buying back 10 percent of its own stock, which will help preserve the valuation of the deal.

In a joint interview after yesterday's news conference, Sir Iain and Mr. Roberts smiled wearily like a married couple who had been through some scrapes, but emerged stronger for the experience.

Chart: ''Concert's Pedigree''

BRITISH TELECOM

1879 The postal service is granted a monopoly over telegraph systems in Britain.

1911 The postal service becomes the monopoly operator of the telephone system.

1981 Prime Minister Margaret Thatcher's Government creates the British Telecommunications Corporation.

1984 The Thatcher Government privatizes British Telecom in one of Britain's largest public stock offerings.

1986 BT buys 51 percent of Mitel, a canadian telecommunications equipment manufacturer.

1993 BT buys 20 percent of MCI.

1996 BT announces it will buy the rest of MCI.

MCI

1966 John Goeken founds Microwave Communications Inc. to provide a Microwave Communications Inc. to provide a microwave radio connection between St. Louis and Chicago.

1973 Using AT&T facilities, MCI begins offering long-distance telephone service.

1982 AT&T settles a Justice Department antitrust suit. It spins off its local telephone service into regional companies and opens up long-distance service to competition. MCI capitalizes on the deregulated market, becoming the second-largest carrier with revenues of $15.2 billion in 1995.

1995 MCI agrees to invest $2 billion in News Corporation. The deal is



 

now being restructured. (pg. D7)
04:32 EST November 4, 1996

I0607 * End of document.

Source: New York Times, November 4, 1996

DOCUMENT 13 OF 18
J9631000053
Telecommunications:
* BT-MCI Merger Reshapes Telecom Industry
---
Global Merger
Could Lower
Overseas Rates
By Gautam Naik and Kyle Pope
Staff Reporters of The Wall Street Journal
1101 Words
7852 Characters
11/05/96
The Wall Street Journal
B1


* The trans-Atlantic union of British Telecommunications PLC and MCI Communications Corp. could topple a pricing system that for decades has inflated rates for international phone calls -- bringing significant savings to consumers.

U.S. customers alone eventually could get a total windfall of $4 billion, analysts estimate. And rates for international calling could eventually fall even more sharply for overseas consumers placing calls to the U.S., since they now pay far more than people calling from the U.S.

"The rate structure is breaking down," says Graham Finnie, European research director of the Yankee Group in London. "This could finally put a nail in the system," he says.

For consumers, the international rate system has been a mystery for years. Why, for example, does it cost $1.50 to place a five-minute call to Los Angeles from New York, but $5.79 to call London from New York, which isn't all that much farther? The answer: The second call is subject to archaic and bizarre rules that have let national phone monopolies charge exorbitant rates for years, making overseas phone calls the most profitable kind of service. An international cartel, originally formed by 20 European phone companies in 1965, sets these rates, and because government-owned phone monopolies use them to subsidize their local services and even other public projects, few cartel members have ever complained.

A combined BT-MCI would be the first major company to own both the beginning and terminating end of phone and fax calls between the U.S.



 

and U.K., which account for about $1.5 billion in yearly revenue. Currently, BT and MCI each pay about about 11 cents a minute to route each other's calls. They will now be able to charge much less -- perhaps closer to actual cost of four cents a minute -- and undercut AT&T Corp. and others. This, in turn, will probably lead federal regulators to force BT to lower termination rates for all carriers, including AT&T -- and thereby lower overall rates for placing calls to the United Kingdom.

"It is one of the true outrages of the international system that foreign monopolists and dominant carriers are able to extract subsidies from U.S. consumers," says Scott Blake Harris, a former chief of the Federal Communications Commission's international bureau. He predicts that the FCC, before granting approval to BT's plan to acquire the 80% of MCI it doesn't already own, will require BT to cut the rates it charges to all U.S. carriers. "The U.S. government is no longer going to tolerate foreign monopolies ripping off U.S. consumers," says Mr. Harris, now a partner at Gibson, Dunn & Crutcher in Washington.

International traffic flows far more heavily from the U.S. to other countries, so foreign monopolies collect far more in termination costs. Foreign governments use the money for myriad purposes: In Switzerland, for example, high-margin international calls helped pay for the nation's bus system.

A "basket" of various telecom services in Europe costs as much as three times more than a comparable package in the U.S., experts say. Consumers calling to and from developing countries also pay high rates. "It's obviously much too high. I hope these deals and increased competition will lower rates," says Sreenath Sreenivasan, a professor at Columbia University who spends up to $300 a month in overseas phone-calls. He prefers calling his parents in Kenya to having them pay a stiff $9 per minute when calling the U.S.

