Information Society Trends

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EDITORIAL

AOL becomes new Internet powerhouse

America Online (AOL), the world's leading on-line service provider with 16 million subscribers, has agreed to spend $4.2 billion on buying Netscape, a world leader in Internet browsers. The venture, the largest to date in the Internet era, is complemented by a tree-year alliance with the US computer group Sun Microsystems. The two-way deal creates the most powerful Internet rival to date for US PC software giant Microsoft.

The main aim of the merger is to bring together the complementary resources of AOL and Netscape. So far, AOL has focused on providing branded interactive services and contents via its on-line services AOL and Compuserve, for instance the Internet guide Netfind, the messaging tool Instant Messenger or the chat service ICQ. AOL also operates one of the most popular Web site, AOL.com, with 20 million visitors a month.

The take-over of Netscape would significantly increase AOL's market reach with another popular Web portal, Netcenter, which has 16 million visitors a month. It would also add a major new dimension to AOL's business through Netscape's suite of electronic commerce software and applications, which is targeted at the corporate market. Finally, AOL would inherit a premier Internet browser, Netscape's Communicator.

Netscape's primary reason for accepting the merger is most probably survival. Indeed, competition from Microsoft's Explorer browser has resulted in Netscape losing significant ground in the browser market. Netscape has managed to redirect its business towards electronic-commerce software, but its financial situation remains weak. In fact, AOL itself has contributed to Netscape's decline by supplying exclusively Microsoft's browser. But AOL's distribution agreement with Microsoft ends in January 1999. Based on its large consumer basis, AOL could now give the Communicator a great boost.

AOL's new assets are cemented by an alliance with Sun, which would provide each partner with new distribution channels for their products, respectively Sun's electronic-commerce hardware and Netscape's electronic commerce software. Yet more important would be the joint development of electronic-commerce solutions based on Sun's Java universal programming language. The combination with the Communicator would increase the threat posed by Java to conventional operating systems, in particular Microsoft's Windows, which it could make redundant in the on-line world.

In fact, the AOL-Netscape-Sun venture seems clearly directed at Microsoft. It brings together Microsoft's arch-rivals Sun and Netscape, which it had tried to defeat in ways the US government has alleged to be anti-competitive and are the object of a major anti-trust trial. Ironically, the AOL-Netscape-Sun deal may the best news for Microsoft ever since US public authorities have launched their anti-trust lawsuit as it tends to support Microsoft's claim that competition is not foreclosed in the Internet market.

But whatever the outcome of the coming battle, these development highlight once more that the commercial development of the Internet remains a US-led process.

EUROPE

MARKET AND COMPANIES

The US telecoms group Global TeleSystems (GTS) said it has agreed to spend about 660 million Ecu on purchasing Esprit Telecom, one of Europe's fastest-growing alternative telecoms operator. The move would result in the creation of company with a market value of over 3.5 billion Ecu. The combined group would have the largest independent pan-European network and be present in 19 European countries by the end of 1999. This would be largely based on Hermes Europe Railtel, a pan-European fibre optic infrastructure owned 89% by GTS alongside the Belgian and Swedish national railway companies, which would connect 33 cities in 16 countries by the end of 1999.

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Britain's Zergo Holdings and Ireland's Baltimore Technologies, two European leaders in cryptographic products and services, said they agreed to merge in a transaction valued at approximately 48 million Ecu. The move would create a world leader in the provision of electronic commerce and enterprise security systems, a market which is expected to be worth over 3 billion Ecu by the year 2001, with 350 employees and joint revenues in excess of 26 million Ecu. The new company would combine Zergo and Baltimore's respective strengths in security solutions for the financial and government markets and in Public Key Infrastructure (PKI) technology. The combined group would be the number one player in the area of PKI outside the USA.

