

EDITORIAL

Merger and drop-out clarify Europe's confused pay-TV landscape

After months of confusion and dramatic shifts of alliances, the merger between Canal+ and Nethold, and the decision by Bertelsmann to scrap its digital pay-TV plans in Germany, mark the emergence of two key pay-TV players in Europe: Canal+ and Kirch.

A third major player is the British pay-TV leader BSkyB, which has recently agreed to take a 30% stake in DF1, the German digital satellite TV bouquet of Kirch.

The decision of the French pay-TV group Canal+ to spend 35 million Ecu on the European TV assets of South-Africa's Nethold will create Europe's largest pay-TV group combining the 7 million subscribers of Canal+ and Nethold's 1.5 million subscribers. Nethold's parent companies, Richemont and MIH, will take a 20% stake in Canal+.

The move will finally settle a lasting war over decoding technologies for digital TV which opposed Nethold's Irdeto and the Mediabox of Canal+.

The merger has also blocked the European ambitions of DirecTV, the satellite TV subsidiary of America's Hughes Electronics, which was also interested in buying Nethold.

While Canal+ will have a strong pan-European presence, including the Benelux, France, Italy, Poland, Spain and Scandinavia, it will be weakened in the German by the decision of its partner, the German media giant Bertelsmann, to drop the launch of a joint digital satellite TV bouquet in competition with Kirch.

These events have also led to the collapse of MMBG, a consortium led by Bertelsmann and Canal+, which aimed at promoting the Mediabox as an alternative to the use by rival Kirch of Irdeto, the decoding technology of Nethold.

Furthermore, the move by Bertelsmann to concentrate its efforts on the merger of its traditional advertising-funded broadcasting activities across Europe with those of the European broadcaster CLT will turn Kirch into the leading German digital TV player.

The only question that remains open in Germany concerns the future of the analogue pay-TV channel Premiere, which is co-owned by Canal+, Bertelsmann and Kirch, and in which BSKyB, a subsidiary of the US media giant News Corp., is to take a 25% stake.

The key factor that could change the balance of power within Premiere is the de facto rapprochement between Kirch and Canal+. Indeed, Kirch uses a digital technology now owned by Canal+, the two groups are partners in the Italian pay-TV channel Telepiu owned 45% each by Kirch and Nethold, and they are in direct competition nowhere.

The potential loser is BSKyB, already under threat of the German federal cartel office, which has recently said it could advise the European Commission to block the British group's entry into Premiere.

EUROPE

Trends: The focus is on alliances between telecoms groups and energy utilities or rail companies (in Germany, Italy, the Netherlands and Switzerland), which increasingly look like the key asset of new market entrants who need to deploy nation-wide infrastructures.

INFRASTRUCTURE

Vebacom, a telecoms joint venture of the British telecoms group Cable & Wireless and the German industry conglomerate Veba, said it has finalised a deal with Ruhrgas, Germany's largest natural gas supplier, for the use of its private network and conduits to expand its telecoms infrastructure in preparation for competition in 1998.

Meanwhile, the German industrial group Mannesmann, which announced in July that it would buy 49.8% of DBKom, the telecoms arm of the German national railway company Deutsche Bahn, said it would pay 500 million Ecu for the stake.

The national French telecoms operator France Télécom and its Italian telecoms partner, troubled computer group Olivetti, have agreed to jointly buy a 70% stake in the private network operations of the Italian railways company.

The two groups are also exploring ways to strengthen their alliance. So far, France Télécom has agreed to take a 49% stake in Infostrada, a telecoms joint venture owned 67% by Olivetti and 33% by the US telecoms group Bell Atlantic.

The US telecoms group SBC Communications has agreed to a stake, which size has yet to be determined, in DiAx, a telecoms joint venture set up by six Swiss public and private electricity groups which would build upon their interconnected

private networks.

DiAx will rival the national operator Swiss Telecom and another Swiss venture, provisionally named New Telco, formed by the Union Bank of Switzerland, the national railway company and the Swiss cooperative retailer Migros.

