

EDITORIAL

A multimedia giant is born in Germany

Deutsche Telekom (DT), the German national telecoms company, Bertelsmann AG and Kirch Gruppe, Germany's two largest investors in private television, have agreed to set up a joint venture to distribute new interactive TV services.

The new company, called Media Service GmbH, will initially focus on providing pay-TV and pay-per-view services and eventually video-on-demand and TV-shopping services to the 14 million households wired up by DT's cable television network.

While the joint venture will not provide any content services, other media companies will become its clients to transmit their own movies, home-shopping and other programming.

The company, which will be based in Berlin, will start its operation on April 1 and is expected to invest around 150 million Ecus in developing new digital TV services.

One hurdle Bertelsmann, Kirch Gruppe and Deutsche Telekom might have to overcome is that the joint venture is of such importance that it could come under the scrutiny of Germany's tough Cartel Office, which could eventually veto its creation.

To rule out any such setback, the three founders insisted that they have no intention to create a monopoly of future digital TV services in Germany and that they would welcome future shareholders with minority stakes. In fact, the three allies will own 90% of Media Service while the remaining 10% will be opened to other participants.

An interesting aspect of the deal is that it brings together two arch rivals in the communication sector: media giant Bertelsmann and Kirch Gruppe, a major shareholder in the SAT-1 TV channel and in the Axel Springer publishing group.

But it seems that the issue at stake, that is, the conquest of the opening multimedia market, is so paramount that it can bridge gaps between fierce competitors.

Even though Media Service aims primarily at playing a central role in the German market, the deal is also of great importance at the European as well as global level, as it brings together DT, the world's second telecoms operator and Bertelsmann, the world's second media group with interests all over Europe and North America.

The setting up of Media Service could announce further co-ordination between DT, Bertelsmann and Kirch Gruppe in both the European and world market.

EUROPE

Trends: The developments in Europe's multimedia landscape since February suggest that companies are now waking up to

the challenges and opportunities of the information and communication age. Indeed, the emergence of a German multimedia giant and the alliance between Bertelsmann and Canal+ closely follow BT's announcement that it will bring information superhighways to Britain and plans by the French government to present legislation next Autumn to develop information infrastructures. Also in France, communication groups Havas, CGE, France Télécom and Canal+ have started to converge.

INFRASTRUCTURES

ATM Pilot, a transborder broadband network project to be carried out in common by 12 European national telecoms companies will last one year, until July 1995, instead of six months as previously planned.

The following companies are taking part: BT of Britain, Deutsche Telekom, France Télécom, STET of Italy, Telefonica of Spain, Belgacom of Belgium, Telephones de Lisboa e Porto of Portugal, Televerket of Sweden, Telecom Finland, Norwegian Telecom, PTT Suisses of Switzerland and KPN of the Netherlands.

Dutch electronics group Philips NV will set up a joint venture with United International Holdings Inc. (UIHI), an American cable operator, to develop cable television infrastructures in nine European countries as well as Israel and eventually expand into programming.

The two companies' existing cable networks already cover a potential 2.5 million European households with 1.5 million actual subscribers. They plan to extend their coverage to 7.5 million potential clients and 5 million subscribers. Cable TV is a natural outlet for Philips' multimedia products.

APPLICATIONS

BT, a British telecoms operator, will start experimenting video-on-demand services in the Spring but may legally be prevented to provide such services at least until 1998.

The British government said it would stick to the terms of a 1991 white paper that imposed restrictions on BT providing or carrying entertainment services until 2001, a move that may delight British cable operators.

BT is trying to persuade British authorities to lift the ban on the occasion of a 1998 review. Otherwise, BT says, it will lose ground towards American and British cable operators which also plan to develop interactive TV services in Britain and already compete with BT by offering voice telephony services on their cable networks.

In its first experiment, BT will connect 70 households and extend its total subscriber sample to 2,500 by the Autumn. The trial will involve five equipment suppliers, one European and four American.

France's Alcatel will be responsible for optical fibre transmission, Northern Telecom for copper transmission, Oracle will provide the server's software, nCubethe server's hardware and Apple the interactive interface appearing on the subscriber's TV set.

MARKET

German media giant Bertelsmann and French TV channel Canal+ have agreed to set up a joint venture before the summer to offer multimedia interactive television services throughout Europe.

Bertelsmann and Canal+ already cooperate on Première, a German toll TV station in which both companies own 37.5%.

Ascom and Ericsson, respectively a Swiss and a Swedish telecoms equipment group, have agreed to set up a joint venture in fixed and mobile communications.

The new company, called Ascom Ericsson Transmission AG, which will start its operation in 1995 will employ 900 persons and have a potential turnover of 645 million Ecus.

British Telecom has ambitious plans to boost its operations in continental Europe, which currently only amount to 0.5% of its total income, through partnerships, purchases as well as setting up joint ventures.

