlantic does not have the right to offer long-distance services because its own local markets are insufficiently open to competition.

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The UK telecoms group Cable and Wireless (C&W) said it has agreed to spend $1.75 billion on purchasing the Internet communication business of MCI, the second-largest US long-distance operator. This would include the transfer of a substantial corporate customer base, which corresponds to the fastest-growing segment of the Internet, as well as 1,000 employees. The move is expected to generate $650 million of revenues by 2000.

Through the deal, C&W would gain 3,300 major dedicated Internet access customers, nationwide dial-up Internet access for more than 250,000 consumers and 60,000 business users, as well as World Wide Web hosting and managed firewall services

for over 100 corporate accounts and associated servers.

This would come on top of the $625 million worth backbone and services business C&W had agreed to buy a few weeks ago, including, on the hardware side, 22 domestic nodes and 15,000 interconnection ports, and on the service side, over 1,300 domestic and international Internet Service Provider (ISP) customers in 76 countries.

MCI's move is aimed at putting the planned merger with WorldCom, the fourth-largest US long-distance operator, in conformity with the conditional clearances given by the European Commission and the US Department of Justice, as the merged company would control over 50% of Internet traffic. While the move is significant, WorldCom-MCI would still remain a major Internet player.

Indeed, the sell-off doesn't concern the underlying telecoms infrastructure used by MCI to carry both voice and Internet traffic, as indicated by the fact that MCI would provide "underlying telecoms transport services for C&W's Internet backbone for up to five years". Furthermore, WorldCom would keeps its own Internet assets, which include the network and corporate service divisions of the US on-line services Compuserve and America OnLine (AOL) it acquired in 1997, as well as UUNet Technologies, a leading US and UK provider of corporate Internet access.

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The Canadian long-distance operator Call-Net Enterprises said it has agreed to spend $1.2 billion and buying its Canadian counterpart Fonorola. The combined company would have a 16% market share in the Canadian long-distance market.

LEGISLATION AND POLICIES

A group of 13 leading US high-tech firms, including Ascend, Bay Network, Cisco Systems, 3Com, Hewlett-Packard, Intel, Microsoft, Netscape, Novell and Sun Microsystems, have made new proposals aimed at lifting the US Administration's ban on the export of strong encryption products. Under the proposed scheme, called "operator action," information travelling over a data network would remain secure and private unless a network operator is served with a legal warrant or court order.

So far, 10 out of the 13 companies have already asked permission to export strong products that use operator action. The group, while claiming that the proposal balances the privacy needs of individuals and businesses with the security needs of US law enforcement, also admits that "operator action" is only a partial solution to the problem.

ASIA AND PACIFIC

MULTIMEDIA SERVICES AND PRODUCTS

Titus Communications, a Japanese cable TV operator jointly owned by the Japanese trading house Itochu and the US cable TV giant Time Warner, has said it would start providing high-speed Internet access over its cable network in Chiba Prefecture from October 1998. Titus would be the first Japanese company to provide a combination of cable TV, phone, and Internet access services over a cable TV network.

MARKET AND COMPANIES

The Japanese broadcaster Nippon Television Network (NTV), the Japanese electronics giant Toshiba and the US media giant Time Warner said they have agreed to team up to establish a Japan-based joint venture in the content sector, Towani. The move is aimed at taking advantage of the growing demand for audiovisual programming, both in Japan and the rest of the world, pulled by the rapid growth of digital TV bouquets and digital versatile disks (DVDs). Towani would focus on movies and animated films. It would be owned 33.3% each by NTV and Time Warner's Warner Bros. unit, 23.3% by Toshiba and 10.1% by Time Warner Entertainment Japan, a joint venture owned by Time Warner, Toshiba and the Japanese trading house Itochu.

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The leading UK telecoms operator BT said it would take a 33% stake worth 380 million Ecu in the Malaysian telecoms group Binariang, which operates in the fixed line, mobile and overseas markets. The move would strengthen BT's Asian operations, which already include assets in India, Japan, New Zealand and Singapore.

LEGISLATION AND POLICIES

The Japanese Ministry of Posts and Telecoms (MPT) has awarded the leading UK telecoms operator BT a Type I carrier license to operate full-scale telecoms services in Japan on the basis of its own telecoms infrastructure by the end of 1998, including the provision of international services and the leasing of lines to corporations. BT's Japanese subsidiary, BT Communications Service, in which the trading house Marubeni has a 30% stake, plans to build a high-speed fibre-optic network in central Tokyo. BT is the second foreign carrier to receive a Type I license after America's WorldCom.

SOCIAL, SOCIETAL AND CULTURAL

The Japanese Ministry of Labour has decided to set up a panel to examine the environment and problems faced by teleworkers. The move comes in response to both the expansion of teleworking in Japan and the difficulties encountered by teleworkers, in particular as regards employment contracts and wages. The panel is expected to review legislation governing

work at home with the aim of improving teleworkers' working environment. The panel's report is due in the Spring of 2000.

LATIN AMERICA

LEGISLATION AND POLICIES

The 250 million Ecu worth offer of a group of local investors led by the incumbent French telecoms operator France Télécom won the bid for a 51% share in El Salvador's national telecoms operator CTE-Antel. Further 10% and 14% stakes have been respectively offered to employees and customers, while the El Salvadorian government would keep the remaining 25%. The move would strengthen France Télécom's operations in Latin America, which include assets in Argentina, Brazil and Mexico.

MIDDLE-EAST

MARKET AND COMPANIES

The US telecoms equipment manufacturer Lucent Technologies said it has agreed to spend over 100 million Ecu on buying the Israeli computer networking equipment company LanNet. The move is part of Lucent's strategy to expand its data network business through acquisitions in order to draw the benefits of the fast-growing networking market and to close the gap with rapidly expanding networking companies such as Cisco System, 3Com or Ascend. Since September, Lucent has already purchased three networking groups: Livingstone Enterprises, Prominet and Yurie Systems.

European Commission, Directorate General XIII, Advisor's Team.

Supervisor: Detlef Eckert. Chief editor: Denis Baresch. Editorial support: Christian Micas.

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