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Telenor: A Telecom In Distress.
Life in a Fully Digitised Norway:
Dream or Nightmare?*

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Telenor: A Telecom In Distress. Life in a Fully Digitised Norway: Dream or Nightmare?*

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* AUTHOR'S NOTE: Unless otherwise stated, this paper relies heavily on documentation found in a parliamentary white paper (Ministry of Transport and Communications 1997b). My paper does not necessarily represent the official views of Telenor, nor of any other telecom, agency or interest group. The analysis and opinions presented in this paper are the sole responsibility of the author.

Telenor: A Telecom In Distress

With the deregulation of Norwegian telecom services in 1998, competition is becoming fierce in the home market and new strategies are called for. The most obvious action of Telenor in order to retain a sufficiently high market share is the expansion of its international activities in a few carefully chosen areas such as mobile telephone systems, satellite communications and cataloguing services. Still, some will say that the future of the company looks bleak.

1. Introduction

1.1. Finding New Strategies

Until Swedish-based Telia entered the Norwegian market in 1996, Telenor enjoyed the unique position of a governmental public service company. With the deregulation of telecom services in 1998, competition is becoming fierce in the home market and new strategies are called for.

Can Telenor cope with the deregulation of telecom services when their monopoly situation is challenged?

The most obvious action of Telenor in order to retain a sufficiently high market share is the expansion of its international activities in a few carefully chosen areas such as mobile telephone systems, satellite communications and cataloguing services. Still, some will say that the future of the company looks bleak due to a relatively small customer base and few technological inventions of their own.

Being government-owned, there is also a political component limiting the actions of Telenor when it comes to redefining its place in a competitive market.

1.2. A Question of Life or Death?

When international giants are moving into the home market, questions have arisen what kind of future is in store for a national telecom traditionally serving a small country. Many scenarios have been launched, most of them with a pessimistic outlook. Various scenarios give rise to questions such as these:

- What will the home market look like in a few years, and what will be the prospects of Telenor in this field?
- Is there a place for medium-sized telecoms in the world of the future?
- How tempting are merger plans with one of the major international telecoms, or can alliances with bigger companies still be relied on to provide the basis for the existence of Telenor as an independent company?
- Is Telenor facing the downward trend experienced by a small and technically advanced company such as the long-defunct Norwegian computer manufacturer Norsk Data?

We will be looking into most of these questions. Even if definite answers are hard to find, attempts will be made to point out the trends appearing before us.

1.3. Looking Into the Future.

Questions of life or death of a telecom company such as Telenor cannot be answered conclusively. Instead, we will be going into the change of strategy that Telenor, the government and the market as a whole has experienced during the past few years. Also, we will look at the societal setting against which these strategies were developed, as well as the short-term results achieved.

Admittedly, answers will not reveal the likelihood of long-term success or failure. We have to realise that many questions remain unanswered concerning the long-term effects. This is true not least when national and international policy decisions are taken into consideration. These decisions, likely to be taken in response to deficiencies revealed after a while when deregulation has made its mark, will lay the foundation for future development in the telecommunications field.

What can be analysed with any degree of certainty are the strategies of Telenor at the start of the era of telecom deregulation in Western Europe. We will do so by employing a sociological perspective to the description of problems and solutions perceived in the telecommunications field. We will be looking at the constellation of actor groups shaping the development of things to come. The problem definition of these actor groups will lead us to the answers concerning the short-term future of Telenor.

2. Mapping of Major Interests

2.1. Major Actor Groups

The future of Telenor is influenced by major actor groups such as the government, the other telecoms competing in the Norwegian market, the telecom users, and, not least, Telenor itself and its 19,300 employees.

Much of what has happened recently has taken place in the interplay between these four actor groups, who do not always have common views and interests. On the contrary, there are many instances of conflict, e.g. between Telenor and its competitors and between Telenor and the telecom users. At times there are even conflicts between Telenor and its owners, the government.

2.2. Governmental dilemma: Privatisation Woes

Telenor, once a government body, is now reorganised into a company owned exclusively by the Norwegian government. Lately, there has been talk of privatisation or part-

privatisation, but no actions have been taken yet due to differences in views among the major political parties.

On the part of Telenor, part-privatisation has been cited as a goal, as it would enable the company to seek financial support in the open market instead of relying almost entirely on government funding. Also, part-privatisation would mean that the government could no longer make excessive claims on any surplus arising in the Telenor budget. Until now, the government has seen fit to remove what seemed like a quite immodest slice (30-40 per cent) of the annual surplus. Telenor has argued that this action by the state runs against the principles of sound financial management in a competitive world.

