

Information Society Trends Issue number: 57 - (25.7.96 - 4.9.96)

## EDITORIAL

### MFS-WorldCom merger creates new world telecoms giant

WorldCom, the fourth largest US long distance operator, has agreed to spend \$12.4 billion on buying MFS Communications, a US provider of corporate telecoms services which owns fibre optic networks in 40 US cities as well as several European capitals.

The merger, worth \$19.4 billion, would mark further concentration of the US telecoms industry following the adoption of the 1996 US Telecoms Act which liberalises the US communications market by allowing long distance operators, regional telecoms operators (Baby Bells) and cable operators to enter each other's business with only few restrictions.

The venture, to be called MFS-WorldCom, would have a head start of rival US operators in the race for providing a full range of telecoms services. Indeed, it would immediately combine a long distance and local networks while competitors have yet to finalise complex interconnection accords and meet regulatory requirements.

MFS-WorldCom would also already have extensive operations in key European financial centres, in particular London, Frankfurt, Paris, Stockholm and soon Amsterdam, while rival US groups have to create partnerships with European operators, for instance Concert, Global One and UniWorld, to get a foothold in Europe ahead of liberalisation.

A third major asset would be MFS' strong Internet operations following the purchase for \$2 billion in May 1996 of UUNet Technologies, a leading US provider of Internet access for businesses in which Microsoft owns 13%. UUNet is also present in Europe with its subsidiary Unipal Pipex, Britain's leading provider of corporate Internet access.

Hence, MFS-WorldCom looks set to become a world player in the fastest growing segments of the communications market: corporate voice, data and video services as well as the fast emerging market for Intranets, Internet-based private corporate networks.

The venture will also generate economies of scale allowing MFS-WorldCom to invest more heavily in local fibre optic networks. Within five years, it expects to own fibre optic networks in 45 financial centres around the world, including the Asia-Pacific region.

The WorldCom-MFS deal would be the fourth giant merger between US network operators in 1996 after the announced mergers between the Baby Bell US West and the cable TV operator Continental Cablevision (\$10.8 billion), the Baby Bells SBC and Pacific Telesis (\$17 billion) and the Baby Bells Nynex and Bell Atlantic (\$22 billion).

Large mergers amongst operators had not been on the agenda since the collapse in 1994 of a \$33 billion worth merger between Bell Atlantic and the largest US cable operator TCI and a \$5 billion worth merger between SBC and the cable operator Cox.

But in 1995, huge mergers had been announced in the media industry in anticipation of liberalisation, in particular between Walt Disney and Capital Cities-ABC (\$19 billion) and between Time Warner and Turner Broadcasting System (\$8 billion).

## EUROPE

Trends: At the political level, the European Commission has launched the consolidation of its information society strategy. On the market front, the main focus is on digital TV, with Kirch consolidating its position as key European player with new moves in Germany and in Spain. As for Kirch's partner BSKyB, it plans to enter the Internet market. Finally, Vebacom is taking new steps to strengthen its infrastructure.

## INFRASTRUCTURE

Vebacom, a telecoms joint venture of the British telecoms group Cable & Wireless and the German industry conglomerate Veba, was reported to be negotiating 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.

In January 1996, Vebacom had already agreed to form a 50-50 joint venture with Mannesmann Eurokom, the telecoms arm of the German industrial group Mannesmann, to develop a telecoms infrastructure in Germany.

## MULTIMEDIA SERVICES AND PRODUCTS

The British TV group BSKyB, a subsidiary of the US media giant News Corp., has unveiled plans to offer high-speed Internet via the TV set to subscribers of its digital satellite broadcasting service, which is due to be launched before the end of 1996.

Internet access would be offered via the digital decoding box, which would have the computing power of an average PC and a

high-speed modem.

The content of the Net's most popular sites would be transmitted via satellite to the set-top box, thus allowing viewers to visit them. Alternatively, connection to the telecoms network via the modem would offer real interactivity. BSkyB is also planning to offer interactive services such as home shopping and home-banking.

