Information Society Trends

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EDITORIAL

Vodafone becomes global wireless powerhouse

Vodafone, the leading UK mobile operator, announced that it has reached a definitive agreement to merge with AirTouch Communications, the leading US mobile operator. Vodafone would spend over $60 billion for a 50.1% stake in AirTouch. The merged company, Vodafone AirTouch, would be the world's largest wireless powerhouse with a combined market capitalisation of $110 billion and 23 million cellular customers in 23 countries in four world regions. There is a powerful rationale behind the merger as the two companies have highly complementary geographical assets.

In Europe, Vodafone is already extremely well established with 5 million mobile customers in the UK and the same figure in continental Europe. This is based on majority stakes in Greece's Panafon and the Netherlands' Libertel, as well as minority stakes in France's SFR, Germany's E-Plus and Sweden's Europolitan. The merger would substantially reinforce Vodafone's Europe-wide operations as AirTouch's assets include majority stakes in Portugal's Telecel and Sweden's Europolitan, as well as minority stakes in Belgium's Proximus, Italy's Omnitel, Germany's D2 Privat, Poland's Polkomtel, Romania's Mobifon and Spain's Airtel. This could allow Vodafone to establish a truly pan-European cellular network. The only mismatch are the two groups' investments in competing Germany mobile operators, E-Plus and D2.

In the USA, Vodafone would benefit from AirTouch's market leadership with over 9 million customers. This is based on AirTouch's cellular business and PrimeCo Personal Communications, a PCS venture equally-owned with the US regional operator Bell Atlantic. All together, AirTouch reaches half of the US population. A possible hurdle could come from PrimeCo, which represents half of AirTouch's market reach, as Vodafone and Bell Atlantic competed for the take-over of AirTouch. But Bell Atlantic said it will pursue its PrimeCo and roaming relations with AirTouch.

On top of this strong trans-Atlantic presence, Vodafone and AirTouch have other important international holdings which could offer them a unique opportunity to offer global roaming. Their combined assets include majority stakes in Vodafone Australia, Vodafone New Zealand and Egypt's ClickGSM, as well as minority stakes in Japanese, South Korean and Indian cellular operators. Furthermore, Vodafone and AirTouch are already partners in Globalstar, the global satellite-based voice and data system led by America's Loral Space and Communications, which is to roll-out service in late 1999.

The Vodafone-AirTouch merger is the latest in a series of UK-US ventures, which include the purchase by Cable and Wireless (C&W) of MCI's Internet assets and the creation of a global joint venture by BT and AT&T. This dynamism of the UK telecoms industry is as yet unmatched in the rest of Europe. In fact, amongst European operators, only British groups seem to have the required level of aggressiveness to keep up with their US counterparts, which are rapidly expanding in Europe's liberalised market.

EUROPE

MARKET AND COMPANIES

The French private telecoms operator Bouygues Telecom, a unit of the French construction and communications group Bouygues, the French leading private TV channel TF1, which is 40%-owned by Bouygues, and the leading Dutch Internet service provider World Online, said they have agreed to set up a joint venture, World Online France, to offer Internet access services in France. It would compete with the market leaders, Wanadoo, a unit of the incumbent operator France Télécom, and AOL/CIS France, a joint venture between the country's largest private telecoms operator Cégétel, the French pay-TV giant Canal+, the world's largest commercial on-line service America OnLine (AOL) and the German media giant Bertelsmann. World Online France would be owned 20% by Bouygues, 15% by TF1 and 65% by World Online, which has already operations in Belgium, Denmark, Spain and Switzerland. Investors in World Online include the Sandoz-Family Foundation, Telfort, the Dutch railway company, the UK operator BT and the Dutch public channel TROS.

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The US telecoms equipment maker Lucent Technologies has announced the purchase for €42 million of a 12% stake in the leading Spanish telecoms equipment maker Amper from the incumbent Spanish operator Telefonica, which currently owns 50% of Amper.

LEGISLATION AND POLICIES

The European Commission has adopted a Green Paper on public sector information in the information society. The document aims at triggering a broad debate with interested parties on how information gathered by government and public bodies can be used to bring the greatest benefits to citizens and businesses in Europe (http://www2.echo.lu/info2000/en/publicsector/greenpaper.html).