Privatisation of Telenor, fully or in part, would save a lot of government money, which is an appealing thought in some political quarters. On the other hand, privatisation means that the government will have to refrain from annexing part of the surplus. Also, the government would have to relinquish some degree of control of the nation's telecommunications policy. Some politicians feel that the kind of control enjoyed today constitutes a powerful tool when it comes to shaping the telecommunications infrastructure to the needs of a modern welfare state such as Norway.

In particular, politicians concerned with reducing the negative effects of deregulation on the welfare state like to enforce that telecommunications services as a public benefit are equally distributed throughout the population. They would also like to enforce that the distribution of these services happens without undue costs to regions with sparse population, where the installation and maintenance of such infrastructure is comparatively costly.

Another political concern is the influence of multi-national telecoms. Privatisation of Telenor might soon lead to merger plans, like those seen in Denmark, where Ameritech (now merged with Southern Bell Company) acquired a 42 per cent stake in Tele Denmark. Immediately after the acquisition, Ameritech demanded an increase in income and surplus by at least 10 per cent annually for the next two years. If this goal is not attained, Tele Denmark would face the risk of being dissolved or sold off. It seems that these demands were made without regard to national interests and without intervention from political quarters. (Eriksen 1998a)

To most Norwegian politicians the Danish telecom scenario seems unattractive to the degree that the debate over privatisation has silenced, at least for the time being. Apparently, nobody is going to hand over power to foreign interests to the extent witnessed in Denmark. In Norway, a life expectancy of only two years for the major telecom would seem quite ridiculous from a national point of view.

2.3. Customer Scepticism: Prices Up or Down?

At first glance, Telenor's policy vis-à-vis the general public seems to be a rapid succession of rate reductions. According to Telenor spokesmen, the company launched these price reductions as a result of cost-cutting and as part of a drive to make telephone connections cheaper for customers in rural districts.

A closer look shows that the image of continuous rate reduction on the part of Telenor is only partially true. Rather, the series of rate reductions has been accompanied by some noticeable price increases. The price was reduced on services subject to immediate competition from other telecoms when deregulation set in. This means that reductions were mostly introduced on long-distance calls. Local calls and connection fees, being part of the infrastructure totally dominated by Telenor, remained at the same price level or even got more expensive for the customers.

In addition to these price increases, Tormod Hermansen, the Executive Director of Telenor, stated some time ago that the policy of offering unitary prices throughout Norway might be dropped in the near future. He said that telephone services are due to be more expensive in rural areas than in built-up areas. This change of policy announced by Telenor has still not been made effective, because the government is opposed to scrapping the unitary price structure. In a press release the government stated that a limit would be imposed on Telenor's prices should they try to abolish unitary prices. (Ministry of Transport and Communications 1997). In this manner, the government sided with the customers in the quest to keep prices down.

However, government decisions are not always this consumer-friendly. The price hike on local calls effected by Telenor in January 1997 was brought before the Norwegian Post and Telecommunications Authority, a governmental regulation and monitoring agency. After looking into the matter, the Authority was unable to conclude that the price hike was unsubstantiated. The Director of the Agency, Jan Graff, admitted that an independent investigation could hardly prove that the price structure adopted by Telenor was unfair under the circumstances, because information required by the Agency could not be provided by Telenor until the final figures were presented some time in the following year.

Most likely, Telenor will dominate the landline or fixed-line telephone network and be a *de facto* regulator of the cost of local calls and connection fees for years to come. A new price hike on connection fees and directory information services was announced in January 1998, and nobody seemed to complain. In view of prospects opened up by these increases and the lack of government intervention, many consumers feared that prices would not turn out to be self-regulatory in spite of increased competition. Also, doubt was

expressed in many quarters that the Post and Telecommunications Authority could no longer be relied on to evaluate the fairness of Telenor's prices. (Flaa 1997)

Even if consumers in general are in favour of decreasing prices, and even if deregulation was designed to further this aim, there appears to be no guarantee against prices increasing or even staying at the old level. It seems that Telenor, along with many other telecoms, is recouping losses suffered in competitive fields by raising prices on services involving local calls and various other services where the old monopoly spirit still prevails. In addition to the directory service, Internet access, now much in demand, is another high-priced service depending on the price of local calls. The success of this pricing strategy is evident. According to figures released by Telenor, net-based services (mobile, fixed-line and satellite) during the first quarter of 1998 accounted for 70 per cent of the increase in revenue compared with the first quarter of 1997. (Telenor 1998)

Recent events seem to indicate that the government will tolerate a strategy based on steadily increasing prices in non-competitive fields for as long as the unitary price structure is adhered to. Evidently, the authorities seem to think that price reductions do not matter for as long as people keep on using telecom services more frequently than ever. Local calls and mobile calls show a strong increase these days. Compared with the first quarter of 1997, such calls were up 15 per cent in the first quarter of 1998. Also, Internet traffic increased noticeably to account for 16 per cent of all local calls. As one newspaper commented: "Telenor seems to strike gold with its tactics involving higher prices on local calls." (Dalheim 1998)

2.4. The Competition: A Difficult Start

In spite of deregulation, Telenor's books showed revenues in the first quarter of 1998 totalling NOK 6,776 million, 17.5 per cent up from the same period in 1997. This financial result was far better than expected. Obviously, there was no immediate signs that Telenor would lose a major share of the market that it held while in a monopoly position.

