EDITORIAL

## Failed deal creates another bump on the US superhighway

A $4.9 billion planned merger between US regional telecoms operator SouthWestern Bell and US cable TV operator Cox
Cable Communication collapsed earlier this month.

SouthWestern, who was to take a 40% stake in Cox, called off the deal on ground that last February's decision by the US
Federal Communications Commission (FCC) to cut cable company tariffs by an average of 7% had made it unattractive.

Last February, TCI and Bell Atlantic, respectively the US leading cable TV operator and a regional telecoms company, had
already blamed the FCC for the failure of their $22 billion planned merger, which was to be the biggest in American history.

Their argument is that the FCC's rate re-regulation increases financial uncertainty in the cable industry and diminishes the
immediate financial attraction of the cable sector.

But FCC's rate policy alone falls short of explaining the sudden backtracking of telephone and cable companies on the way to
convergence.

A far more important issue here is the market uncertainty about just how profitable multimedia services will eventually be,
and when. In the absence of clear financial prospects, companies hesitate to embark on full blown deals which are costly,
complex and difficult to complete.

Another intention behind these aborted deals could be to put pressure on the CLINTON-GORE Administration, which has put
the development of a National Information Infrastructure at the top of its political agenda, to accelerate the deregulation of the
communication sector.

However, these setbacks do not mean that communication groups are unwilling to invest in multimedia, nor do they mean that
convergence will not take place. Things may just happen slower and less spectacularly than the initial multimedia frenzy
suggested.

Rather than merging, telecoms and cable companies are instead more likely to co-operate on a case by case basis and to limit
their rapprochement to small stake exchanges.

A successful example of limited-scope co-operation is the tandem between the regional telecoms company US West and the
second largest US cable operator Time Warner Entertainment . Despite delays in their Orlando interactive TV experiment,
the two companies have jointly embarked on a nation-wide interactive cable TV project in Japan.

EUROPE

Trends: Again taking the lead in the liberalisation of Europe's telecoms market, the British government has authorised
foreign companies to build and run their own telecoms networks. This measure is likely to mainly benefit US corporations,
which are already well established and tend to turn Britain into a forefront bastion to further penetrate the European
communication market.

APPLICATIONS

The US regional telecoms company Nynex said it will start testing video-on-demand in Great Britain over its cable TV network
before the end of the year or early next year.

This latest move is likely to fuel rivalry between Nynex and British Telecoms PLC (BT), which has already started
video-on-demand trials over its own phone network.

LEGISLATION

The British government has authorised Sprint, the third-largest US long-distance operator, as well as four other foreign
communication companies to build and manage their own telecoms network in Great Britain.

The license will allow Sprint to compete on equal terms with BT and Mercury Communications Ltd., from which the US
operator until now had to lease lines.

The other companies that will benefit from similar licenses are America's Worldcom, Canada's Videotron, Australia's Telstra and Sweden's Telia.

France has passed legislation that allows private businesses to replace all written declarations by an electronic message in
their relations with public administrations.

Implementation of the new rule is submitted to a contract between a company and the administration laying down rules for the
identification of the messages' author, integrity and readibility as well as transmission reliability.

MARKET

Siemens Telecomunicazioni, the Italian telecoms subsidiary of Germany's Siemens AG, will merge with Italtel, the leading Italian telecoms equipment manufacturer owned by the telecoms utility STET SpA.

STET and Siemens will each own a 50% stake in the new concern.

The operation is a setback for AT&T, the US leading long distance company, which was competing with Siemens to merge with
Italtel, in order to strengthen its presence in Europe. Siemens will also buy back the 20% stake of Italtel currently held by
AT&T.

Italian computer maker Olivetti reinforced its presence in the telecoms sector after the consortium Omnitel-Pronto Italia,
in which its owns a 36% majority stake, was awarded a 15-year license to operate Italy's second cellular-phone system.

Other partners in the consortium include America's Bell Atlantic and Pacific Telesis along with Germany's Mannesman AG.

France's national telecoms company France Télécom and French telecoms equipment manufacturer Alcatelhave agreed to
set up a common subsidiary to jointly participate in the development of the global satellite telephone system Globalstar .

France Télécom will own a 51% stake in the new company. Alcatel has indicated that it intends to invest $37.5 million in
Globalstar, which total cost is estimated at $1.8 billion.

Globalstar was launched by America's Loral and will consist of 48 low-orbit satellites. It is expected to have 2.7 million subscribers in 2002 and generate a $1.6 billion profit.

Other partners in Globalstar include Britain's Vodaphoneand America's Pacific Telesis.

