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Which European Strategy for Telecommunications?

Titu I. BAJENESCO, La Conversion

Zusammenfassung

Welche europäische Strategie für die Telekommunikation?

Vor dem Hintergrund der internationalen Politik und Wirtschaft versucht der Autor, einen Überblick der Möglichkeiten zu geben, wie die europäische Telekommunikationsindustrie, Netzbetreiber und Dienstanbieter in einer dauernd sich ändernden Umgebung bestehen können.

Résumé

Quelle stratégie l'Europe adopte-t-elle en matière de télécommunications?

Devant la toile de fond de la politique et de l'économie internationales, l'auteur tente de donner un aperçu des possibilités offertes à l'industrie des télécommunications européennes, aux exploitants de réseaux et aux fournisseurs de prestations confrontés à une mutation constante de l'environnement.

Riassunto

Quale strategia europea per le telecomunicazioni?

Tenendo conto della politica e dell'economia internazionali l'autore cerca di dare una visione generale di come l'industria europea delle telecomunicazioni, i gestori di rete e i fornitori di servizi possano sopravvivere in un ambiente in continua trasformazione.

Summary

Which European Strategy for Telecommunications?

On the background of international politics and economy, the author tries to give an overview of the possibilities for European telecommunications industry, network operators and service providers to survive in a constantly changing environment.

Introduction

The final negotiations on telecommunications within the framework of the GATT Uruguay Round clearly reveal the *strategic stakes* involved today in the implementation of new commercial and regulatory rules in the world market for communications services. Although the position of the USA dominates the progress of these negotiations [1], it has not failed to make us aware of the numerous *strategic implications* [2] bound up with the result of this multilateral exercise. It is by exploiting the favourable tactical position that it was able to acquire during the negotiations, not forgetting to take account of the indirect strategic stakes which are in question, that Europe must win acceptance for a conception and balanced practice of international trade in telecommunications. The principal task has been to introduce into the GATT framework similar procedures tho those now being adopted within the Community. The contents of the telecommunications annex adopted within the future GATS (General Agreement on Trade in Services) are indeed expressed in a very 'European' language. Representatives of the Community have succeeded in having *telecommunciations services,* which are both *services in themselves* as well as *supports for other services,* recognized as a specificity[1].

In view of the *globalization* taking shape in the realm of services, this policy might appear too cautious, conservative and *stripped of any strategic vision* contributing to the opening-up of world markets. If it fails to display any development, the risk of seeing certain weakened European operators surviving only as suppliers of commonplace services at *falling prices* cannot be overlooked. Different scenarios should be imagined which are more likely to energize the operators and ensure a *competitive strategy* embracing services and equipment. Therefore it is necessary to explore the connections that may exist between the formulation of European telecommunications policy and the European attitude in the relevant international forums, both for institutional and industrial issues.

International negotiations[2] at institutional level

1. The respective roles of the national governments of Europe, of the community organs, of the ITU, CCITT, CEPT and of GATT which are at stake. Changes in the regulatory environment are putting the functioning of multinational cooperation to the test in such a degree as to justify assessment. For this, it is necessary to determine the *costs* of multilateral

[1] From this specificity, two factors have emerged: 1. the need for Open Network Provision (ONP) and 2. the recognition of the necessity for developing countries to create their own infrastructure. However, the combination of 'reserved' services plus ONP — on one hand — and the 'open' services — on the other —, could not eliminate the question of an offensive european telecommunciations strategy.

[2] International negotiations are becoming increasingly complex and the results more uncertain because of the existence of several dimensions of complexity.

methods of operation and the *profits*[3] deriving therefrom, compared with a more fragmented market where bilateral transactions would occupy a larger place.

The factors which have facilitated *multilateral co-operation*[4] within the field of telecommunications are extremly powerful. As long as there were only *state monopolies,* international communications could only be ensured by means of joint agreements. Obviously, a *multilateral standardization*[5] of the clauses of these agreements makes them easier to follow and respect.

Today, ideological differences and competition are becoming more pronounced; true in the case of the ITU; it is even more so when Intelsat and CEPT are concerned.

2. The other dimension of complexity, which is instilling a sense of disquiet in those whose world is telecommunications, is the inclusion of their activity, considered as specific for a century, in the potlatch of the GATT negotiations on goods and services, resulting inevitably in a process of bargaining, in which different sectors, e.g. agriculture and telecommunications, are mixed together.
3. The third dimension is the end of the systematically direct representation of telecommunications operators by the government with the introduction of varying forms of 'denationalization', 'liberalization of competition' or 'privatization', and the appearance of the corresponding players on the scene. Although equipment suppliers and operators were already represented, de facto, in the ITU standardization committees, this multiplicity has created a new element in the functioning of GATT and transformed the CEPT into a regulatory organization, while European operators have created their own structure. The general implementation of the Maastricht decisions will be combined with specific Community choices regarding the role of Brussels in the telecommunications sector and the legal means to back it.