Figures show that Telenor's competitors had no head start as deregulation took effect. The second biggest Norwegian telecom, NetCom, a Kinnevik group company offering only mobile connections, came in at NOK 494 million in the first quarter of 1998, which is a far cry from figures of the magnitude that Telenor accomplished. Considering the low profit margins appearing in the books of NetCom, the company expressed disappointment at the results achieved. (NetCom 1998b)

Although Telenor could show very good financial results at the beginning of 1998, there have been reports that Telenor has already lost a 20 per cent market share of the fixed-line users, mainly to Swedish Telia and Tele2 (another Kinnevik group company), see table 1. The aggressive marketing and rock-bottom prices of these two firms have led many users

to leave Telenor. In particular, many companies who are high-volume consumers of telecom services, in particular in the field of long-distance calls, have been able to strike better deals with Telia, Tele2 and the up-coming Netsource, Netnet and Global One.

Table 1. Number of telephone connections in Norway, February 1998. (Finstad 1998)

Company	In households	In firms	Internet	Mobile phones	Total	Per cent
Telenor	1.800.000	580.000	165.000	1.300.000	3.800.000	81.0
NetCom	0	0	0	420.000	420.000	8,8
Telia Norge	65.000	86.000*	45.000	0	196.000	4.1
Tele2 Norge	30.000	90.000*	28.000	0	148.000	3.1
Netsource Norge	300	50.000*	0	0	50.300	1.0
Netnet	0	47.000*	0	0	47.000	0.9
Global One	0	35.000*	10.000	0	45.000	0.9

* estimates

The fine result attained by Telenor and the corresponding slow arrival of many of the incumbents have not come about without fierce fighting. Telenor has been very reluctant to loosen its grip on monopoly services. In the fall of 1997, negotiations with several of the competing telecoms over interconnection agreements were very prolonged because the pricing scheme advocated by Telenor was perceived as being to the disadvantage of other telecoms.

Prior to deregulation at the beginning of 1998, only Telia, Tele2 and Global One were able to reach an agreement with Telenor over the use of fixed-line connections. These companies were not interested in introducing mobile connections, at least not initially.

NetCom, the biggest competitor in the mobile phone market, was not successful in its negotiations with Telenor. Obviously, Telenor did not want its most successful competitor in mobile connections to expand into the fixed-line market. When negotiations stalled, NetCom filed a complaint with the Norwegian Post and Telecommunications Authority over Telenor's obstinacy. The Agency was quick in declaring that Telenor would be fined if red tape prevailed.

The incident shows that Telenor is prepared to defend its monopoly status to the bitter end if its position is seriously threatened. In the case of Telia, Tele2 and Global One, these companies are still too small to pose a real threat to Telenor in the short run. NetCom is quite another cup of tea. If their success in mobile connections was to be repeated in the fixed-line connections market, Telenor would soon risk a bigger loss of market than it was prepared to take. After intervention by the Agency, the expansion of NetCom cannot be prevented, so Telenor will have to resort to other means in order to keep up its dominance and keep NetCom at bay.

Telenor has announced that it will be fighting fiercely if there is a risk of losing more than 30-40 per cent of the domestic market before the end of 2002. In the same period, Telia expects to take 30 per cent of the Norwegian market, thus leaving very little to the other telecoms. Between themselves, it appeared as if Telenor and Telia were making plans to dominate the Norwegian market completely. (Joramo 1996)

The plans for Telenor-Telia dominance nearly came true in the spring of 1998. Secret negotiations were conducted with a view towards some kind of merger, which would have re-established the old monopoly if it had been effective. Telenor hoped to pull off this trick under the pretext of becoming a medium-sized international telecom. Ameritech's acquisition of Tele Denmark was singled out as an example of what would otherwise happen. Apparently, the Telenor-Telia merger plans had the political support of the Social Democratic party and the Conservative party, who would constitute a majority if the case was brought before the Parliament. However, the non-socialist minority government as the nominal owner of Telenor, was not informed and had not consented to these plans. When news of the plans broke, political flak caused the negotiations to collapse in February 1998.