Such skewed costs have little economic rationale. Technically, the cost of patching through a long-distance call should be about the same as a local call. Both go through the same sort of computer-dispatching system. International callers, though, still are charged by the length of their call and the distance they cover.

As a result, analysts at Credit Suisse estimate that profit margins on country-to-country calls in Europe are as much as 40% higher than for local European calls. That money is split between operators on either end. At the end of each year, operators who charge lower rates usually end up paying out a "settlement rate" to their pricier colleagues. That is why U.S. providers, operating in the most competitive price market in the world, end up paying out that $4 billion-a-year sum, mostly to monopoly state-owned operators, Credit Suisse says.

Even when competition arrives, carriers are reluctant to cut rates. The termination cost of a call between the U.S. and Sweden, in either direction, has fallen from about 18 cents in 1995 to just nine cents

Source: Wall Street Journal, November 5, 1996 today, and half a dozen new rivals have emerged in Sweden. Yet actual phone rates haven't declined much between the two countries because the Swedish competitors tend to follow prices set by that country's phone monopoly, says Gregory Staple, president of TeleGeography Inc., a Washington, D.C., market-research firm.

Some observers therefore question whether, even in the case of BT-MCI, international calling costs will decline by all that much. "BT could decide that the settlement rates could be higher still and extract higher profits from carriers like us, since we have no alternative" than to route U.K.-bound calls from the U.S. onto BT's networks, asserts Mark Rosenblum, an AT&T vice president. "And what if they give MCI preferential rates?"

In Britain, the U.K. telecommunications regulator, the Office of Telecommunications, or OFTEL, declined to comment on how this week's merger will affect rates there. A spokeswoman said the office is studying the deal. Similarly, European Union regulators have so far declined to comment on how the merger will affect the cost of long-distance calls. In Europe, where local telecom markets will be fully deregulated on Jan. 1, 1998, the collapse of the subsidized system is particularly important.

The new combination could have a domino-like effect in forcing prices down throughout Europe. BT-MCI could establish London as a low-cost hub, routing traffic to, say, France, which would force France's national carrier, France Telecom, to lower its own prices or lose customers.

While a consensus is building that the current system is collapsing, no one -- not regulators or industry executives -- has a clue what will replace it. Once European markets open up to competition in 1998, analysts say the only thing that seems certain is that rates will fall.

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Skewed Rates

Archaic rules lead to wildly divergent phone rates, even between the same destinations; per-minute rates are shown

| | Calls from U.S. | Calls to U.S. |
|---|---|---|
| Argentina | $0.78 | $2.44 |
| France | 0.35 | 0.76 |
| Australia | 0.29 | 0.76 |
| Indonesia | 1.08 | 1.52 |
| Czech Republic | 0.53 | 1.88 |

Source: TeleGeography Inc., Washington, D.C.

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Source: Wall Street Journal, November 5, 1996

(See related article: "Even the Giants Will Be Unable To Go It Alone" -- WSJ Nov. 5, 1996)

I0607 * End of document.

## *MCI-BRITISH TELECOM DEAL SETS GLOBAL TONE THE ...*

DOCUMENT 26 OF 65
TRIB9631000282
BUSINESS
* MCI-BRITISH TELECOM DEAL SETS GLOBAL TONE THE LARGEST-EVER TELECOMMUNICATIONS MERGER REFLECTS A `SUPERPLAYER' TREND. AND, ALTHOUGH THE CONSUMER WILL FEEL LITTLE EFFECT, JOBS MAY BE LOST.
Jon Van, Tribune Staff Writer.
832 Words
7233 Characters
11/05/96
Chicago Tribune
NORTH SPORTS FINAL; N
1
(Copyright 1996)

Even though hundreds of companies offer long-distance phone
* service in the United States, only three dominate the market, and that could be the model for what is happening globally, many analysts believe.

* The proposed merger between MCI Communications Corp. and
* British Telecommunications PLC is the first step in what industry observers have been predicting for some time--globalization of telecommunications.

"This deal is a confirmation that this is a global industry," said Thomas Elliott, managing partner of Arthur Andersen's communications industry practice. "You need scale to be successful globally, and that's what this is all about."

The deal--sealed over the weekend at a value of $21.61 billion--between Britain's leading phone company and America's No. 2 long-distance carrier is only the latest in a year of huge telecommunications deals.

Based on stock values when the deal was struck, it would be the largest takeover of a U.S. company by a foreign firm, the largest telecommunications merger and the third-largest takeover in U.S. corporate history.

The actual value of the merger will vary with the price of BT stock, since MCI shareholders will be paid a combination of stock and cash.

