Information Society Trends

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EDITORIAL

AT&T beefs up local loop strategy

The US telecoms giant AT&T is stepping up its aggressive strategy to enter the lucrative US local phone market by joining forces with the second-largest US cable TV operator Time Warner. At the heart of the partnership would be the setting up of a joint venture owned 77.5% by AT&T and 22.5% by Time Warner. It would offer phone services to the 20 million US homes passed by Time Warner's cable TV network. Broad commercial roll-out is to take place in 2000. The two partners have also agreed to jointly develop, test and market cable-based broadband services such as video telephony.

The joint venture would acquire exclusive rights to offer residential and small business phone services over Time Warner's cable systems for 20 years in exchange of a $15 fee paid to Time Warner per home passed. Time Warner would remain responsible for upgrading its cable network to support two-way communications. It expects 85% of the upgrade to be completed by the end of 1999 and 100% by the end of 2000.

The move follows AT&T's decision in mid-1998 to merge with the leading US cable operator TCI in an all-stock transaction valued at about $48 billion. The aim was to gain direct access to the 33 million US homes passed by TCI's network. The merger would also give AT&T a controlling stake in @Home Network, a US joint venture specialised in high-speed Internet access over cable networks, which recently agreed to spend an estimated $6.7 billion on purchasing Excite, one of the world's most popular Web portal.

Combined with the TCI merger, the alliance with Time Warner would give AT&T access to over 40% of US households over the next four to five years. This would give a significant boost to AT&T's strategy to rapidly enter the $100 billion worth US local market by bypassing the need to either pay access charges to regional telecoms operators – the Baby Bells – or to heavily invest in a local network. The reliance on cable networks would allow AT&T to offer broadband services such as high-speed Internet access.

AT&T, which is already the leading US supplier of long-distance and wireless services, would thus become the only US company to be able to offer an integrated package of communications services on a nearly nation-wide basis through a new subsidiary, AT&T Consumer Services. AT&T's strategy also strongly suggests that cable networks are the fastest route for new entrants into the local loop market.

The move is a direct outcome of the 1996 US Telecoms Act, which reshapes the US telecoms landscape through numerous alliances and mergers, some of them of great magnitude, for instance SBC-Ameritech ($62 billion), WorldCom-MCI ($37 billion), Nynex-Bell Atlantic ($25.5 billion) and SBC-Pacific Telesis ($16.5 billion). But none of these ventures offers the prospect to truly bring the benefits of liberalisation to the consumer. Indeed, the emphasis has so far been on consolidation rather than fostering competition. But things may change as AT&T increasingly emerges as a very powerful competitor for Baby Bells, most of which are still in a monopolistic situation.

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EUROPE

Trends: Key market news in Europe include a BT-Microsoft alliance in mobile IP services and a Bertelsmann-Havas in on-line book selling. At government level, Sweden and Norway announced the planned merger of Telia and Telenor, while the Commission unveiled plans for a Europe-led GNSS system, Galileo.

MULTIMEDIA SERVICES AND PRODUCTS

The leading UK telecoms operator BT and the world's leader in PC software Microsoft said they have agreed to jointly develop a new range of Internet, Intranet and corporate data services for mobile users around the world. Trials would begin in Britain in the spring of 1999 in view of commercial roll-out in several countries in early 2000. The services would be marketed by Microsoft, BT and BT's global corporate service arm Concert. The services would be based on Microsoft's Windows CE operating system (OS) for wireless devices. The alliance therefore represents important support for Microsoft in its struggle to impose Windows CE as a de facto industry standard against rival EPOC, an OS promoted by Psion, a leading UK maker of hand-held computers.

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The German and French media and publishing giants Bertelsmann and Havas said they have agreed to set up a 50-50% owned joint venture, BOL France, specialised in on-line French-language book selling. Bertelsmann is already very active in this market through the German-language on-line bookstore, Boulevard Online, the Europe-wide on-line bookstore, Books

Online (BOL), and a 50% stake in Barnes & Noble.com, the on-line bookstore of the largest US book retailer Barnes & Noble. It competes with the US pioneer Amazon.com in the German and English-language markets. But Amazon.com hasn't yet made its move into French-language book selling.