After the collapse of the Telenor-Telia negotiations, all merger plans have been put on hold, apparently until the political climate has improved. Nonetheless, it seems to be the intention of Telenor to find a major partner that will allow Telenor a firm grip of at least 60-70 per cent of the domestic market as well as an expansion of its activities abroad. If Telenor eventually succeeds in creating an alliance with its biggest competitor, who is supposed to be Telia in a few years' time, hopes are that many of the other competitors, including the multi-national giants, will be sufficiently intimidated so as to refrain from aggressive marketing designed at winning new customers and also to prevent their take-over plans from being realised in Norway.

3. Visions

3.1. Old Monopolies Die Hard

For Telenor, like most other traditional telecoms, monopoly is still the ideal mode of operation. Since deregulation prevents a full monopoly, dominance verging on near-monopoly emerges as the best choice. All it takes to remain in a near-monopoly position is to find suitable means of keeping competitors from growing strong. Also, the ability to form the right alliances is of utmost importance. Alliance makes for partnerships involving control and influence of potential competitors. Agreements with major partners will keep competition within limits so that the telecoms, instead of defeating each others, will take care to co-ordinate their actions.

In spite of the failure of the Telenor-Telia talks after they caused repercussions in the political world, Telenor emerged triumphant. Increased financial backing by the government was the short-term alternative to bringing in support through a merger with another telecom such as Telia. To put the merger plans to rest for a while the government agreed to grant NOK 2 billion towards the realisation of Telenor's immediate investment plans. This grant was taken as a sign that the Norwegian government is pledging itself to support Telenor and thus reduce the need for a merger as well as the entry of private owners, fully or in part. Increased governmental support also means that Telenor will still receive preferential treatment by its owners much like it used to when monopoly reigned supreme. In this manner near-monopoly will still prevail in various field.

If Telenor and the government play their cards sensibly and in keeping with the near-monopoly scenario, there can be a way around the dominance of the multi-national companies. Also, the demise of the former national telecom monopolies that deregulation opens up for, can be avoided, at least partially. By keeping on to Telenor and giving it preferential treatment in a number of important areas vouching for continued growth, the government will at the same time be able to retain control of the country's telecommunication policy. In fact, keeping competition down and allowing prices to rise seems to be an attractive scenario from a government point of view.

The catch to government financing is that investments may exceed the limits that the government finds politically acceptable. In particular this is true if the composition of the majority in Parliament were to favour a liberal economic policy leaving infrastructure development mostly to private investors and placing the government in the back seat. However, there are few indications that such a change of policy will take place in Norway. It is unlikely that the present non-socialist coalition government will take steps in this direction. Neither will the Social Democrats if they win the next general election. Although some politicians, even among the Social Democrats, did not mind part privatisation of Telenor some time ago, perspectives opened up by the take-over of Tele Denmark by Ameritech, the merger of Ameritech and Southern Bell Company as well as other mergers such as that of WorldCom and MCI have made most politicians rethink their stands.

3.2. A Telecom for the World?

Our discussion so far may lead some readers to think that relationship between Telenor and the government is harmonious to the extent that conflicts will not arise. This is not so. On one hand, the enforcement of deregulation principles, eagerly surveyed by the European Union, might lead the government to take action against Telenor. Even if the deregulation aspects should prove unproblematic, Telenor might develop in a direction that will be incompatible with government views and the political climate as well.

A potential source of conflict with the government will be the scope of Telenor's foreign investments. In 1997, 50 per cent of the investments were made in Norway and 50 per cent in activities outside of Norway, primarily in Viag Intercom (Germany), Connect Austria (Austria), and Kievstar (the Ukraine). In 1998, an investment totalling about NOK 1.5 billion is expected in Total Access Communication, a mobile telephone company in Thailand. Slightly less will be expended on Picenne Italia if the Italian government grants the company a licence to operate a mobile telephone network there. And the list goes on as far as mobile telephones are concerned: Russia, Hungary, Montenegro, Ireland, Bangladesh and Greece.

Telenor's Executive Director, Tormod Hermansen, has stated that he plans to invest NOK 40 billion, equally distributed on projects at home and abroad, in the next five years. The revenue coming from countries outside of Norway is expected to increase five times in the same period. (Finstad 1997). Needless to say, this is a very ambitious goal for a telecom whose market value was estimated at NOK 30-36 billion in June 1997. (Ministry of Transport and Communications 1997b)

Investments of this magnitude are aimed at securing Telenor's place among the competitive telecoms of the future, particularly in the fields of mobile phones and satellite communication. The question is whether the government is prepared to find the necessary funds to finance such an ambitious goal. Needless to say, not all the money will come from the government treasury, but a major part is supposed to do so for as long as Telenor is publicly owned. Since the government is likely to be a conservative spender, it can be difficult for Telenor to persuade it to open its purse. First, the government is demanding that Telenor adapts so as to make a sizeable profit in competitive fields. Second, the government is watching the employment figures closely. Until now, Telenor has complied with the demands of the government on both accounts. As referred to above, revenues in the first quarter of 1998 were up 17.5 per cent from the same period in 1997. Also, the number of employees increased during 1997 from 18,480 to 19,362. Still, the government decided to grant only NOK 2 billion towards meeting Telenor's investment plans, not NOK 3 billion as requested by Telenor. (Ministry of Transport and Communications 1998)

If Telenor is not to lose its capital base, most of the projected investments of NOK 40 billion during the next five years will have to be government grants. The initial contribution of NOK 2 billion on the part of the government is only a small step in this direction. At the moment one of the most serious threats to Telenor's plans for becoming a competitive telecom of the future seems to be the conservative attitude of the Norwegian government.