## LEGISLATION AND POLICIES

The European Commission has adopted a policy package consisting of two communications, a Green Paper and a draft directive with the aim of updating, consolidating and re-adjusting its information society strategy.

The first communication analyses the implications of the information society for Community policies and proposes to update and consolidate the 1994 Action Plan. It identifies the following new priorities: improving the business environment; investing in the future; emphasising the people's dimension; and setting global rules.

The second communication examines how the best possible conditions can be created to draw the standards needed for the implementation of the information society. The emphasis is on market-led standardisation while preserving consumer interests.

The Green Paper "People first: Living and working in the information society" addresses key social challenges raised by the information society. It invites comments and debate on issues such as education, work organisation, employment and social cohesion.

Finally, the draft directive aims at setting up an information and cooperation mechanism between the Commission and the Member States to prevent inconsistencies and obstacles that could arise from proposed national rules for new services.

## MARKET AND COMPANIES

The German TV giants Bertelsmann and Kirch have agreed to settle their dispute over rival decoding technology for digital satellite broadcasting and to develop a common set-top box that would be marketed by Primus, a Kirch-led consortium.

Bertelsmann would be offered a stake in Primus, which also comprises the telecoms group Vebacom and the Swiss retailer Metro. But the respective roles of Primus and of the rival Bertelsmann-led consortium Multimedia Betriebsgesellschaft (MMBG), which comprises amongst others the German telecoms operator Deutsche Telekom, the French pay-TV group Canal+ and the European media group CLT, have yet to be clarified.

The German TV group Kirch and the German TV channel RTL Plus, a subsidiary of the German giant Bertelsmann and the European media group CLT, have gone on separate shopping sprees in Hollywood to buy film rights from US studios.

Kirch has agreed to spend 0.75 billion Ecu on buying film rights from MCA and has concluded a contract thought to be much larger with Walt Disney for both film rights and a tailor-made version of the Disney Channel. Earlier this year, Kirch had agreed to set up a five-year partnership with Viacom and to buy film rights from Warner Bros.

As for RTL Plus, it has agreed to buy 1.2 billion Ecu worth of MCA film rights and to co-produce at least 25 TV series with MCA over the next years.

Spain's national telecoms operator Telefonica and the German TV group Kirch have agreed in principle to set up in Spain a joint venture specialised in digital satellite broadcasting (DSB) in which they would invest over 900 million Ecu.

The move is part of Telefonica's strategy to be present in all segments of the emerging multimedia market. It would hold the controlling stake in the venture, which could also be joined by the UK TV group BSkyB, already a Kirch partner in German DSB.

The British TV group BSkyB, a subsidiary of the US media giant News Corp., has agreed to take a 25% stake in Germany's pay-TV channel Premiere alongside the German media groups Bertelsmann and Kirch, and France's Canal+, with 25% each.

The US TV group Central European Media Enterprises (CME), which co-owns commercial national TV channels in the Czech Republic, Romania and Slovenia as well as local channels in Germany, has launched a new TV channel in Slovakia, TV Markiza.

CME is the market leader ahead of rival state-owned channels in Central Europe. It has secured broadcasting licenses in Ukraine and is seeking licenses in Poland and Hungary

## NORTH AMERICA

Trends: The key event is Netscape's move to build upon its leadership in PC Internet navigation software to set a standard for connection to the networks of a wide range of products. Separately, the US Decency Act was slammed again by a US court.

## MULTIMEDIA SERVICES AND PRODUCTS

Netscape, the world's leader in Internet navigational software, has created a subsidiary specialising in the simplification of

its Navigator software so that it can be used in all sorts of communication and electronic appliances that could connect to the networks.

The move suggests that Netscape is now moving its rivalry with arch-rival Microsoft from the domination of the PC-related navigational software market to the prospective, but highly promising market for easy-to-use navigation interface for all sorts of products such as phones, TV sets, game stations, TV decoders, car dashboards, etc.

Netscape is thought to have the support of several leading US and Japanese high-tech firms including IBM, Oracle, NEC, Nintendo, Sega and Sony.