BT depositary shares jumped Monday on the New York Stock Exchange, rising $6.12 to $61.62. MCI stock closed up 50 cents, to $30.75, on the Nasdaq stock market.

Other deals this year include the mergers of Bell Atlantic Corp. with Nynex Corp. and Pacific Telesis Group with SBC Communications Inc., formerly known as Southwestern Bell. The deals, announced this spring, were valued at $19.5 billion for Bell Atlantic-Nynex and $16.7 billion for SBC-Pacific Telesis.

In addition, MFS Communications Co., a major builder of alternative fiber-optic phone networks, was purchased for $12.4 billion by WorldCom Inc., the biggest player in the second tier of U.S. long-distance companies. The deal was announced in August.

But even though these earlier megadeals involve multibillion-dollar sums almost as big as the valuation of the BT-MCI merger, they crossed state boundaries rather than international ones.

"Political boundaries have become irrelevant to this business," said Elliott. "The mid-Atlantic corridor is one market, and you want to serve it seamlessly. That's what is driving the Bell Atlantic-Nynex merger. In the largest sense, the only boundary facing telecommunications is the global one."

After decades of government-controlled growth, deregulated telephone companies in the United States and Britain find they must invest billions of dollars to upgrade their networks to keep ahead of the competition.

"It's an industry that requires billions in investments for service that costs only pennies a minute," said Robert Rosenberg, president of Insight Research Corp., a telecommunications consultancy.

"You have to have millions and millions of customers to make something like that pay off, so there are pressures to consolidate."

Right now the United States and Britain are the only countries with unfettered competition, Rosenberg said, but other European countries have promised to privatize their monopoly phone systems in the next few years.

Within a decade, there may be a dozen or more major phone companies in the industrial world, but only a handful of dominant superplayers, Rosenberg said.

"Telecommunications is becoming like the auto industry," he said. "There are several automakers around the world, but only a few big players with a global presence."

There could be as few as three or five dominant global players within 10 years, said Bruce Egan, executive vice president of Indetec, a telecommunications and media consultancy based in Del Mar, Calif.

"There will be powerful regional players," Egan said, "but you'll probably only have three or four companies that have clout on a global scale. It really will mirror what we have in the long-distance market now in the United States."

But while these deals make headlines and may make strategic sense, global consolidation of the telecommunications industry will

Source: Chicago Tribune, November 5, 1996 have little or no effect on the average consumer.

"If you are a large bank or an advertising agency with international clientele, the MCI-BT deal may have an impact on you," said Rosenberg.

"The big companies with international ties want one contact who can set up their communications needs in Britain, Italy, India and Spain and give them one bill. That's what this is all about.

"But for your mom and pop business or for grandma and grandpa at home, these mergers have no impact at all."

Industry consolidation may well lead to downsizing of work forces, particularly in foreign countries that privatize systems.

Even in the United States, where the industry has eliminated tens of thousands of jobs, more downsizing may result from mergers.

"When you combine a Bell Atlantic and a Nynex, you will eliminate corporate overhead," said Egan. "And there will be some functions eliminated."

Another likely consequence of globalization is increased confusion, Egan said.

"Globalization will bring more choices, and that means more confusion," he said. "Local service will become more like long distance is today. Most people will face so many choices, they won't select the package best for them because they won't take time to determine what that is."

I0607 * End of document.

Source: Chicago Tribune, November 5, 1996

## *MCI's Risky Deal*

DOCUMENT 19 OF 65
NYTF9631100056
Section A; Editorial Desk
* MCI's Risky Deal
By Eli M. Noam
502 Words
3702 Characters
11/06/96
06:31
The New York Times
Late Edition - Final
Page 27, Column 2
Op-Ed


* British Telecommunications' $22 billion deal for MCI is not just
* another big media merger, because MCI isn't just another media company. It is the company that single-handedly invented competition in telecommunications, the David that took on the world's largest company, AT&T.

* When the dust settled, AT&T had been split into eight pieces, and MCI
* was growing at a double-digit rate to a market share approaching 18 percent compared with AT&T's 53 percent share. Consumers benefited. Long-distance calling became cheap, customer-oriented and innovative.

It is claimed that MCI, poised for entry into local phone service, needs BT's deep pockets to compete with the Baby Bells and that such competition would help consumers. But why would BT pour billions into American infrastructure? BT's priority is to become a ubiquitous European long-distance carrier, not to spend its money wiring America. MCI will have to take care of itself.

