Information Society Trends
Issue number: 69 - (22.5.1997 - 12.6.1997)

EDITORIAL

Can US telecoms mergers be yet bigger?

According to recent press reports, the US telecoms giant AT&T is holding talks with the US regional operator SBC Communications for a possible $50 billion merger.

This would be the largest such transaction to date. With $75 billion in annual revenue and 230,000 workers, the merged group would dwarf recent US telecoms mega-mergers, in particular Bell Atlantic-Nynex ($23 billion) and SBC-Pacific Telesis ($16.7 billion).

The combination of the two companies' assets would have a strong rationale in a US market perspective as it would allow for economies of scale as well as the capacity to offer complete packages of local, long-distance, international and on-line services.

Instead of having to invest heavily in local infrastructure, the merger would allow AT&T to easily step back into some of America's largest local markets, including the two most populous states, California and Texas, and seven of the 10 largest US cities.

This strong local position would also allow AT&T, which remains by far the leading US long-distance operator with more than 60% of the $80 billion worth US long-distance market, to strengthen its position against arch rivals MCI and Sprint.

AT&T and SBC, which are respectively the first and second-largest US wireless operators, would also be able to strengthen their grip on the wireless market.

In addition, the merged group would be able to offer a full range of on-line services. Indeed, AT&T is a leading provider of cut-rate Internet access and SBC is investing with other Baby Bells in the launch of interactive multimedia services.

Last but not least, with a combined net cash provided by AT&T and SBC's operating activities of $ 13.6 billion, the merged group would have a huge investment capacity.

The global rationale would be weaker as SBC's overseas assets are limited compared to those of AT&T. Furthermore, they could lead to some conflicts of interest.

In France for instance, SBC owns 15% of Cégétel, a new operator that has recently decided to drop its alliance with AT&T and choose the UK operator BT instead.

So the merger would not help AT&T in its struggle to establish itself as a major player in Europe, except in Switzerland, where SBC owns 40% of the new operator Diax.

In any case, the merger would be unlikely to be easily endorsed by US authorities given the size of the involved companies and the fact that the 1996 US Telecom Act bars Baby Bells from entering the long-distance market until significant competition exist in their local market. This is far from being the case in SBC's regions.

By contrast, a merger between AT&T and the US regional operator GTE, which has already been authorised to offer long-distance services, would be more likely to win approval. In fact, AT&T could be trying to put pressure on other potential partners, in particular GTE, with which it is believed to hold separate merger talks.

EUROPE

LEGISLATION AND POLICIES

The European Parliament and the European Union Council of Ministers have adopted a Directive on the protection of consumers with respect to distance contracts, whether they are based on traditional or modern means of communication, for instance mail-order catalogues, direct mailing, fax, automated phone calls, e-mail or the Internet.

The Directive addresses the issues of invasion of privacy, lack of information, inertia selling and payment by card. Financial services will be addressed in a separate Directive.

The Italian government has given the green light to the electricity utility Enel to form a telecoms joint venture with the German operator Deutsche Telekom (DT).

The venture, which would be owned 51% by Enel and 49% by DT, would be the third rival for the incumbent operator Telecom Italia in view of the 1998 liberalisation.

The others are Infostrada (France Télécom, Olivetti, Bell Atlantic and the national railway company) and Albacom, (BT, Banca Nazionale del Lavoro and Mediaset).

The Serbian government has decided to sell-off 49% worth 800 million Ecu of the national telecoms operator Telecom Serbia to the Italian and Greek national operators STET and OTE, which would respectively take 29% and 20% stakes.

NORTH AMERICA

Trends: On the social front, the FCC has adopted rules to provide discounted Internet access rates to US schools. At market level, the key news are Microsoft's involvement in a cable operator, a move that increases its profile as a full-fledged multimedia company, and News Corp.'s decision to lower its satellite TV ambitions in favour of cable TV.

INFRASTRUCTURE

Microsoft, the world's leader in PC software, said it has agreed to invest $1 billion in Comcast, the fourth-largest US cable TV operator with 4.3 million subscribers, in exchange of a 15% stake. It would be Microsoft's first investment in a network operator.

The money would be used to upgrade Comcast's network to fibre optics with a view to connecting 85% of its subscribers with high-speed links by the end of 1998.

The move would thus support the development of broadband networks capable of carrying new interactive multimedia services, a sector in which Microsoft aims to play a increasingly important role as a supplier of both software and content.

MULTIMEDIA SERVICES AND PRODUCTS

The US regional operator Bell Atlantic said that from the summer of 1998 it would offer high-speed Internet access to its customers on the basis of ADSL, a technology that allows for the high-speed transmission of digitised data over regular phone lines.

The move further reinforces the credibility of ADSL as a cheap alternative to fibre optic networks combined with high-speed switching technologies such as ATM for the rapid commercial roll-out of advanced interactive multimedia services.

The US cable news channel CNN, a unit of the US media giant Time Warner, and the US computer group Oracle have launched CNN Custom News, a Web-based news service that allows users to retrieve news on the basis of highly refined profiles.

LEGISLATION AND POLICIES

The US Federal Communications Commission (FCC) has unanimously adopted rules that aim to ensure that all US schools and libraries can afford access to the Internet.

Under the scheme, which implementation modalities have yet to be clarified, schools would enjoy discounts of 20% to 90% on telecoms tariffs. Higher discount rates would be reserved for schools in rural, high-cost and low-income areas.

The mechanism would be competitively neutral in that it would be independent from the technological platform. It would be funded by a Universal Service Fund (USF) which is expected to provide up to $2.25 billion per year starting from 1998.