No doubt, the huge investments required accompanied by a suggested 30-40 per cent share of the profit constitute no tempting deal for the government at a time when the

ideology of state ownership of enterprises is frowned at. An uncommitted attitude in this respect combined with a conservative spending policy can put government control at stake as well as the future of Telenor. As opposed to the government, Telenor has stated its commitments quite eloquently: "We can't succeed at home without competing with the best abroad." (Telenor 1997) If things turn out badly, hopes of attaining success for the government as well as for Telenor may be shattered.

3.3. Combating Carnivorous Competitors

Obviously, the survival of Telenor as well as government control in a deregulated market is based on strategies of determent. As stated above, the government and Telenor will most probably team up to confine the multi-national competitors to a small segment of the Norwegian market. The first step has already been taken by the government in imposing by law a licensing requirement on telecoms attaining a market share in excess of 25 per cent. For smaller telecoms there is an obligation to register with the authorities, so that their activities can be monitored. A further restriction is placed on actors in the mobile phone market, which is generally believed to be the market of the future. In order to obtain a permission to transmit using electromagnetic frequencies, licensing is mandatory regardless of the company's market share. (Ministry of Transport and Communications 1997c).

This shrewd adaptation of the telecommunication laws goes a long way towards fending off would-be competitors. The fastest way of obtaining a sizeable market share in Norway would be by securing a share of the mobile phone market. By the summer of 1998, the only company allowed to compete with Telenor in this field is NetCom. After some aggressive marketing, involving the bargain offers of mobile phones at the symbolic price of 1 krone, NetCom claims to have conquered one third of the mobile phone market, although the financial result has not been encouraging so far. (NetCom 1997a) Since the penetration of mobile phones in Norway is already 40 per cent, which is among the highest penetration rates in the world, competitors will have to fight hard to get in if they can obtain a licence. Both the high level of penetration, the low profit margins as well as the licensing requirement can be looked upon as effective deterrents.

As far as fixed-line connection is concerned, Telenor has proved to act as the proverbial Leviathan. This metaphor refers to Hobbes's characteristic doctrine that men can only live together in peace if they agree to subject themselves to an absolute and undivided sovereign. There is no better way to characterise the interconnection negotiations with Telenor that budding competitors will have to go through. As we have seen, NetCom, being the biggest competitor, filed a complaint with the Norwegian Post and Telecommunications Authority over Telenor's obstinacy and caused a fine to be passed on Telenor.

*Table 2. Telecom companies apart from Telenor registered with the Norwegian Post and Telecommunications Authority, end of April 1998.**

Company name	Public telephone services	Public telephone networks and transmission capacity	Prefix licence for carrier selection
AT & T Unisource Comm. Services (Sweden)	X	-	X
Consorte Tele	X	-	-
EAB Tele	-	X	-
ElTele Øst	X	X	X
ElTele Østfold	-	X	X
ElTele Rogaland	-	X	X
ElTele Vest	-	X	X
Enitel	-	X	-
Global One Communications	-	-	X
Gratistelefonen	X	-	-
ID Norge	-	-	X
International TeleCommunication Marketing	-	-	X
IT Network	-	-	X
Janco Multicom	X	X	-
Long Distance International (UK)	X	-	X
MFS WorldCom (Sweden)	X	X	X
NetCom GSM	X	X	X
NetPlus	-	-	X
NetSystem International	X	-	X
NetNet International (Sweden)	X	-	X
NetSource Norge	-	-	X
Nordic Telecom Group	-	-	X
PowerTech Information Systems	-	-	X
Primærdato	X	-	X
RSLCOM Sweden	-	-	X
Tele1 Europe	X	-	X
Tele2 Norge	X	-	X
Tele8 Norge (Denmark)	X	X	X
TelePluss Access	X	-	X
Teletopia Nett	-	-	X
Telia Norge	X	X	X
TransAmerican Technologies	-	-	X

* Compiled from http://www.npt.no/oppgaver/no_registrliste1.htm, .../no_registrliste2.htm, .../no_prefixs.htm

There is no way of knowing for certain what will be the effects of this sanction. Most probably, Telenor will rely on the leniency of the authorities, considering the common interest already shown in trying to preserve the supremacy of Telenor. It is unlikely that many of the smaller firms in table 2, now in various stages of establishment, will be given much of a future in Norway. Many of them will find that conditions offered will be intolerably harsh, not least from an economic point of view. Even if they are granted a

prefix for carrier selection and are formally licensed to operate in the Norwegian market, success will be hard to attain. As can be seen in table 2, some of the companies having obtained a carrier selection prefix have not yet reported to the Norwegian Post and Telecommunications Authority that they will make public telephone services available. Fewer still have networks and transmission capacity of their own enabling them to escape the regime of the Leviathan.