It is curious that at a time when small Internet entrepreneurs run circles around the traditional telecommunications companies and create new markets in a hurry, big companies believe that becoming even bigger and multinational is the route to survival. Yet such companies are hard to manage, and they invite regulatory constraints. AT&T understood that and recently focused itself by spinning off several of its parts. But MCI is going in the opposite direction, diversifying and even putting more than a billion dollars into Rupert Murdoch's media empire.

Of course, telecommunications companies must serve large corporate customers that operate around the world. But that does not require running expensive physical networks everywhere. It is easier to package services produced by other companies and to resell them under one's own brand name. This indeed is MCI's strategy in mobile telephones, where it avoided having to spend billions for frequency licenses.



 

Why then did MCI give up its independence? Probably because the price was right for its shareholders, especially since competition in long distance will soon include the Baby Bells, driving down industry profits. Beyond that, there are few advantages to the merger, and even fewer that couldn't be achieved through the agreement the two companies already had. At the same time, MCI's effectiveness will drop as its open and aggressive culture -- its main asset -- is merged with BT's more traditional style. In the not-so-distant old days, one could reach MCI's legendary chairman, the late Bill McGowan, directly through the switchboard. It's hard to imagine Sir Iain Vallance, BT's chairman, operating in the same way.

It would be hypocritical and counterproductive for the United States to oppose the MCI merger after pressuring other countries to lower their barriers to American telecommunications investments. Fortunately, competition in America has now taken root and does not depend on any particular company. Tomorrow's new challengers are likely to come from Internet companies. Thus, the competitive torch is being passed to the next telecom generation. It's unavoidable, but sad nevertheless.

About the Author: Eli M. Noam is director of the Institute for Tele-Information at Columbia Business School.

06:31 EST November 6, 1996

I0607 * End of document.

Source: New York Times, November 6, 1996

DOCUMENT 16 OF 65
ECON9631700001
* Dial M for merger: BT and MCI are following airlines down the runway to a global free-for-all.
Illustration Omitted
903 Words
5932 Characters
11/09/96
The Economist
McCarthy Information Services


AS THEY jetted back and forward across the Atlantic last month,
* plighting their troth, did the bosses of Britain's BT and America's MCI, two telecoms giants, pause to ponder the parallels between the airlines that flew them and their own industry? If so, they may well have felt a little smug. Airlines, like telephone companies, were once fat monopolies, relying on national and international restrictions to shore up their profits. Now, at least in some markets, both types of firm face stiff competition. But while airlines find it hard to make fat profits,
* even during a boom, telephone companies are rolling in money. BT is using some of its enormous cash pile to finance its Dollars 21 billion
* merger with MCI. Why are telephone companies so flush and airlines so poor?

In a few years' time, that question will seem anachronistic. For the deal, which is the largest takeover ever of an American company by a foreign one, is actually a bit of seatbelt-fastening in advance of a bumpy flight. While many airlines have been living with competition for years as deregulation has spread from America to Europe, most telephone companies are still protected in their local or national markets. Even in much of America, the monopolies of most of the regional Bells are, for now, intact. Where legal protection has gone, the grip of a former monopolist is hard to dislodge. In Britain, which has a regulator,
* Oftel, that is determined to help newcomers, BT still controls
* nine-tenths of the market.

In future, however, it will be harder for even the most profitable telecoms company to dodge greater competition. In the airline industry, technical novelties such as wide-bodied jets have helped to cut costs. Prices have broadly followed. In telecoms, the impact of innovation has been far more dramatic-the cost of delivering an ordinary telephone call is now about one-thousandth as much as it was in the late 1950s-while prices have fallen much more slowly. But not for much longer.

Technological change is already creating choice: many customers are still stuck with only one local telephone company, but they already have the option of several sorts of wireless telephone, of cable telephony in a few countries, and of callback services and Internet telephony as ways around excessive international charges.

The world's big telephone companies can see where all this will lead. Falling prices will stimulate demand, as they have done in air travel, but they will also dent profits. Only the strongest, most efficient firms will survive. Just as airlines have formed international alliances to share codes on busy routes to fill their planes, so BT and MCI have recognised the need for a global alliance to offer multinational businesses an end-to-end telephone service. The merged group will turn Britain's telephone network into a sort of virtual Heathrow, scooping up calls from all over Europe and funnelling them across the Atlantic. Because the two companies will be able to carry a call all the way, they will not have to make costly settlement payments for using other networks.

Is this good news for customers? It is tempting to draw another parallel with the airline business. When, in June, British Airways and American Airlines announced what was, in some ways, tantamount to a merger, rivals argued that BA's dominance of landing slots at Heathrow would reduce competition: together, the two firms would control more than 60% of flights between Britain and the United States. Without a free market in aviation, guaranteed by an open skies agreement between the two countries, customers could suffer.