Over the next five years, BT plans to increase its profit outside the domestic market from 17 billion Ecus to 600 billion Ecus, its work force from 800 to 5,000 and its clients from 500 to 6,000.

BT has recently set up a joint venture in financial services with Spain's Banco de Santander and established a partnership with the Italian electronics company Olivetti. It has created a company in Paris to coordinate its continental European operations.

On the service side, BT plans to expand the following activities: voice transport, valueadded services, satellite transmission, videophony and outsourcing (subcontracting telecoms services).

BT said the success of its plans will depend on the effectiveness of deregulation in Europe's telecoms sector.

NORTH AMERICA

Trends: The recent rush of multimedia activity in Europe contrasts sharply with grimness in the United States. The collapse of a planned merger between Bell Atlantic and TCI as well as threats over the take over of Paramount by Viacom and delays in the start of Time Warner's superhighway experiment indeed have darken the market's vision of the future of multimedia. But the multimedia fever might not yet be over as the level of business activity remained steady.

LEGISLATION

US Trade Representative Mickey KANTOR warned that draft legislation on regulatory reform of America's communication sector risks outraging US trade partners which may consider it a violation of GATT trade rules.

The bill, which is being discussed by the US Legislature, aims at allowing US regional telecoms companies to offer long-distance services and manufacture telecoms equipment.

One provision of the bill states that the value of foreign parts in the companies' products should not exceed 40% of the final price. Another telecommunications bill introduced in the US Senate contains similar proposals.

The regional companies, or so-called Baby Bells, have praised the domestic content provision of the bills, and despite Mr. Kantor's warning, it is likely to remain in both bills if they are to be adopted.

APPLICATIONS

TCI, the major US cable TV operator and Microsoft, the leading American software producer, have signed two accords to

jointly experiment interactive television and create a common interactive network for home computers.

The first agreement states that the two companies will start co-operating on building up software for interactive TV at the end of 1994. Experiments will begin in Seattle, Washington, and Denver, Colorado, in 1995.

The second agreement aims at providing private PC owners with interactive computer and home-shopping services via a modem connection. The market is attractive as 34% of American households own computers.

Time Warner Cable, the second largest US cable operator, announced on March 1 that it would delay at least until September its Orlando, Florida, information superhighway experiment initially due to start this Spring.

The project will provide test subscribers with services ranging from video-on-demand to home shopping and interactive games.

The delay is a result of the technological complexity involved in setting up the superhighway: "Putting it all together is a mammoth undertaking," said James Chiddix, a Time Warner Cable senior vice-president.

MARKET

MCI, America's second long distance telephony operator, has decided to buy 17% of Nextel, the second American mobile radio company, and committed itself to buying another 19% over the next three years.

The deal will allow Nextel to sell its wireless phones as well as data and dispatch services under MCI's brand name. Nextel uses

the technology of Motorola, the US leader in cellular telephony and owner of 20% of Nextel.

In addition to the \$1.3 billion deal, MCI also set up an alliance with Comcast, an American cable company, which also owns 17% of Nextel.

These moves show that after its alliance with British Telecom, MCI is pursuing its development strategy and now intends to step into mobile communication, a market which in the United States is expected to expand to 8090 million users in 10 years from 15 million today.

The US Federal Trade Commission (FCC) cleared the way for the take over of Paramount by US media giant Viacom but the merger still could run afoul of attempts by Blockbuster 's shareholders to block a planned merger between Viacom and Blockbuster.

Viacom decided to merge with Blockbuster earlier this year to gain the necessary financial resources to win the bid for Paramount against QVC Network on February 15.

In the meantime, Viacom's stock price has fallen constantly, provoking reaction amongst Blockbuster's shareholders, as the transaction was to be sealed through an exchange of shares between the two companies.

TCI said it would be ready to buy Blockbuster if the merger between Viacom and Blockbuster would fail. TCI's proposal followed only by a week the collapse of a planned merger between TCI and the regional telecoms company Bell Atlantic which was to be the biggest in American history. Separately, MCI said it was interested in purchasing TCI.

Bill GATES, the chairman of Microsoft, warned that current emphasis on the home entertainment market to develop a strong multimedia industry was foolish and that only corporate sector will prove to be a viable outlet in the medium term for the emerging multimedia industry.

"Once business is using multimedia, then we can move to the home environment," said Mr. Gates.

Microsoft itself also invests large sums of money in home multimedia trials, but Gates said he did not expect many returns on these investments for at least five years.

ASIA

INFRASTRUCTURE

The Japanese telecoms group Kokusai Denshin Denwa (KDD) said it intends to invest 450 million Ecus to modernise its existing infrastructures during the financial year starting in April 1994.

KDD will invest another 59 million Ecus in research and development activities

The content of the press review does not necessarily reflect the European Commission's views.