Apart from the major competitors listed in table 1, a success in certain districts seems granted to those who can peruse an existing network alternative to the one maintained by Telenor. The networks of the electricity companies, the state railways and the cable-TV companies are likely to offer opportunities for maverick telecoms willing to restrict their operation to major towns and cities. The Enitel and ElTele companies aim at exploiting the electricity lines. Janco Multicom is a major cable-TV firm in the Oslo region. Telia and ElTele have signed ten-year contracts with the state railways in order to take advantage of surplus capacity on their fibre-optical network, and NetCom and Tele2 are expected to follow suit.

Another strategy will probably be adopted by the telecom giants. They have been formed largely through mergers and also attempt to expand in the same manner. Until now they have been mostly lurking in the wings, probably due to the hostile attitude of Telenor and lack of privatisation initiatives shown by the Norwegian government. To be true, Ameritech, before being fused with Southern Bell Company, saw fit to acquire a 19.7 per cent stake in NetCom. There were rumours that this share would be increased before long, and also that Ameritech would acquire part of Swedish NetCom, who has a 25 per cent stake in its Norwegian namesake. In this manner one of the international giants could easily be in control of the second largest Norwegian mobile phone company.

3.4. Sweet Dreams of a Lemon Merger

Ameritech is reckoned to be the most aggressive of the American giants operating in the European market, with stakes in telecom companies in Hungary, Belgium and the Nordic countries. Even if Southern Bell Company should prove less interested in the small telecoms of Europe, Telia and Telenor are reported to resume their interrupted talks about forming an alliance, which has been nicknamed Lemon. If the views of Executive Director of Telenor, Tormod Hermansen, are adopted, the projected alliance of Telia and Telenor will not be a real merger but more like a joint venture securing the continued existence of two independent companies who will pool their resources so as to prevent one from underbidding the other. The joint venture would mean that Telia has to cancel its partnership with AT&T Unisource and that Telenor will have to sever its so-called strategic alliance with British Telecom. Reportedly, both relationships have been strained and largely ineffective. In particular, the alliance between Telia and Unisource has proved to be a cost-consuming affair. (Eriksen 1998b)

Evidently, all telecoms are holding their cards close to their chests so as not to create another political tempest in Norway. However, a couple of denials have revealed some of the plots not being contemplated at present. In the newspapers, some analysts have speculated that Telenor wanted British Telecom to buy a minority stake should the Norwegian government decide to put its shares on sale. Telenor has denied rumours to this effect. Simultaneously, Telia denied a newspaper report that British Telecom would be offered a 15 per cent stake in the merged company whilst the merger was still under negotiation.

Analysts seemed to think that both Telenor and NetCom, the two biggest Norwegian telecoms, were trying to keep their interconnection rates as high as possible, since competition was still in its infancy. But some reports ventured that the availability of new networks operated by the railway and power companies might well free up the market and break Telenor's stranglehold. In this way the home market was likely to change to Telenor's disadvantage regardless of the actions taken by international giants.

News of various movements in the telecom world soon led the government, who was opposed to the merger talks between Telia and Telenor during the first months of 1998, to realise that the proposed union would be helpful indeed in protecting the country's interests. This change of mood came about not just because of the telecom ownership change in Denmark and the merger of Ameritech and Southern Bell Company. Also, in a matter of months it dawned on the government that a real threat was posed by several international giants as news broke that US companies such as GTE Corporation and Bell Atlantic Corporation were taking steps to expand in Europe.

Furthermore, statements made by international analysts surely must have made their mark. 'The only people really delighted about the abandonment [of the Telia-Telenor talks] will be the competition,' said an analyst at Salomon Brothers in London. 'Telia and Telenor would have been a very powerful combination.' (Schjolberg 1998)

Encouraging comments came from Sweden as well. Telia Executive Director, Lars Berg, said he did not rule out talks restarting between the two companies. Also, the Swedish trade and industry ministry repeated that it had no plans to offer Telia shares to the public. The overall effects of such reports helped ease the tension created when the talks failed. Still, there were major obstacles to deal with in order for the talks to resume. First of all, with Telia being one-and-a-half times the size of Telenor, the Norwegian government would have to inject about NOK 10 billion kroner (\$1.32 billion) into Telenor to make the companies equal in size. Second, the countries disagreed over issues such as future development plans for the Norwegian and Swedish parts of a new company. Issues such as where the company's headquarters would be and the nationality of the chief executive

have also been a sticking point. Last but not least, the Norwegians did not want their state-owned company controlled by the Swedish.