Might the BT/MCI deal have a similar effect? America's AT&T is already complaining that the British telephone market is less open than it appears. But in telecoms, much more so than in aviation, Britain's rules favour newcomers. Oftel has done far more to rig the odds in the domestic market against BT than America's Federal Communications Commission has done in the case of AT&T. And the market for international calls from Britain is about to be thrown open when the government next month licenses 46 new competitors, including AT&T and 21 other American companies. Unlike international airlines, those firms will be able to operate without constraints on the prices that they charge, or the number of calls that they carry.

Anticipating the death of distance

In merging, BT and MCI are making a bid to be one of a handful of global telecoms carriers in the next few decades. Although their merger is basically a defensive one (see page 103), it will also create new opportunities. So long as the two firms can overcome the formidable problems that cross-border mergers inevitably throw up, they should prosper.

For governments, the deal holds two lessons. The first is that privatisation helps firms to become world-beaters. It is no coincidence

Source: Economist, November 9, 1996

 

that BT, which was floated in 1984, is in far better shape than bloated European rivals such as Deutsche Telekom, which is only now gearing up for privatisation, and France Telecom, which is still run partly by civil servants. The second lesson is that privatisation is not enough. What has driven BT to this deal is tough regulation at home that ensures competition. That battling for business in domestic markets is a good preparation for battling for it elsewhere may seem obvious. But in many countries, it is a truth that is only now beginning to dawn. Time to dial C for competition.

I0607 * End of document.

Source: Economist, November 9, 1996

## London on the Line; Once a stodgy monopoly, ...

DOCUMENT 14 OF 65
WP9631500063
Financial
* London on the Line; Once a stodgy monopoly, British Telecommunications learned a thing or two about competition from transatlantic partner
* MCI Communications. Now it plans to buy MCI and go after the $1
* trillion global market for computer and telephone networks.
Mike Mills
Washington Post Staff Writer
2430 Words
15881 Characters
11/10/96
The Washington Post
FINAL
H01

LONDON
* Think of British Telecommunications PLC as a modern "redcoat" that has gotten tired of marching in parade formation and wants to become a high-tech rebel, shooting at the world's richest targets.
* That's the ambition that lies behind BT's $21 billion deal last week
* for the Washington area's telecommunications superstar, MCI Communications Corp.

BT's efforts to emulate upstart MCI became obvious months ago to British customers such as Clive Pallot, a manager with an interior design firm here. He says he was "amused and intrigued" when BT pitched him several months ago on a new long-distance plan offering discounts on the five numbers he calls the most. It was called -- you guessed it -- "Friends and Family" -- the discount program pioneered by MCI, in which BT had made a $4.3 billion investment in 1994.

For Pallot, it was a vivid example of just how far BT had come from its roots as a stodgy, state-run utility. Famously arrogant and inefficient before it was privatized by Margaret Thatcher in 1984, the old BT used to treat telephone ownership as a privilege instead of a right -- making its British customers wait months for a new residential line, and then refusing to install the phone anywhere except in the hallway.

Pallot ignored BT's first mailing, because he rarely places long-distance calls from home. But the new BT wasn't giving up that easily. A month later, another appeal arrived, this one telling him which were his five most frequently called numbers. A few weeks after that, the company struck again, announcing that it had taken the liberty of giving him the discounts anyway.



 

"They wouldn't let it go. It was terrific," Pallot said over coffee in the Bloomsbury section of London.

BT also made an impression with Pallot's employer, a Michigan-based multinational holding company called Haworth Corp., whose London long-distance bills amount to about $71,000 a month. The company decided it preferred BT after experimenting with several competitors.

"BT [is] under constant pressure from their competitors to keep their prices down," Pallot said. "They've made the transition. Prior to privatization, they were an old dog. You couldn't get any service out of them. They had a monopoly and that was that."

By spending so many billions of dollars to buy MCI, the British giant hopes to take this aggressive marketing strategy global. In essence, the combined BT-MCI will try to skim the cream of the international phone business -- going after the biggest multinational corporations and offering to serve their long-distance needs -- from Bombay to Boston, from Beijing to Belfast.

That's the strategy MCI used to grow its business in the United States -- using innovative marketing to attract the most profitable long-distance customers. But now, as the U.S. long-distance market becomes more competitive and profit margins fall, MCI also is looking abroad -- to markets that are just opening to competition.

"BT is the MCI of the European telcos," said the company's chief executive, Sir Peter Bonfield, who joined British Telecommunications in January. "It's the first one out, it's very aggressive, it's broken the mold. In some ways we've got more in common with MCI than most people think."