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The US telecoms equipment manufacturer Motorola has confirmed that it would join Symbian, a joint venture set up by Britain's Psion, a leading manufacturer of hand-held computers, and two world leaders in mobile phones, Finland's Nokia and Sweden's Ericcson. Symbian aims at promoting Psion's EPOC operating system (OS) as an industry standard for wireless communication devices. As a result of the alliance, Psion's shareholding in Symbian would be reduced to 30.7% from currently 40%, while Ericsson, Nokia and Motorola would have a 23.1% stake each. Separately, Symbian said it has also agreed to forge a strategic relationship with the US software group Oracle to enable EPOC to provide real-time, wireless access to data residing in Oracle databases. In late 1997, Psion had already licensed EPOC to the Dutch electronics giant Philips. EPOC competes for global leadership with Windows CE, the OS for wireless communications and consumer electronics promoted by US PC software giant Microsoft, which has gained support from America's Qualcomm, a leading provider of wireless products.

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The Italian public broadcaster RAI said it has agreed to take a 10% stake in Telepiu, Italy's leading pay-TV group which is 90%-owned by the French pay-TV giant Canal+ and 10% by the Italian media mogul Silvio Berlusconi's group Fininvest. The venture is largely perceived as a move to fence-off attempts by the US media giant News Corp. to enter the Italian pay-TV market. News Corp., which is controlled by media mogul Rupert Murdoch, is planning to take a 70% stake in Stream, the multimedia arm of the incumbent telecoms operator Telecom Italia, which is to launch a rival pay-TV network. Mr. Murdoch has so far been unable to enter continental Europe's TV market.

LEGISLATION AND POLICIES

The European Commission has published its fourth report on the implementation of the 1998 telecoms regulatory package. The report has found that the bulk of European Union regulation has now been transposed into Member State legislation, thus effectively opening telecoms markets to full competition. The overall picture is that of a dynamic and rapidly evolving EU telecoms market worth 148 billion Ecu in 1998 and of declining prices of services (http://www.ispo.cec.be/infosoc/telecompolicy/en/comm-en.htm).

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The European Commission has adopted a Green Paper on radio spectrum policy. While radio spectrum is a key resource for a wide range of activities including telecoms, broadcasting, transport, research and public services, it is becoming an increasingly scarce commodity of considerable economic and political importance. The document therefore aims at launching a large debate on the definition of a radio spectrum policy. Examples of key issues include the definition of criteria for priorities and arbitration regarding spectrum allocation, as well as striking a balance between commercial and public interests (http://www.ispo.cec.be/infosoc/telecompolicy/en/comm-en.htm).

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The European Commission has opened a detailed enquiry into the planned joint venture between the leading US long-distance operator AT&T and the leading UK telecoms operator BT, which would combine the two groups' international assets.

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The European Commission has cleared an operation by which the leading US long-distance operator AT&T would acquire full control over the leading US cable TV operator TCI. The Commission said the merger is almost entirely focussed on the US market and will only have a marginal effect on competition in the Internal Market.

SOCIAL, SOCIETAL AND CULTURAL

The Swedish telecoms equipment manufacturer Ericsson, a leading provider of mobile telephones, said it could axe 10,000 jobs, in 1999, or about 10% of its workforce. The company said the move would come as a result of declining profit, in particular in the Asian public network market, due to the global financial crisis.

NORTH AMERICA

MARKET AND COMPANIES

The US telecoms giant AT&T said it has agreed to pay $5 billion for the data network operations of the US computer giant IBM. IBM Global Network serves hundreds of large corporations, thousands of SMEs and more than 1 million individual Internet users worldwide. It has more than 1,300 dial-up points and dedicated access from over 850 cities in 59 countries. The move would further boost AT&T's fast-growing network services unit, AT&T Solutions, in the rapidly expanding market for Internet Protocol-based corporate services. As a result of the venture, 5,000 IBM employees would joint AT&T. From IBM's standpoint, the sale would allow it to cut the cost of maintaining a telecoms network and to concentrate on its core computer business. As part of the deal, IBM would outsource a significant portion of its global networking needs to AT&T.

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Havas, the multimedia and publishing arm of the French communications, building and water giant Vivendi, said it has agreed to spend $800 million on purchasing America's Cendant Software, a world leader in electronic publishing. The move is aimed at turning Havas into a world leader in electronic publishing and to strengthen its US operations, as the US market accounted for 80% of Cendant's $600 million net sales in 1998. Cendant develops and distributes CD-ROM and DVD-ROM-based products under the brand names Adibou, Blizzard, Knowledge Adventure and Sierra. According to Havas, Cendant is the world leader in interactive game, the world's number two in educational software and the world's number three in lifestyle.