4. A National Concern

4.1. Problems of Protectionism

Norway, Sweden and Finland are among the few remaining Western European states that retain 100 per cent ownership of their telecoms companies. In these countries, government control of the telecoms have been a vital part in shaping the Scandinavian-style welfare state. Telecommunications have been looked upon as a public benefit that must be regulated by government action. For this reason, telecom services, as the sole responsibility of the state, are associated with a high degree of protectionism.

National interests have made themselves felt several times in the past, and the recent failure of Telia-Telenor talks was not the first time that Nordic countries have been unsuccessful in joining forces in the telecommunications field. In fact, there have been several such failures since the 1960s. It has been said that in the early 1990s, no merger was possible because the executive directors of Telia and Telenor did not trust each other. The Swedish executive disliked Telenor's inclination towards British Telecom and opted for Unisource instead. At about the same time, the Norwegian, Swedish and Danish governments unsuccessfully talked about merging their three companies when a common standard for mobile phone systems was selected. (Kanden and Christiansen 1998)

The most notable instance of a Nordic merger happened in 1951 when the three national and mainly government-owned airlines of Denmark, Sweden and Norway were merged into Scandinavian Airlines System. Finnair and Icelandair never became part of the merger. Other joint ventures have been slow in coming, partly because of licensing laws enacted to prevent dominance in certain industries. The most sensational collapse of Nordic merger talks occurred in 1979 when Norwegian Prime Minister Odvar Nordli was instrumental in drafting an agreement which would have merged Swedish car manufacturer Volvo with Norwegian companies. The agreement, which some people termed 'the deal of the century', was turned down by Swedish shareholders. (Aaserud 1989)

Scandinavian Airlines System came about at a time when competition and mergers among international airlines threatened the existence of many of the smaller national airlines. In particular, investments in new technology, in this case a fleet of new aircrafts, were considered too much for a single country. The Volvo agreement was conceived along the same lines. Competition in the international automobile industry required investments that could best be provided by an oil-producing country such as Norway. When the agreement

was rejected, Volvo turned to France and Renault. Telia-Telenor talks followed the same pattern of thinking. Investments in new telecommunication technology and new markets could most conveniently be made by pooling Nordic resources. It remains to be seen if the merger talks, when resumed, will be confined to the Nordic countries like they did when the Scandinavian Airlines System was formed.

The chequered history of Nordic mergers past and present goes to show that national ownership is often taken to be of utmost importance if national interests are to be satisfied. This principle is at the root of most licensing laws. It also explains the reaction of the Swedish shareholders in the Volvo case and the initial reaction of the Norwegian government when news of the Telia-Telenor talks broke. It has even been said that the Volvo agreement would have been turned down by the Norwegian Parliament if the Swedish shareholders had not prevented its adoption. In this perspective, merging Telenor with any foreign company is bound to be a doubtful proposition in many quarters.

4.2. Securing Basic Services

In its white paper about the activities of Telenor, the government states that Telenor will still be the preferred partner for realising what is defined as 'basic societal requirements', some of which are not cost-effective. These requirements comprise securing high-quality telecom connections to all citizens throughout the country at the lowest possible prices in the areas of speech transmission and data transmission at speeds up to 2 Mbit/s. In addition, Telenor will also be assigned the duty of providing all customers in the fixed-line market with a digital connection. (Ministry of Transport and Communications 1997b)

The government states in the white paper that technical development and increased competition due to deregulation will affect the nature and scope of 'basic societal requirements'. Even so, the government still intends to entrust to Telenor services of a nation-wide character. Only services covering certain parts of the country will be open to competition. A case in point is the projected licensing of new mobile phone operators using the DCS/GSM 1800 system. Licenses will be awarded to three telecoms found capable of serving the 19 biggest cities and towns.

The government realises that Telenor can no longer take money from profitable services to cover up loss suffered in the operation of unprofitable services. Since the government is not prepared to provide funds for this purpose, an interconnection tax is being planned. The tax, if imposed, will mean that customers of competing telecoms are forced to contribute towards the operation of unprofitable services within Telenor when these services are defined by the government as being 'basic societal requirements'. Needless to say, the taxation is hotly debated, and it is not clear if it will be passed. However, the proposal is an expression of the regulatory principle of fund redistribution characteristic

of the Nordic welfare states that will eventually take the edge off the all-out competition that deregulation is designed to promote.