The British telecoms operator BT and the Dutch national railway company NS have unveiled a telecoms joint venture, Telfort, which would invest about 500 million Ecu into expanding NS' private telecoms network and market the corporate telecoms services of Concert, a global venture between BT and America's MCI, to Dutch-based corporations.

The US telecoms group US West, the Flemish regional society for industrial development GIMV and other Flemish investors have created a communications group, Telenet Holding, which would invest 1.2 billion Ecu in the creation of a broadband telecoms network in the Dutch-speaking part of Belgium.

Telenet, 25%-owned by US West, intends to provide a full range of telecoms and multimedia services by 2002 in competition with the incumbent operator Belgacom.

MULTIMEDIA SERVICES AND PRODUCTS

Klenine of France has launched an electronic wallet on the Internet which would allow French consumers to place orders and make secure on-line payments. Over 100 French-based companies have already decided to rely on Klenine's service to get on-line.

The German media giant Bertelsmann has agreed to set up a joint venture to sell Internet services with Debis, the computer of the German group Daimler-Benz.

Under the plan, Debis would take a 50% stake in MediaWays, a unit of Bertelsmann which operates AOL-Germany, a commercial on-line service jointly run with America OnLine of the USA, the world's leading commercial on-line service.

MARKET AND COMPANIES

The Spanish, Venezuelan and American TV groups Sogecable, Divtel and DirecTV, a subsidiary of General Motors' Hughes Electronics, have agreed to jointly offer satellite digital TV in Spain. Sogecable would also join Galaxy Latin America, a joint venture set up by Divtel and DirecTV earlier this year to offer digital satellite TV in Latin America.

The three groups are likely to compete with the Mexican and Spanish TV groups Grupo Televisa and Television Espanola, which are in advanced talks to jointly launch satellite digital TV in the Spanish and Latin American markets.

NORTH AMERICA

Trends: After the telecoms and the cable TV industries, it is now the US satellite sector which is undergoing dramatic consolidation with two mergers: Hughes-PanAmSat and Loral-Skynet. Meanwhile, Cisco continues to grow with the purchase of Granite. On the on-line banking front, a new powerful consortium has been created around IBM.

MULTIMEDIA SERVICES AND PRODUCTS

The US computer giant IBM and a group of 15 leading US banks have agreed to set up a consortium, Integrion, to offer secure on-line banking services such as account balance inquiries, money wiring and payments via a PC or a touch-tone telephone.

Each participant agreed to invest several millions dollars. Trials are due to be launched in early 1997. Based on a private network to provide a high-level of security, Integrion would be accessible via commercial on-line services or the Internet, and be compatible with different financial software such as Intuit's Quicken and Microsoft's Money.

Meanwhile, the two largest US banks, Chase Manhattan and Citicorp, are developing their own proprietary systems for on-line banking.

Leading US cable TV operators are cautiously launching services to provide their subscribers with high-speed Internet access via cable modems.

Time Warner has started selling Internet access to 400 customers in Akron, Ohio, while TCI has done the same in a potential 17,000 subscribers market in Fremont, California. As for Comcast, it is expected to follow suite by the end of 1996.

These modest marketing plans are a far cry from all the jamboree surrounding the launch of interactive TV trials back in 1994 such as Time Warner's Orlando experiment which has not yet met expectations due to technical difficulties.

The US computer giant IBM has unveiled its first network computer (NC), a device worth less than \$700 which is aimed at the business market. Maintenance cost would be half of that of a PC over a period of five years.

LEGISLATION AND POLICIES

The US Federal Trade Commission (FTC) has given its initial go-ahead to a planned \$7.5 billion merger between the US media giants Time Warner and Turner Broadcasting. Final approval will be granted after a 60-day period for public

comment.

MARKET AND COMPANIES

America's Cisco Systems, the world's leading supplier of local area network (LAN) equipment, has agreed to spend \$220 million on purchasing Granite Systems, a US company that has developed Gigabit Ethernet, a high-speed switching technology.

The move is part of Cisco's strategy to complement its offer of networking solutions in the context of the growing use of networks by businesses.

Gigabit Ethernet allows to transmit one billion bits a second, up to 10 times more than other switching technologies. Expected to hit the market in 1997, it could become a serious contender for ATM (asynchronous transfer mode), already widely in use.