NORTH AMERICA

Trends: The enthusiastic call of vice-president Al Gore for a global electronic superhighway and the Gates-McCaw visionary plan for a cosmic superhighway have failed to wash away clouds over the American multimedia landscape as more deals run into trouble. To the aborted mergers discussed in the editorial, one should add AT&T-McCaw and Viacom-Paramount.

INFRASTRUCTURE

Canada's nine regional telecoms companies plan to join forces within a consortium, Stentor, and spend more than 5 billion Ecus on upgrading their networks to transmit multimedia information nation-wide.

The nine companies aim at wiring up 80 to 90% of Canada's homes and businesses over the next 10 years and expect TV companies and multimedia service providers to use their access networks.

LEGISLATION

A planned merger between AT&T, the US leading long-distance operator, and McCaw Cellular, the top US mobile phone operator, is pending assurance that the deal does not constitute a breach of the law which dismantled AT&T's telephone monopoly back in 1982, a federal court decided.

Despite this new setback on the road to multimedia convergence, analysts agree that the court's demand is unlikely to derail the merger, which should be finalised by the end of the summer.

On April 4, the United States lifted 4 all restrictions on sales of civilian telecoms and computer products to non-military clients in China and the former Soviet Union, which had been imposed under the Cocom regime during the Cold War era.

According to the US Administration, these countries represent a $15 billion worth market for telecoms equipment and $1.3
billion for computers.

MARKET

Viacom Inc., the American media giant that recently won a five-month battle to take over Paramount communications Inc. has difficulties finding cash to finalise the $10 billion buy and has started to sell off part its cable TV assets.

Viacom has already announced the sell off of its $318 million stake in the cable TV network Lifetime TV and is negotiating
with TCI, the leading US cable operator, to sell its cable television systems for about $2.2 billion.

Viacom is also struggling to finalise its merger with America's top video retailer Blockbuster, whose financial input was key
in winning the Paramount bid.

Blockbuster's shareholders have opposed the initial terms of the merger, and a final decision on the deal is awaited by May 24.

ASIA

Trends: Japan looks increasingly set to come back on the multimedia front as the government has set up an IT&T committee,
as a counterpart of the US NII task force, and has started promoting the development of a nation-wide cable network as well
as deregulating its communication market.

INFRASTRUCTURE

The Japanese Ministry of Posts and Telecommunications (MPT) is drawing plans to help Japan's fragmented and weak cable TV industry to build up a nation-wide network that will eventually provide multimedia services.

Whith only 5% of Japanese households wired up, the MPT aims at promoting co-operation amongst cable operators by easing
regulatory burdens and supporting the standardisation of systems used by different cable companies in order to facilitate the
inter-connectability of their networks.

This move reflects the MPT's growing awareness that the cable industry is likely to be a key player in providing new multimedia services.

Japan's Itochu Corp. and Toshiba Corp. have drawn together with America's Time Warner Inc. and US West , a joint project to set up a nation-wide interactive cable television system.

The new project, which remains at the level of feasibility study, aims at creating 10 cable TV channels that would reach 2
million viewers and provide interactive services such as video-on-demand as early as 1995.

Time Warner is the second-largest American cable TV operator and US West a regional telecoms company, while Itochu and
Toshiba are both electronics corporations.

The project would mark the first time US companies take equity stakes in a Japanese cable TV network and underlines Japan's
reliance on US expertise to rehabilitate its poorly developed cable television industry.

LEGISLATION

Japan's than Prime minister Morihiro HOSOKAWA announced in March the launch of an Information Technology & Telecommunications committee to tackle the sensitive issue of bringing information superhighways to Japan.

Chaired by Mr. Hosokawa until his resignation, the committee comprises five members of the government, two academics, one
economist and one industrialist, the chairman of IBM-Japan.

The new task force will review and propose regulatory changes to accelerate the introduction in Japan of a nation-wide information infrastructure under a fully-integrated agenda.

Legislative measures to deregulate the Japanese mobile phone market came into force on April 1, unleashing a price war
amongst the five national mobile phone operators, DDI Corp. , NTT-DOCOMO, IDO, Digital Phone and Tu-Ka.

The deregulation process is expected to curb subscription cost by 16% and the very high monthly access fees by as much as
50%. It allows Japanese to buy equipment instead of renting them.

MARKET

Under the increasing competitive pressure of US and South Korean competitors, Japan's leading semi-conductors manufacturers have agreed to join forces in a common research institute to develop the next generation of semi-conductors for

the multimedia market and study the development of the market.

The companies involved include NEC, Toshiba, Fujitsu , Mitsubishi, Oki, Sony, Matsushita , Sanyo and Sharp.