Search of new markets; analysis of the internationalization/ multinationalization process; competitive strategies

To what degree can a comparison be drawn with the international development of other sectors of activity in recent decades? Some operators can be seen accompanying equipment suppliers in the *creation of R&D centres* (software, optoelectronics) in Central and Eastern Europe in order to take advantage of the access to cheap, qualified manpower. With regard to the *search of new markets,* this goes hand in hand with a circumvention of current protectionist barriers to give operators a place beyond their own borders. The *exploitation of competitive advantages* (product cycle) is a further powerful factor, with the simultaneous aim of creating technological and financial strike forces (critical mass). Lastly, the *provision of global services for the global customer* is an important factor in the restructuring process[6].

These different international actions follow various paths:

a) in the case of traditional monopolies, a reliance on interconnected international lines in which they are strongly rooted

b) the beginning of 'globalization' in certain markets on a technological basis (use of satellites) or in an open market segment (value-added services, EDI)

c) participation in the activities of foreign national operators (Argentina, Australia, Chile, Mexico, Venezuela)

d) the provision of new services in some countries where there is relatively little know-how (mobiles)

e) otherwise, independently of the acceptance of competition in the value-added services market, competition is also being introduced into the *rapidly expanding market sectors* comprising *mobiles, cables and satellites.*

Among these forms of action, only one possesses a truly *global characteristic,* tending towards the provision of one or more services on a worldwide scale, while the others are of a multilocal nature conducted in juxtaposition with similar activities in several countries, but each within an individual framework. It should be noted, however, that for an activity with a *great connectivity potential* this distinction is weaker than in other sectors: accompanied by technical and regulatory development, the addition of these multi-local operations could result in a *global activity* [3]. A process of this nature[7] will give birth tomorrow to major, *multiactivity international operators,* with others occupying niche markets and the rest being confined to stagnant markets or left without suitable echo to the customer requests.

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[3] The profits depend on the intrinsically multilateral character of the activity concerned, on the specificity of the infrastructures and on the nature of the resulting contracts.

[4] Moreover, this cooperation is further facilitated when the number of participants is limited (one for each country), when each has direct control on his environment, when technical change occurs gradually and when there is consensus on the technique and nature of public services.

[5] The role of the ITU has been called into question by operators who claim to be able to ensure the provision of international services defined by themselves, without following the path of multilateral standardization.

[6] In an endeavour to adapt themselves to the size and structure of the market, operators are involving themselves in a mimetic development: to supply the major world companies, it is necessary to resemble them. It is estimated that there are between 200 and 300 operators in the world at present, obliged to work in a situation of dynamic competition (newcomers, establishment of companies, a high mortality rate, mergers, takeovers and the beginning of concentration into large groups) — on one hand — and on the other 'new' processes such as agreements and creation of consortia and 'networks' of diversified alliances.

[7] In all other principal sectors (electronics, information processing and telecommunications equipment, cars, chemicals, petroleum), there are 12 to 20 companies which shape activities on the world plane in a significant fashion, following the paradigm of competition among the few.

Although alliances certainly play a role in this context, it is *internal and external growth* that *predominates.*

European attitude

To define an European attitude on the international telecommunications scene, it is necessary to meet following legitimate *objectives:*

(i) to provide persons and firms in Europe with *access to the best services at the best prices*

(ii) to *improve the competitiveness of operators* in the telephone and network sectors and in the many services which have yet to prove their validity or which are still to be defined

(iii) to *maintain the growth of its strong equipment industry* by permitting to a satisfactory number of European companies to retain a place in the world equipment oligopoly (as is the case at present)

(iv) to make sure that European telecommunications operators are among the 12 to 20 of a future oligopoly, which is the case today and which should remain so.

This means, naturally, that there must be no time-lag[8] or absence of coordination between a hasty policy of market liberalization and an insufficient degree of competitiveness of European communication firms. It is not sure, however, that keeping to the juxtapositioning of state monopolies is sufficient for the creation of a 'market place'. Whatever their past or present technological performance, some of the monopolies remain exposed to the dangers which traditionally threaten monopolistic organizations. They may be tempted to adopt predatory tariff policies either on pace-keeping grounds or to profit from their past or present technical excellence; another danger will be to rest on one's laurels.