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The pan-European music TV channel MTV Networks Europe and The Fantastic Corporation, a Swiss-based leader in Internet Protocol-based broadband multimedia software and services, said they would jointly develop an interactive music channel for broadband networks. Commercial launch is foreseen for the second half of 1999.

MARKET AND COMPANIES

The US computer giant Microsoft said it has agreed to invest 430 million euro in NTL, Britain's third-largest cable operator, and 260 million euro in Dutch-based United Pan-European Communications (UPC), a unit of America's United International Holdings, Europe's largest private cable TV operator. The moves are part of Microsoft's strategy to develop broadband services over cable TV systems.

LEGISLATION AND POLICIES

The Swedish and Norwegian governments said they intend to merge their respective public-owned incumbent operators, Telia and Telenor. The merged group could explore global alliances after an initial public offering to take place before the end of 2000, which would leave the two governments with a 33.4% stake each in the enlarged group.

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The European Commission has called upon European Union Member States to give their political and financial backing to Galileo, a project which would aim at developing a Europe-led state-of-the-art Global Navigation Satellite System (GNSS). Galileo, which would cost between 2,2 and 2,9 billion euro, would aim at putting Europe in a position to capture a fair share of a world market to be worth up to 40 billion euro within a few years. It would also avoid depending upon existing satellite systems, the Global Positioning System (GPS) and Glonass, respectively under US and Russian military control. GNSS-based signals are used to manage air and sea traffic and offer great potential for road traffic management, farming, fishing, fraud prevention, infrastructure planning, mineral exploration and land surveying. Galileo would be developed on the basis of a private-public partnership with significant funding from the EU trans-European networks budget and the research programme, and the European Space Agency (ESA).

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The European Commission has approved the entry of the US telecoms equipment manufacturer Motorola in Symbian, a joint venture set up in August 1998 by Britain's Psion, a leading manufacturer of hand-held computers, and two world leaders in mobile phones, Finland's Nokia and Sweden's Ericcson. Symbian aims at promoting Psion's EPOC operating system as an industry standard for wireless communication devices. As a result of the alliance, Psion's shareholding in Symbian would be reduced to 30.7% from currently 40%, while Ericsson, Nokia and Motorola would have a 23.1% stake each.

NORTH AMERICA

Trends: The market frenzy surrounding Web portals intensified in the USA with two new major ventures: Yahoo!-Geocities and Lycos-USA Networks. At policy level, the US Supreme Court ruled that the FCC and not federal states shall fix interconnection rates.

INFRASTRUCTURE

Globalstar, the global wireless phone system led by America's Loral Space & Communications, is back on-line after the successful launch of a first series of four satellites. Globalstar was dealt a serious blow last summer when 12 satellites were destroyed due to the failure of an Ukrainian-made Zenit rocket. Globalstar said it would have 32 out of 48 satellites in orbit by the end of July. Commercial roll-out is to take place in September 1999, exactly one year after its main rival Iridium LLC.

MULTIMEDIA SERVICES AND PRODUCTS

The US computer giant IBM and five US and European music majors, BMG Entertainment, The EMI Group, Sony Music, Universal Music Group and Warner Music Group, said they agreed to team up to test the on-line delivery of full-length, CD-quality music albums over the Internet. The trial would be conducted in San Diego with 1,000 cable modem subscribers over six months and would start in the spring. Consumers would be allowed to purchase and download music from a selection of 2,000 albums. A narrowband test over regular phone modem is also to be conducted.

MARKET AND COMPANIES

Yahoo!, the world's leading Web portal with a 48% audience, said it has agreed to spend $4.6 billion on buying another leading Web site, GeoCities, which offers personal Web home page publishing services and has a 34% audience. The move aims at consolidating Yahoo! as the Internet's most powerful brand name.

Meanwhile, Lycos, the second-leading Web portal with a 46.5% audience, said it has agreed to be integrated into a new group, USA/Lycos Interactive Networks, jointly set up with the US media group USA Network. USA/Lycos would be owned 61.5% by USA Networks, 30% by Lycos and 8.5% by Ticketmaster Online-Citysearch, a leading US provider of Internet city guides, advertising and ticketing controlled by USA Networks USA/Lycos would combine the three groups' electronic commerce and Internet activities.