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The French government has announced its intention to lift all restrictions to the use of encryption in France, as it is the best way to protect confidentiality and privacy in the on-line world. France would also remove the legal obligation to deposit encryption keys with Trusted Third Parties (TTPs). As the move will require the adoption of new legislation, the French government said it would immediately liberalise the use of encryption products up to 128 bits from currently 40 bits.

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The Italian government said it would sell the remaining 4.5% stake it still owns in the country's incumbent operator Telecom Italia by the end of April 1999.

NORTH AMERICA

Trends: If one is wondering where the beef is in the fast-growing on-line economy, the answer probably lies in the most recent series of US-centred mergers: Vodafone-AirTouch, AT&T-Ascend, @Home-Excite and AOL-Netscape. The four mergers, which together weight over $90 billion, point at three fast-growing markets: mobile communications, networking equipment and the Internet.

INFRASTRUCTURE

The US telecoms group Global TeleSystems (GTS) and Bermuda-based FLAG Telecom said they have agreed to set up a 50-50% owned joint venture and to invest $1 billion to build a high-speed trans-Atlantic cable system, FLAG Atlantic-1, which will carry voice, data and video between New York, London and Paris with connections to other cities in the USA, Europe, the Middle-East and Africa.

MULTIMEDIA SERVICES AND PRODUCTS

America Online (AOL), the world's leading on-line service provider, and the US regional operator Bell Atlantic said they have formed a partnership to offer broadband connectivity to AOL subscribers in Bell Atlantic's region based on the DSL technology, which allows for high-speed data transmission over regular phone lines. The new service would be made available in an area covering 7.5 million homes at the end of 1999 and over 14 million homes by the end of the year 2000.

MARKET AND COMPANIES

@Home Network, a US joint venture specialised in high-speed Internet access over cable TV networks, and Excite, one of the world's most popular Web portal, said they have agreed to merge in an all-stock transaction valued at $6.7 billion. The merger would combine @Home's broadband transmission platform which Excite's portal services, excite.com and webcrawler.com, which attract 17 million Internet users per month. @Home would also benefit from Excite's MathLogic direct marketing division. @Home's largest shareholder is the leading US cable TV operator TCI, which is in the process of merging with the US telecoms giant AT&T, alongside the leading US cable operators Comcast, Cox, Rogers Cablesystems and Shaw.

Separately, @Home also announced that it has agreed to tie-up with America's RealNetworks, the leading provider of software that allows for the transmission of audio and video files over the Internet. The aim is to offer @Home subscribers access to high quality audio channels, near-VHS quality video channels and on-demand contents over @Home's broadband cable TV network on the basis of the RealSystem G2 software.

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The US telecoms equipment manufacturer Lucent Technologies said it has agreed to spend $20 billion on purchasing Ascend Communications, a leading US networking company. This would be Lucent's latest and largest in a series of mergers with networking firms, including Livingstone Enterprises, Prominet and Yurie Systems. All together, Lucent has purchased a dozen companies since it was spun-off from the US telecoms giant AT&T back in 1996.

This approach is typical of well-established public telecoms equipment manufacturers which wish to adapt their offer to the new requirements of the digital age, in particular computer networking. For instance, Canada's Northern Telecom agreed to spend $9.1 billion in 1998 on purchasing another networking leader, Bay Networks. As for France's Alcatel, it agreed to acquire DSC Communications for $4.4 billion and Packet Engines for $315 million. Finally, Sweden's Ericsson agreed to spend $285 million on buying Advanced Computer Communication (ACC). However, the Ascend merger is likely to put Lucent firmly ahead of its rivals and may spur further consolidation of the sector.

In addition to purchasing Ascend, Lucent has also announced the buy-out for $1.48 billion of Kenan Systems, a world leader in third-party billing and customer care software targeted at telecoms and cable operators as well as Internet service providers. Kenan's customers include leading companies such as @Home, AT&T WorldNet, BT, Cegetel, France Télécom, MCI-WorldCom, Viag and Videotron. The purchase is therefore a valuable complement to Lucent's range of products.