The two companies share a ravenous appetite for the $1 trillion global business of hooking up multinational companies with end-to-end computer and telephone networks. They will compete for this business through their newly named joint holding company called Concert PLC, which will combine BT's global reach and cash with MCI's legendary marketing acumen.

Their joint battle plans begin in Europe in January 1998, when the European Union has agreed to privatize state-run telephone monopolies and allow multiple providers of phone service. Future targets will be the Asian and the Pacific Rim countries, which are further behind in liberalization, but offer even more lucrative markets.

The next step is finding "a strong partner in Asia and the Pacific," according to Alfred Mockett, president of the international division of Concert. He said "it's no secret" that British Telecommunications has been talking with Japan's Nippon Telegraph and Telephone Corp. about an alliance.

"There are about 2,000 global multinational firms and

Source: Washington Post, November 10, 1996

everybody's after them," says Merrill Tutton, president of AT&T-UK Ltd. "These networks that we're all building have a huge appetite for minutes of usage. So the name of the game is to get large customers with large volumes to fill up our networks, and then you move into other market segments. But you have to be on this global stage."

Long Live BT

The phone booths on London's streets today reveal the changes that have transformed BT in recent years. Though the traditional red booths beloved by tourists are a BT trademark, the company has long grumbled about maintaining them. Made of cast iron and glass, they were difficult to clean, expensive to repair and inaccessible to people with disabilities.

Rather than getting rid of them, BT years ago reached a deal with the government to keep them in designated historic areas. In most areas, BT has installed newer phone booths -- with vandal-proof handsets, advanced calling card features and a patented noise-reduction microphone system.

BT has been straddling a line between accommodating tradition and inviting competition in every area of its business. When the company went private in 1984, a second phone company, called Mercury, was formed just as BT was -- from a post office unit, this one called Cable & Wireless, which also was being privatized. Today, roughly 150 companies compete to provide long-distance access largely to Britain's business customers.

In 1991, cable television companies -- mostly funded by money from the regional Baby Bells in the United States and Canada -- began laying telephone lines along with coaxial television wires to British homes. Today, they sell more local telephone service than cable service.

It sounds like a lot of competition. But BT continues to have more than 90 percent overall market share in the United Kingdom -- though it services fewer than half of the business customers in the most lucrative central urban areas. The competing cable telephone lines have been installed past only 20 percent of all homes, and the providers are losing money fast and merging with each other to build clout against BT.

BT contends it has been able to stem its inevitable market-share losses by vigorously paring down the company and focusing on performance and customer service. Where there were once 13 layers of management between the chairman and the customer, today there are six. Half of the 500 top executives are recent hires from competitive multinational corporations. Of the senior management team, all but one has worked in the United States.

Much like its American counterpart, AT&T Corp., BT also has been an aggressive downsizer. In the five years since the British

Source: Washington Post, November 10, 1996

government sold most of its remaining shares in BT, the company has slashed its work force in half, cutting more than 100,000 jobs.

BT executives also made some of the same mistakes as their top U.S. counterpart. Immediately after becoming a private company, BT purchased Canadian telecommunications equipment manufacturer Mitel Corp. But BT failed to look closely enough at the company's financial health and how Mitel would fit in with BT's other offerings. By 1992, the company was sold at a loss of $151 million.

"We learned something that AT&T doesn't seem to know," BT Chairman Sir Iain D.T. Vallance told Financial World magazine in 1992. "That it's hard to sell equipment to companies you are then planning to compete against." AT&T had to divest its equipment unit last year, largely for that reason.

Global and Local Plans

BT's drive to emulate MCI began soon after it initially bought its 20 percent stake in 1994. Friends and Family was launched in the United Kingdom six months after the deal closed, and today the program has 8 million customers. BT also incorporated MCI's sophisticated calling card and billing software.

Jointly, their Reston-based Concert venture set out to attract corporate customers who operate on an international scale. MCI was given control of the Western Hemisphere; it took advantage of the recent North American Free Trade Agreement and invested heavily in Canadian and Mexican telephone markets.

BT executives say they would have preferred to acquire MCI fully back in 1994, but were hampered by an unwillingness by the Clinton administration to go much beyond a 25 percent foreign ownership limit. Since then, a major telecommunications deregulation effort has become law in the United States and competition has improved in Britain -- both factors that have led U.S. regulators to signal they will approve bigger investments.

"BT, with all its resources, is capable of addressing the mass liberalization of Europe," said Concert's Mockett. "But when it comes to the Americas, we need somebody to shore up the western front. And so we turned over that challenge to MCI. It became the face of BT in the Americas . . . Not even BT, deep pockets as it has, can afford to do it alone."