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The US PC software giant Microsoft said it has agreed to spend $200 million on taking a 1.5% stake in the US long-distance operator Qwest Communications International. As a result of the alliance, Qwest would launch by mid-1999 a full range of corporate Internet Protocol-based broadband services such as electronic commerce solutions and Web applications hosting based on Microsoft's Windows NT operating system. This would enable Microsoft to demonstrate the capacity of Windows NT to support large-scale corporate systems handling large amounts of data.

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Hughes Electronics, a unit of General Motors, has announced that it would spend $1.3 billion on purchasing United States Satellite Broadcasting Company (USSB). USSB would be merged with Hughes's DirectTV unit, the leading US digital satellite broadcasting (DSB) group with 4.3 million subscribers. The move comes in response to the recent acquisition for $1.5 billion by rival EchoStar Communications of the DSB business of the US media giant News Corp. and its telecoms partner MCI.

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The German electronics giant Siemens and the US networking group 3Com said they have agreed to form a 87 million Ecu worth US-based joint venture that would specialise in the development of Internet Protocol-based telephony, voice and multimedia products for use on corporate Local Area Networks (LAN). The new company would put its first products on the market in the course of 1999.

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The US computer group Sun Microsystems and the Japanese consumer electronics giant Matsushita have agreed to cooperate on the implementation of Sun's Java universal programming language for consumer electronics. The aim would be to develop the next generation of network-aware TV sets, phones, personal digital assistants and traditional consumer appliances. The move reflects the growing convergence of consumer electronics and computer network technologies. It would strengthen Sun in its strategy to impose Java as an industry standard in the on-line environment.

LEGISLATION AND POLICIES

In the framework of the Java licensing contract lawsuit filed by the US computer group Sun Microsystems against US software giant Microsoft, US Federal Judge Ronald Whyte has ordered Microsoft to ship the Java universal programming language in its original version within 90 days. The decision is based on the fact that the version of Java integrated in Microsoft's Internet browser Explorer has been modified. Microsoft said it will appeal the preliminary injunction ruling. Microsoft argued that the modifications were only aimed at improving and enhancing Java, something it claims to be entitled to do under the licensing contract with Sun.

ASIA AND PACIFIC

INFRASTRUCTURE

Japanese private railway companies in the Tokyo areas have unveiled plans to join forces to enter the telecoms sector in the course of the year 2000. The 11 companies would build upon their respective private networks to develop a broadband communications infrastructure and lease capacity to domestic and foreign telecoms operators. They could also set up a joint venture to provide high-speed Internet access.

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The Japanese long-distance telecoms operator Japan Telecom, an affiliate of Japan Railways Group, said it intends to develop a Internet Protocol (IP) network to handle data communications, which would launch commercial operation in April 2000. Japan Telecom would offer cut-price services in competition with the incumbent telecoms operator Nippon Telegraph and Telephone (NTT) and a joint venture specialised in corporate data communications which is to be set up by the Internet service provider Internet Initiative Japan (IIJ), the car giant Toyota and the electronics giant Sony.

MARKET AND COMPANIES

StarHub, Singapore's second fixed-line telecoms operator, which is to launch operations in April 2000, has said it would join the global telecoms alliance which the US and UK telecoms giants AT&T and BT have agreed to form. StarHub is 20%-owned by BT. The move would deal a serious blow to the incumbent operator Singapore Telecom, which is part of WorldPartners, a global alliance led by AT&T which is to be dissolved by the end 1999 following the decision to join forces with BT. Indeed, this would preclude Singapore Telecom from joining the new AT&T-BT alliance, thus leaving the operator without an international partner. An alternative for Singapore Telecom would be to join forces with the second largest UK operator Cable & Wireless.

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A group of 40 Japanese investors has launched BS Japan, a joint venture specialised in digital satellite broadcasting, which would launch operation in late 2000. BS Japan would start to provide programming free of charge to build a initial consumer basis. This would comprise one high-definition channel and three conventional channels.

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