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Deutsche Telekom's monopoly status weighs heavily on privatization plan

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Abstract (Summary)

The plans for an IPO in early 1996 by Deutsche Bundespost Telekom has touched off a debate on its monopoly status, involving the question of how to balance different government departments, investors, employees and customers.

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Full Text (1014 words)

The initial public offering in early 1996 of Deutsche Bundespost Telekom, Germany's giant state-owned telephone company, has touched off a raging debate on its monopoly status.

The question is, how do you balance the interests of different government departments, investors, employees and customers? Some want the monopoly to stay in place as long as possible, others want to see competition.

The Finance Ministry would like to postpone real competition for Deutsche Telekom until at least 1998, thus maximizing the proceeds of the stock sale; limiting competition, the ministry reasons, will make the shares more attractive to investors. But the Postal Ministry, with the interests of the economy and consumers' pocketbooks in mind, favors a more-open phone market as soon as next year.

The stakes are huge. With the company valued at between 70 billion and 100 billion marks ($45 billion to $64 billion), the sell-off will be one of the world's biggest ever -- approaching 10% of the entire value of shares traded on the German stock market.

But just how big a hit Deutsche Telekom shares will be with international investors may depend on how long it maintains its monopoly status at home. As in privatizations of state-owned companies elsewhere, German industry is split, with such would-be Deutsche Telekom competitors as engineering concern Mannesmann AG and utility Veba AG rooting for open competition, while Deutsche Telekom and its powerful unions try to hold the line.

Limiting competition from domestic and foreign rivals, such as AT&T Corp. of the U.S. and British Telecommunications PLC, would protect over-staffed Deutsche Telekom from having to slash jobs, bolster its profits and perk up investor interest.

"When it comes right down to it, a monopoly will always sell for more than something that's exposed to the bitter winds of competition," says Keith Mallinson, European research director for Yankee Group, a Boston telecommunications consulting firm.

But allowing greater competition would lower phone bills and improve service, aiding the entire economy, others argue.

"People haven't realized yet how important the liberalization of telecommunications is for a highly industrialized country," says Peter Mihatsch, the Mannesmann board member overseeing telecommunications. "By lifting the monopolies everybody would benefit. Competition stimulates innovation."

The outcome of the debate may be determined in both Bonn and Brussels. A key battle comes today, when European Union ministers consider an EU Commission proposal to speed up liberalization across Europe. The German government's indecision on the issue may lead to a stalemate among gung-ho liberalizers Britain and the Netherlands and the more-cautious Spain and Ireland.

At the moment, rivals of Deutsche Telekom, Europe's biggest phone company, say the system restricts them to market niches. Connecting to Deutsche Telekom's national phone network, a must for any rival, is difficult. Rivals say Deutsche Telekom overcharges and drags its feet in delivering connections.

Deutsche Telekom is the world's third-biggest phone company after NTT Corp. of Japan and AT&T. Abroad, it's on a spending spree, having agreed to buy with France Telecom 20% of Sprint Corp. of the U.S. for $4.2 billion, and having purchased with Ameritech Corp. a 30%, $870 million stake in the Hungarian phone company. At home it has an iron grip on the 69 billion mark German telecommunications-service market. Special government levies and phone construction in eastern Germany have swollen its debt and produced a net loss last year.

But, thanks to an exceptionally strong cash flow, it's recovering fast, and next year is expected to post a profit of at least three billion marks on revenue of 69 billion marks.

Of course, that assumes feeble competition. In a wide-open market, Deutsche Telekom would be a sitting duck. With 230,000 employees tending 36.9 million phone lines, it has 62.3 employees for every 10,000 phone lines -- a far higher ratio than France Telecom, NTT or the U.S. regional Bell phone companies. Worse, half of its workers are civil servants who can't be fired except for serious offenses. Among its generous benefits, it maintains a network of holiday resorts for employees to rent at discount prices.

It was to protect this out-of-shape behemoth that the government reluctantly agreed last winter to restrain competition. To gain a two-thirds vote to allow the privatization, Chancellor Helmut Kohl had to agree to limit competition temporarily, protecting Telekom jobs.

Under existing law, Deutsche Telekom has a monopoly over public voice-telephone services until Jan. 1, 1998. In theory, that means others can compete right now in such nonvoice services as data communications, and in three years will have more freedom. But there's a big catch. Even in 1998, Deutsche Telekom will still be the only company allowed to own wires and switches for public telecommunications services. In other words, anybody wanting to go into business against Deutsche Telekom will have to rent wires and switches from it. Critics say that's like making Ford buy all its engines from General Motors.

Liberalization advocates want everybody free to own wires and switches from Jan. 1, 1998. And starting next year, they want special ownership privileges for German electric utilities and railroads that, with their rights-of-way to lay cable and track, can quickly crisscross the country in new optical fiber cables and switches, something Germany's backwards phone network needs.

Not surprisingly, the utility companies are prime movers in this pro-liberalization drive. Utility-holding companies Veba, RWE AG and Viag AG are laying cables and installing switches. Veba recently announced plans to invest six billion marks over the next decade. RWE, Mannesmann and Deutsche Bank AG recently formed a joint venture to provide corporate phone services. Veba meanwhile has joined with German railway Deutsche Bahn AG to provide corporate phone services , and it has allied with Thyssen AG in mobile telecommunications.

[Table]
Competitive Disadvantage

Many of Deutsche Telekom's global competitors get more productivity out of their employees.

[Table]

COMPANY	EMPLOYEES PER 10,000 PHONE LINES	REVENUE PER EMPLOYEE
Deutsche Telekom	62.6	$154,450
British Telecom	58.6	131,660
Telefonica, Spain	52.2	128,960
France Telecom	50.2	145,110
U.S. Bell cos. (avg.)	43.2	194,160
NTT, Japan	42.4	242,480
SIP, Italy	35.6	172,700

Sources: OECD, 1993 company reports

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