The fundamental question facing a modern welfare state such as Norway is whether deregulation is a viable principle unless tempered by firm government regulation. Deregulation, meaning full competition guided by economic motifs, apparently forgets about the regional and class differences that the modern welfare state tries to minimise. Sparsely populated regions as well as out-lying groups such as the handicapped and the elderly often require services that are expensive to operate. In post-war Norway the society as a whole has taken upon itself to finance a large number of these services so as to promote unitary prices regardless of group or regional affiliation, often by means of redistribution measures such as taxes, fees or government grants.

The best prospects of success of Telenor in the home market after deregulation seem to stem from the regulatory regime developed by the government over the last half century. Telenor will enjoy preferential treatment just because it has the most complete coverage of services throughout the country and has a reputation for operating unprofitable services with success. At the same time, various kinds of taxes will be imposed on the competition in the interest of keeping up the established service structure. It is to be expected that the interests of the welfare state will be protected against erosion by free competition.

4.3. Technological Tactics

Clearly, the weakest side of Telenor is its lack of technological innovations. Basically, Telenor has got few R&D activities of its own and will have to rely on innovations generated elsewhere. To a large extent, telecoms get by because innovations to be reckoned with will be reflected in generally accepted telecom standards. Thus, success or failure is not just a question of proprietary technology. The fate of any telecom will also depend on factors such as funding, marketing and the ability to combine standard components in order to offer better services. In addition, the ability to find profitable niches in the market will be of utmost importance in the world of the future. Of course, being the one who establishes the standards will give any given telecom the leading edge.

Internationally, Telenor aims at being a leading telecom in two fields: satellite communications and mobile phones. At present, most TV programmes in the Nordic countries and Slovakia are distributed through the company's telecommunication satellite. In co-operation with Europe's biggest TV programme distributor, French Canal Plus, Telenor hopes to establish a digital standard for satellite broadcasting. Satellite-based intranets internal to the communications of a company also looks like a promising field. The big Dutch manufacturer of lorries, DAF, is relying on Telenor for its intranet. If such plans succeed on a grand scale, Telenor will be a major satellite communications innovator both at home and in a European perspective.

Other engagements in foreign countries are mostly connected with mobile phone networks. Most often, Telenor will take part in co-operation with other telecoms. Such alliances have been established in Ireland, Montenegro, Hungary, Greece, Austria, Germany, Russia and Bangladesh. Also, various niches are being explored as far as other services are concerned, often in co-operation with Norwegian firms. A global communications network for shipping and a global system for pathological examinations are examples of such services. Plans are made for further expansion of mobile communication, satellite communication, value adding network services, and media-related services to comprise USA and Southeast Asia. In 1997, Telenor's investments abroad were for the first time larger than those at home.

Telenor aims to be one of the 10 biggest operators in the European mobile communications market. In another prioritised area of international operations, satellite communication, the ambition is even higher: to be one of the three largest players in the European market. How Telenor will set about reaching their ambitious goals is not clear. First of all, the capital investment needed to carry through with most of the plans has not been secured. The project in Germany alone requires an investment of NOK 3.2 billion over a period of five years.

Certainly, the plans of Telenor seem to be more attuned to the realities than those of the long-defunct Norsk Data, whose goals were to become a major European computer manufacturer. As it turned out, the company was unable to adjust to the coming of the PCs and kept on producing mini-computers running proprietary software to the very end. Telenor is set on adapting its activities but depends on the actions of the Norwegian government, the politicians and the public at large to change accordingly.

5. Conclusion

According to the ambitious plans presented by Telenor, the future of the company looks more like sweet dreams than a nightmare. The question is whether the dreams will come true.

There are many obstacles to attaining the goals set for the future. Despite deregulation, the government can probably invoke regulatory measures so as to secure Telenor a profitable domestic market. Also, the government should be able to find the capital investment required for Telenor to expand abroad.

However, government action is not guaranteed. There is still a major problem for Telenor to communicate its views and win acceptance for them in the government, among the politicians and among the general public. Until now, the company has not been entirely

successful in this respect. As a spokesman of Telenor is quoted to say on the company's Internet pages: "Our expansion might surprise the public; there has been quite a shift in Telenor's outlook, moving from a national scene to the global arena."

Despite the projected investments, Telenor will remain a small telecom on a global scale. Probably, more than loosely formed alliances will be required to fight off competition and retain profitable services at home as well as in foreign countries. A merger with other small national government-owned telecoms such as those of Sweden and Finland seems unavoidable. Again, the merger will depend on the visions of government and politicians to be in harmony with those of Telenor.

Unless the unlikely event should happen that some of the giant telecoms will emerge as the Microsoft of telecommunications, there should be a place for Telenor in the international market, provided that it becomes a medium-sized telecom. Also, the company is set on investing in niche markets, which seems like a sensible strategy.

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