Earlier this year, Cisco had bought StrataCom, a leading US supplier of wide area network (WAN) equipment, in a stock swap worth about \$4 billion.

America's Hughes Electronics, a subsidiary of General Motors and the world's leading satellite manufacturer, said it has agreed to merge its satellite services unit Hughes Communications Galaxy (HCG) with its US counterpart PanAmSat.

The new satellite giant, which would weight \$3 billion, would combine HCG's 10 US and PanAmSat's 4 international communications satellites. Hughes would pay \$1.5 billion for a 71.5% stake while PanAmSat shareholders would retain the remaining 28.5%.

Meanwhile, the US satellite group Loral Space and Communications agreed to spend \$712 million on buying Skynet, the satellite TV distribution operations of the US telecoms giant AT&T, which consist of the four-satellite network Telstar.

TECHNOLOGY

Live Picture, a US company that has the backing of leading US high-tech firms Microsoft, Hewlett-Packard and Eastman Kodak, has developed a new software, FlashPix, which it hopes will become a standard in the digital photography market.

FlashPix drastically cuts the storage capacity needed for digitised colour pictures, thus allowing for fast and easy handling of high-quality pictures on PCs. A wide array of products could be developed on the basis of FlashPix, thus revolutionising photography.

ASIA AND PACIFIC

Trends: Confirming the progress of satellite broadcasting worldwide, Malaysia is getting ready to launch its own system, Astro. As for censorship, it remains a hot issue in the Asia-Pacific region, both as regards broadcasting and the Internet.

INFRASTRUCTURE

Measat Broadcast Network Systems, a satellite group controlled by Malaysian tycoon Ananda Krishnan, said it would launch in November 1996 a two-satellite digital system, All Asia TV & Radio (Astro), to broadcast 23 TV channels and radio stations in Malaysia and eventually Australia, India, Indonesia, the Philippines, Taiwan and Vietnam.

Astro would mainly broadcast US channels such as CNN, CNBC, the Discovery Channel, TNT&Cartoon and the Disney Channel, and a few local language channels. Astro also plans to set up joint ventures in target countries to produce local content.

While the Malaysian government is set to lift its ban on satellite dishes in view of the launch of Astro, broadcasted content will remain subject to government censorship.

MULTIMEDIA SERVICES AND PRODUCTS

The Japanese electronics group Sanyo has launched a new range of hybrid TV sets which offer Internet access. Rival Mitsubishi and Sharp have similar plans, while Hitachi and Matsushita are expected to follow suite.

LEGISLATION AND POLICIES

The Japanese Agency for Cultural Affairs has decided to set up in 1997 a Multimedia Copyright Office to develop ways to protect multimedia-related copyrights in Japan and cooperate with other countries to address the issue at global level.

TECHNOLOGY

The Japanese Ministry of Posts and Telecoms (MPT) has unveiled plans to jointly develop with Japanese and foreign telecoms equipment manufacturers technology for the next generation of cellular phones capable of transmitting both voice and pictures.

Involved foreign companies include Ericsson, Motorola and Northern Telecom.

SOCIAL, SOCIETAL AND CULTURAL

The Association of South East-Asian Nations (ASEAN), which comprises Brunei, Indonesia, Malaysia, the Philippines, Singapore and Vietnam, has failed to agree on a common policy for policing the dissemination of offensive material on the Internet.

At a meeting in Singapore, only the host country advocated a systematic policy aimed at outlawing pornography, hate mail and political opposition material. Malaysia and Thailand instead supported self-policing and minimal government intervention.

Meanwhile, Singapore has launched a new scheme requiring the country's 120,000 private users to connect to the Internet via state-owned computers which check Internet sites against a blacklist of unwanted sites before clearing the communication.

The Chinese government too has taken new steps for controlling the Internet via the official access provider ChinaNet by banning access to a hundred sites managed by US corporations, exiled Chinese and Tibetan dissidents and the Taiwanese government.

AT&T Jans, the Japanese subsidiary of the US telecoms giant AT&T, said it would create by February 1997 a virtual classroom linking 150 Japanese and foreign schools.

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