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Finland's Nokia, the world's leading supplier of mobile phones, said it has agreed to acquire Canada's Vienna Systems, a world leader in Internet telephony. Vienna designs and manufactures hardware and software products for the distribution of voice, fax and video communications over Internet Protocol (IP) networks.

LEGISLATION AND POLICIES

The US Federal Communications Commission (FCC) has rejected appeals by three regional telecoms operators, Bell Atlantic, SBC and US West, challenging provisions of the 1996 US Telecoms Act that keeps them out of the long-distance market on grounds that their home markets remain insufficiently open to competition.

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The US Department of Justice (DoJ) has approved the planned purchase for $48 billion by the US telecoms giant AT&T of the leading US cable operator TCI conditional to the sell-off by TCI of its 23.5% stake in Sprint PCS, the mobile unit of the third-largest US long-distance operator Sprint.

ASIA AND PACIFIC

INFRASTRUCTURE

The Japanese cable TV operators Jupiter Telecoms and Titus Communications said they have agreed to jointly develop a fibre-optic network for the provision of Internet access and telecoms services. The two companies are also envisaging to share broadcast and Internet access facilities and other equipment. The partnership would be opened to other Japanese cable operators.

MULTIMEDIA SERVICES AND PRODUCTS

UUNet, the world's leading Internet service provider for corporations and a unit of the US long-distance operator MCI-WorldCom, said it intends to roll-out services in Japan in March 1999 over lines leased from Japan Telecom.

MARKET AND COMPANIES

The Japanese regional operator Tokyo Telecoms Network Co. (TTNet) said its has agreed to a full merger with loss-making Astel, a Japanese provider of personal handyphone system (PHS) services. The merger is to become effective on 1 April 1999.

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The US communications group Hughes Communications has said it would become the leading shareholder in the Japanese digital satellite broadcasting (DSB) service DirecTV Japan (DTVJ) by raising its stake to 42%. This would be achieved by purchasing shares from DirecTV's main shareholder, the Japanese video rental chain Culture Convenience Club, which would reduce its stake to 12%.

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The incumbent Japanese telecoms operator Nippon Telephone and Telegraph (NTT) and Data Communications (Dacom), South Korea's second-largest telecoms operator, said they are considering a strategic alliance. The move could involve NTT taking a stake in Dacom, which provides overseas, long-distance and Internet services.

LEGISLATION AND POLICIES

The Japanese Ministry of Post and Telecoms (MPT) has awarded its third Type I license to a foreign operator, America's Pacific Gateway Exchange. Type I licenses give the privileges of a public operator, including the right to build one's own network. Similar licenses were awarded in 1998 to America's MCI WorldCom and Britain's BT. Global One, a joint venture between the French, German and US telecoms groups France Télécom, Deutsche Telekom and Sprint, has also applied for a Type I license.

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The Japanese Ministry of Finance (MoF) has said it would sell a further stake in the incumbent operator Nippon Telephone and Telegraph (NTT) in 1999. This would reduce the MoF's stake in NTT to about 53% from currently 59%.

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The Indonesian government has said it intends to sell about 12% of PT Indosat, the country's dominant international telecoms operator, to local and foreign investors. But it would retain control over the company with a 51% stake.

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The Indian government has announced that it would sell-off 5% of the country's international telecoms operator, Videsh Sanchar Nigam (VSNL), to local and foreign investors. Public authorities currently own 64% of VSNL, which enjoys a monopoly until the year 2004. VSNL's monopoly over Internet access was scrapped at the end of 1998.

LATIN AMERICA

LEGISLATION AND POLICIES

The Brazilian government has awarded telecoms licenses to two North America-led telecoms consortia. The first, led by the third-largest US long-distance carrier Sprint, won a €34 million license to supply long-distance services in competition with Embratel, which is controlled by the second-largest US long-distance operator MCI-WorldCom. The second, a consortium led by Bell Canada International, a unit of the leading Canadian operator Bell Canada, won a €36 million license to provide fixed-line services in competition with Tele Norte-Leste, the country's largest telecoms company. Bell Canada already operates cellular services in Brasilia. The move follows the split-up and privatisation of the country's telecoms monopoly Telebras in mid-1998.

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