Though Concert's global plans are ambitious, they won't necessarily include increased construction of local telephone facilities in the United States or elsewhere. Building fiber-optic links or copper networks to lower-volume residential customers is simply not in BT's game plan (MCI plans to have the higher-capacity fiber-optic lines installed in 25 cities by February).

Instead, BT executives say they'll be happy just to purchase bulk capacity from local telephone carriers and resell it to

Source: Washington Post, November 10, 1996

consumers. In fact, that's one of the things that BT can help MCI to do better, according to Mockett.

"There is a lot that we can bring to the table in terms of helping accelerate MCI into the local loop," he said, such as "how to leverage other people's infrastructure that has been resold [and] how to look at the approach of business versus residential."

Mockett added that BT's long-term plans don't include penetrating much below the "top 30 percent" of residential customers at all. MCI Chairman Bert C. Roberts Jr., in announcing the merger last Sunday, also downplayed the prospects for increased investment in local telephone networks. BT's money will be used "in the sense of adding sales [capabilities] more than adding capital" for facilities, he said.

The Stage Is Set

BT and MCI still need regulatory approval from the Federal Communications Commission and the Department of Justice. Leading the opposition is AT&T -- not so much to halt the merger, but to use it for leverage in winning more market freedom in the United Kingdom.

"We've still got a lot of explaining to do," conceded Bonfield.

In deciding whether to approve the deal, the FCC and the Justice Department will do what they did in 1994 when BT made its initial investment: Examine the openness of the British telecommunications market to other U.S. competitors. Though AT&T is complaining, few expect many problems in getting regulatory approval because the United Kingdom's telephone market is more open than any in the world, except for that of the United States.

Overall, says AT&T-UK's Tutton, quick U.S. approval of the BT-MCI deal would wrongly signal to the rest of Europe that Britain is an appropriate model for all other newly competitive telecommunications markets. In his view, local and long-distance businesses should be split apart, like AT&T was, when future government-owned carriers are privatized -- something Britain failed to do.

"The stage is set for competition in telecoms in Europe," he said. "The route that they seem to be on is the route that's been taken in Britain, which is first, to get the government to privatize and get their money out, and then to invite competition with the privatized gorilla. What we see in France is that way, and what we see in Germany is that way."

BT leaders are confident they can show U.S. regulators that the British market is indeed a good global model of a competitive environment. But to do so, they have to distance BT from the old British Telecom.

That's largely the reason why they portray MCI as a 50-50

Source: Washington Post, November 10, 1996

 

partner, rather than a company that was just gobbled up by a foreign giant: Concert, for example, is to have headquarters in both London and Washington (though it will be a London-registered company trading British shares); there will be five board meetings annually in London, five in Washington; and top management will be evenly divided among the two companies.

Bonfield even hinted in an interview that Concert might set up a new headquarters in London away from the site of BT's headquarters, a plot of land across from St. Paul's Cathedral, where Guglielmo Marconi made the first public transmission of a wireless signal in 1896.

That way, he said, "we can as much as possible give the view that we are setting up a new company."

THE BRITISH INVASION

British Telecommunications PLC has developed into a major force in the global communications industry since its privatization 12 years ago. Following are some key dates in its development:

1984

Privatized under Margaret Thatcher. Issue helps to transform image of share ownership as millions of small investors buy into BT.

1985

Faces first serious competitive challenge in Britain with the launch of Cable & Wireless Mercury Com-munications.

Launches Cellnet radio telephone in a joint venture with Securicor.

1988

Acquires 22 percent of mobile phone company McCaw Cellular for $1.5 billion.

1991

Government sells off its remaining 48 percent stake in British Telecommunica-tions.

1992

BT wins license from the German government to offer satellite services, adding to its satellite operations in France and the Netherlands.

1993

Announces a multi-million dollar, five-year contract to provide a communications network to improve Europe's air traffic management.

Pays $4.3 billion for a 20 percent stake in MCI Communications.

1994

Creates Concert Communications Co., a $1 billion joint venture with MCI to provide global corporate communication services.

Forms alliance with Danish, Finnish and Norwegian firms as part of push into Scandinavia.

1995

Announces joint venture with Italy's Banca Nazionale del Lavoro.

Source: Washington Post, November 10, 1996

1996

March: Buys 25 percent stake in Clear Communications, New Zealand's second- biggest telecom company.

May: Breaks off merger talks with British rival Cable & Wireless.

June: Announces $330 million investment in internet venture with MCI.