All operations of America OnLine, the world's largest commercial on-line service, were interrupted for almost 19 hours on August 7 following a software glitch that affected 6 million subscribers worldwide in what appears to be the largest on-line crash ever.

## LEGISLATION AND POLICIES

For the second time since the adoption in February of the 1996 US Telecoms Act, a US Federal Court ruled that legal provisions outlawing the transmission over computer networks of indecent or patently offensive material to minors, the so called Communications Decency Act, are unconstitutional as they breach freedom of speech protected under the American Constitution's First Amendment.

The US Federal Communications Commission (FCC) has adopted a plan that allocates radio frequencies in the so-called "28 GHz band" (27.5-30.0 GHz) for the provision of broadband interactive voice, data and video services for providers relying on the Local Multipoint Distribution Service (LMDS) technology or satellite systems.

The plan aims at fostering the development of new broadband service providers well-suited to compete in the US and global marketplaces, which will supply customers with a wide range of new wireless, two-way, high-speed, multimedia services.

## ASIA AND PACIFIC

Trends: The Japanese government has launched two new information society initiatives, respectively in the fields of regional infrastructure and university networks. Separately, Fujitsu, Hitachi and NEC are jointly developing a technology to promote electronic commerce in Japan.

## INFRASTRUCTURE

The Japanese Ministry of Posts and Telecoms (MPT) has launched plans to develop a Regional Multimedia Highway building upon Japan's cable TV infrastructure to provide low-cost, high-speed Internet access to consumers and schools.

The MPT would set up a new committee to complete the project by April 1998.

## MULTIMEDIA SERVICES AND PRODUCTS

The South Korean computer maker Acer has entered the market for cheap and easy-to-use PCs aimed at specific consumer needs with the launch of AcerBasic, which is aimed at first-time buyers in developing countries. Priced 400 Ecus, it uses a TV set as a monitor and offers Internet access, a concept that is close to that of Network Computers.

It will be followed in 1997 by AcerEden, a 400 Ecu worth education and game PC with Internet access, and AcerKid, worth 155 Ecu and aimed at children aged two to six.

## TECHNOLOGY

Three leading Japanese electronics companies, Fujitsu, Hitachi and NEC, have agreed to jointly develop a technological platform, the Secure Electronic Commerce Environment (SECE), to secure commercial and financial transactions on the Internet.

SECE would be compatible with Secure Electronic Transactions (SET), the system for on-line payments developed by the US credit card giants Visa and MasterCard with the support of leading US high-tech firms such as GTE, IBM, Microsoft or Netscape.

SECE would cater for the specific needs of the Japanese market with, amongst other things a Japanese-language interface. Given the scope of the alliance, the system, to be operational by September 1997, could become a de facto standard in Japan.

## SOCIAL, SOCIETAL AND CULTURAL

The Japanese Ministry of Education (MoE) has unveiled plans to link all state-funded universities via a satellite communications system, the Super Collaboration System (SCS), to allow for joint classes and remote participation in lectures.

The MoE could eventually extend the system to high schools.

## AFRICA AND MIDDLE-EAST

### MARKET AND COMPANIES

The Egyptian Chamber of Cinema and the Egyptian government are drafting a plan to salvage the ailing Cairo film industry, the so-called Hollywood of the Arab world.

While Egypt's cinema was still producing over 80 movies a year in the late 80s with a peak of over 100 in 1988, production fell to 13 films in 1995. In parallel, the number of movie theatres fell from over 450 to about 150, most of them in bad conditions.

The blame is on pirating, mostly in the Middle East and the USA, the advent of satellite TV and video rental, raising taxes and property value, and skyrocketing production costs.

The plan would build on three pillars: availability of government land at discount price to build new cinemas; scrapping of all taxes on the movie industry for 10 years; government action to protect copyrights outside of Egypt. In addition, the Chamber of Cinema and two leading banks would launch a new entertainment group, the Egyptian Cinema Company, which would build movie theatres and studios, and produce films.

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