These would be the two latest in a series of recent ventures that are rapidly reshaping the Internet industry. This includes the $4.2 billion worth merger between America Online (AOL), the world's leading on-line service, and Netscape, a leader in Internet browsers, and the $6.7 billion worth purchase by @Home Network, a US joint venture specialised in high-speed Internet access over cable networks, of the Web portal Excite.

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EDS, the world's second largest information technologies (IT) services provider after IBM, said it has agreed to spend $1.65 billion on purchasing MCI Systemhouse, the computer services unit of the second-largest US long distance operator MCI WorldCom. The deal is part of a larger agreement between the two companies. In a 10-year accord, MCI WorldCom agreed to outsource major portions of its IT services to EDS. As for EDS, it would outsource the bulk of its communications services to MCI WorldCom. Furthermore, EDS and MCI WorldCom said they intend to jointly develop network solutions for corporations and government worldwide.

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The US regional operator SBC Communications has said it would buy the wireless business of the cable operator Comcast for $400 million in cash plus $1.3 billion in debt.

TECHNOLOGY

Cisco Systems, the world's leading networking group, and the US telecoms equipment maker Motorola, said they have agreed to jointly develop an Internet Protocol (IP) platform that would integrate different existing wireless standards for the provision of data, voice and video services over cellular networks.

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Four leading US computer, telecoms equipment and networking groups, Cisco Systems, Lucent Technologies, Network Associates and Sun Microsystems, said they have agreed to team up within the Security Research Alliance, to engage into advanced security research aimed at securing the desktops and networks of the future.

LEGISLATION AND POLICIES

The US Supreme Court has ruled that the 1996 US Telecoms Act authorises the US Federal Communications Commission (FCC) and not the federal states to set rules governing interconnection rates. The decision is a setback for the five regional US telecoms operators – the Baby Bells – which hoped to be able to maintain high access charges to their local networks for new entrants in the local phone market. The Supreme Court's decision reversed the ruling of a St. Louis Federal Appeals Court.

ASIA AND PACIFIC

Trends: Telecoms liberalisation is bearing its fruits in Japan too with intensified competition and new entries, in particular in the high-speed communication market.

MARKET AND COMPANIES

Competition in the high-speed communication market is set to heat up for the incumbent Japanese telecoms operator Nippon Telegraph and Telephone (NTT) as a growing number of companies intend to step up in this market. The latest announcement came for the Japanese long-distance and mobile operator DDI with plans to offer cut-price high-speed communications by mid-2002. Other operators such as Kokusai Denshin Denwa (KDD) and Japan Telecom have already announced similar plans, as well as the power utility Toko Electric.

Separately, 10 local Japanese telecoms companies, including Tokyo Telecoms Network, Osaka Media Port and Chubu Telecoms, unveiled plans to jointly build a high-speed network in 1999 to provide Internet services. The operators would also lease capacity to Japanese and foreign telecoms groups. The move comes in recognition of the necessity for smaller operators to join forces to rival NTT and other larger operators.

Meanwhile, the Internet service provider Internet Initiative Japan (IIJ), the car giant Toyota and the electronics giant Sony, have confirmed plans unveiled in late 1998 to set up Japan's first company specialised in high-speed corporate data communications services, Crosswave Communications (CWC). The joint venture is to roll out services over its own network in April 1999 in the Tokyo-Nagayo-Osaka corridor, and would cover the whole of Japan by March 2000. CWC would charge prices about one half of those of NTT. CWC is to be owned 40% by IIJ and 30% each by Toyota and Sony.

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The Japanese electronics giant Sony is to form a data broadcasting joint venture, IBC, with other Japanese groups such as Dentsu, Fuji TV Network, Mitsui, and Nippon Telegraph and Telephone (NTT) in order to supply interactive video, music, shopping and Internet services directly to TV sets. Sony would have a 44% majority stake in the venture. The service would be offered as early as this summer over the satellite system of SkyPerfect TV, a digital satellite broadcasting (DSB) group in which some of IBC shareholders, including Sony and Fuji TV, own a stake.

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The Japanese telecoms giant Nippon Telegraph and Telephone (NTT) has said it would strengthen its overseas data communications business, mainly by tying up with foreign operators. In South-East Asia, NTT would form alliances with the Communication Authority of Thailand, Telekom Malaysia Berhad and PT Indonesia Satellite. In Brazil, NTT would roll-out services by June 1999.

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