September: Takes 25 percent stake in Cegetel, new French telecommunications consortium led by Compagnie Generale des Eaux, for $1.8 billion and the share capital of BT France.

Oct. 9: Says it will seek a new phone partner in Germany after RWE quits alliance with BT and Viag.

Nov. 1: confirms interest in merging with MCI.

British Telecom weekly closing prices on the NYSE

Friday: $59.50

SOURCE: Reuter

http://www.washingtonpost.com

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## MCImetro Fires Up 2 Local Networks In East, 8 More To Come

While the regional Bell operating companies (RBOCs) eventually will be allowed onto MCI's turf by the 1996 Telecom Act, they'd better watch their back – the long-distance company already has jumped across the local telco's back fence and started providing local service in Baltimore and Boston since the bill passed through Congress a few weeks ago.

Eight more networks will be turned up within the next month in Chicago, Detroit, Hartford, Milwaukee, New York, Pittsburgh, Philadelphia and Seattle.

Local service will be rolled out in 14 other major markets in 1996, the company said. MCImetro's local service offerings initially will target business customers in these cities.

To date, MCImetro has deployed more than 2,338 route miles of fiber across the nation (*LCR*, Feb. 5, 1996). The company uses advanced technology, such as synchronous optical network (SONET) rings, which are more reliable than copper network, it said.

"When you combine the added value of MCI's intelligent network capabilities with local service from MCImetro, the result is an unbeatable package for businesses," said Nate Davis, MCImetro's chief operating officer.

have dedicated lines going directly into many office buildings. With only minor software adjustments and the establishment of links to local switches, these lines will be able to handle local traffic.

Sharing network capacity probably would be the extent of AT&T and MCI's relationship.

"We don't expect to see a separate joint venture," said Darrell J. Edmonds, associate managing director at Bear, Stearns & Co.

And count on the companies to brand packaged local and long-distance service with their own names. Both AT&T and MCI are well-known across the nation.

For instance, AT&T Chairman Robert E. Allen recently cited results of surveys showing the power of his company's name. In a Yankee Group poll, 50 percent of respondents said they would choose AT&T if they could get local and long-distance from the same carrier. And a Morgan Stanley survey revealed 30 percent of those surveyed would choose AT&T local service if prices were the same as other local carriers.

> **"We don't expect to see a separate joint venture."**
> ***– Darrell J. Edmonds, managing director, Bear, Stearns & Co.***

As they enter the local fray, AT&T and MCI now can get a feel for the struggles competitive access providers have encountered raising capital and building networks from the ground up.

Negotiations between AT&T and MCI "validate what MFS has been all about - the value and importance of building infrastructure," Andy Lipman, senior vice president of legal and regulatory affairs at MFS Communications Co., told *LCR*. "Constructing infrastructure is difficult, especially getting access. It takes an enormous amount of time and money."

– Gail Lawyer

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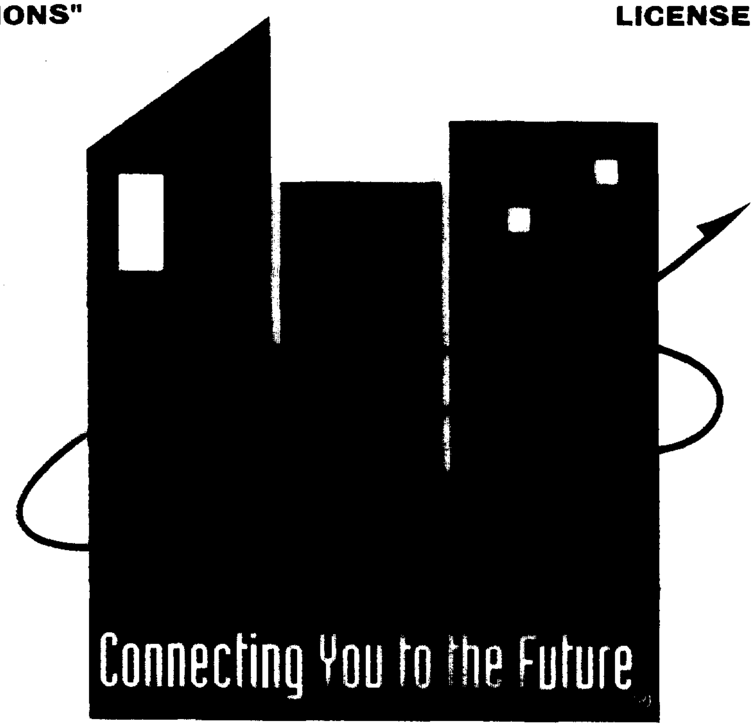


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