There is a strong interaction between the industrial success of prosperous equipment manufacturers and the financial capacity of the operators (who constitute their principal clients). In this respect, the essential question is thus one of *date and tempo* which must combine

a) the continued development within the communication and transmission equipment industries and the strengthening of terminal equipment manufacturers; and

b) at the same time, an *increase in the strength of European operators,* both on the continental and international level.

[8] This time-lag would result in a invasion of European conduits by noncommunity information suppliers.

[9] In the industralized countries, the notion of a *universal public telephone service* has remained a simple notion only where there is essentially one single supplier. In the *developing countries,* the problem is how to remedy the deficiencies in communications.

Elements of European strategy

To be competitive, a European strategy [4 to 8] must comprise *three inseparable elements: public service[9], transborder operators and competition.* The present technological proliferation on one hand, and the combination of delays and technological leaps on the other, are thus now creating widely varying conditions. The recent historic experience in Central and Eastern Europe prompts us to think otherwise. One cannot believe that a general availability of telephones is sufficent to create a democracy and make it work, although it must be admitted that it helps[10].

It would be a better bet for Europe and European *(transborder) operators* to contemplate a recomposition of their landscape, close alliances[11], a pooling of means, the provision of suitably scaled common services in well-defined sectors. This exercise of exceptional scope and speed presupposes absolutely top level strategic and managerial capacities. Human resource management — an activity often neglected in an environment with a highly technical culture — must reconcile hard reconcilable demands:

- to become more competitive
- to link technical culture and research with commercial applications
- to ensure internal and external flexibility
- to maintain the confidence of staff in the management and their leaders.

They will have to prove this know-how with regard to customers, competitors, shareholders and suppliers of capital for activities whose needs are among the greatest. It is not surprising to discover a race in the search for managerial structures capable of meeting these objectives, a race which is accompanied by a trend towards a break-up of organization and market structures.

The European position [5] in international negotiations on services must not let go of the prospect of seeing the creation of large European telecommunications firms with world coverage. Until this happens, there may be justification in wishing to keep networks and basic telephone services for a 'reserved' category to be excluded from the general framework of the liberalization of exchanges. The next step, however, which should follow as soon as possible, could be the development of this prospect. The acceptance of a system of 'reserved' services within a

[10] As was recently emphasized by the Secretary-General of the ITU [4] *the freedom of communication is a corollary to the freedom of expression and information* and — as such — should be included in the texts of the United Nations. It would be a positive factor if communication could find a framework within GATT that would give it an improved role in world exchanges. The discussions concerning 'the most favoured nation' began during 1989 and — on 31 March 1990 — USA submitted to the *Group of Negotiations on Services* (GNS) a draft proposal to supplement the framework agreement on telecommunications services. A working party was then formed within the GNS to draw up a draft annex based on the American text.

[11] The constitution of a Franco-German joint venture supplying services to major companies is an example of one promising path of development, especially if it allows the constitutent partners to gain experience for exploiting in world markets.

framework of reciprocity could become a bargaining asset allowing major European operators to go global and to take advantage of the opening-up of international markets, while their strength would permit them to preserve essential market shares in their native operational bases on the continent.

Thus, the European attitude must — in accordance with a suitable timetable — combine inseparably the vision of the role of telecommunications in the world, the position of the public service [6], indispensable European strategic objectives [7] and the actual rate at which world markets are being opened up to competition.

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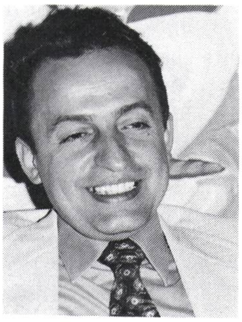

Titu I. Bajenesco, M. Sc., MBA, MQRA — Member of the New York Academy of Sciences, Senior Member IEEE, International Expert and Consultant — was involved in the management of international and national telecommunications projects, in the feasibility studies, development and design of advanced telematic systems, systems integration with LANs, MANs and WANs, in joint ventures, liberalization and privatization, master plans for the future development of national telecoms, etc. He is also a frequent lecturer at universities and specialized international conferences and congresses, and has a solid background in strategic, economic and financial management in telecommunications. His previous experience includes reliability and quality engineering of microelectronic components and complex telematic systems, especially in the field of advanced telecommunications systems (satellite, B-ISDN, mobile cellular telephony GSM, 'intelligent' buildings, national overlay digital telephone networks, etc.). He holds two patents, is author of many technical books and papers written in six different languages, and has received international managerial citations for his work.