MARKET AND COMPANIES

Primestar Partners, a US digital satellite broadcasting (DSB) service owned by leading US cable TV operators, agreed to spend $1.1 billion on buying American Sky Broadcasting (ASkyB), a DSB service jointly owned by the US media giant News Corp. and the long-distance operator MCI with respectively 80% and 20% stakes.

As part of the deal, the Primestar partnership would be turned into a publicly-listed company, Primestar Inc., in which News Corp. and MCI would have minority stakes alongside TCI, Time Warner, Cox, Comcast, MediaOne and GE America.

The move would follow the recent collapse of the planned merger between ASkyB and another US DSB service, EchoStar, in which News Corp. was to take a 50% stake.

But rather than starting a costly DSB war with the cable industry, News Corp. has instead decided to strengthen its cable assets with the purchase for $1.7 billion of International Family Entertainment (IFE), the 10th largest US cable TV channel.

The US long-distance operator Excell Communications said it has agreed to merge with its US counterpart Telco Communications in a transactions worth $1.2 billion. The move would consolidate Excell's position as the fifth largest US long-distance company.

TECHNOLOGY

Cyrix, the third largest US microprocessor manufacturer, has unveiled the 6x86MX, a new chip with comparable performance to the 233 MHz version of the Pentium II and the K6 of Cyrix's rivals Intel and AMD, but priced 30% to 50% lower.

SOCIAL, SOCIETAL AND CULTURAL

The World Wide Web Consortium (W3C) has launched the Web Accessibility Initiative (WAI) which aim to promote and achieve greater Web functionality for people with disabilities such as the deaf, the blind and the physically or cognitively impaired, in cooperation with governments, industry and non-profit organisations.

The W3C was formed by the Massachusetts Institute of Technology (MIT) and comprises leading US, European and Asian high-tech firms and research organisation. It aims to promote global communication protocols and reference software for the Web.

ASIA AND PACIFIC

Trends: Asia is increasingly waking up to the multimedia challenge as it illustrated by the creation of an Asian Multimedia Forum and the fact that the largest Thai-Malaysian venture to date is amongst telecoms companies.

MULTIMEDIA SERVICES AND PRODUCTS

A group of 17 Asian telecoms operators led by Japan's Nippon Telegraph and Telephone (NTT) has agreed to set up an Asian Multimedia Forum which would aim at speeding up the development of new multimedia services in the region.

The Forum, which includes companies from Hong Kong, Indonesia, Japan, Malaysia, the Philippines, Singapore, South Korea and Thailand, would in particular work towards securing the interoperability of infrastructures amongst involved countries.

LEGISLATION AND POLICIES

The UK telecoms group Cable & Wireless (C&W) has agreed to gradually give up its 59.5% majority stake in the telecoms operator Hong Kong Telecom (HK Telecom).

The first step would entail the sell-off of 5.5% worth over 1.6 billion Ecu to China Telecom, a unit of the Chinese Ministry of Posts and Telecoms. This would be followed by further sales until C&W and China Telecom both own 30% of HK Telecom.

In exchange, C&W would become the main investor in China Telecom's newly formed Hong Kong unit, China Telecom (Honk Kong), which main assets are two mobile-phone businesses. This could give C&W indirect access to China's huge telecoms market, which remains closed to foreign investors.

The Australian National Competition Regulatory Agency said it has decided to substantially cut network access fees charged by the state-owned telecoms operator Telstra when the country's telecoms market is fully liberalised on 1 July 1997.

Fees would be cut by 38% during peak hours and 49% during off-peak hours in order to create favourable conditions for new entrants in local and long-distance services.

The sector is currently dominated by Telstra and Optus Communications, in which the US and UK operators BellSouth and Cable & Wireless own a stake.

MARKET AND COMPANIES

The Malaysian telecoms operator Telekom Malaysia has agreed to invest 225 million Ecu in the Thai telecoms group Samart Corp. against a 20% stake in Samart and a 33% stake in its mobile subsidiary, Digital Phone Co. The venture, which would be the largest ever between a Thai and a Malaysian company, would aim at accelerating the development of multimedia products and services in the region.

The market for Japanese Type I carriers, i.e. operators which provide telecoms services based on their own infrastructure, has increased by a record 21% in 1996 according to an annual survey of the Japanese Ministry of Posts and Telecoms.

SOCIAL, SOCIETAL AND CULTURAL

The Vietnamese government has issued complex regulation requiring all Internet users to receive a license from the Ministry of Culture and Information before posting information on a Web site. The provision of information that is inconsistent with the license could lead to the licence's removal, a fine or even imprisonment. Foreign entities such as news agencies, embassies and international or non-governmental organisations would have to receive an additional permit from the Ministry of Foreign Affairs.

LATIN AMERICA

LEGISLATION AND POLICIES

The Panama government has agreed to sell-off 49% of the state-owned telecoms operator Instituto Nacional de Telecomunicaciones (Intel) to the second-largest UK telecoms operator Cable & Wireless (C&W) for 565 million Ecu.

WORLD-WIDE

SOCIAL, SOCIETAL AND CULTURAL

A Conference of Francophone Ministers on info-highways held in Montreal on May 19-21 adopted a Declaration and an Action Plan aimed at supporting the development a francophone education, training and research area on the Internet.

France proposed that 4.5 million Ecu be eventually injected in the Multilateral Fund of Francophonie for promoting the French language in cyberspace. Currently, only 6% of all Web servers are francophone and French is only the Internet's fourth language with 1.8% of all Web pages after English (84%), German (4.5%) and Japanese (3.1%). Quebec is the francophone region with the largest number of Web sites (6,000).

Previous issues

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