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**Privatisation, Liberalisation and Regulation  
of Telecommunication in Germany - a first  
result**

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## 1. Privatisation of Telecommunication in Germany

Almost exactly two years ago, on November 18th 1996, it was the first time that shares of Deutsche Telekom were traded on the stock exchange. The "going public" of Deutsche Telekom was the biggest issue of shares which had ever taken place in Europe and therefore alone had to be rated as a "key event in the history of European Capitalism", as the Financial Times put it at the time. The IPO (Initial Public Offering) of Deutsche Telekom was basically a historical victory of neoliberal privatisation policy - during the course of which the long era of public telecommunication service had come to an irrevocable end even on the old continent.

The going public of Deutsche Telekom marked the final point of a process which had started with the so-called "Postal Reform I" in 1989. In 1989 the Telekom AG of today was organisationally separated from the two other areas of "Postal Bank" and "Postal Service", but remained an integral part of the national authority "German Federal Post Office" whose head was a minister and which was to be found within the classical structures of public administration. The "Postal Reform II" of 1994 provided the constitutional requirements for the privatisation of the state-owned enterprise and the authority was transformed into three public limited companies.

The changeable and controversial history of the privatisation of Deutsche Telekom cannot be outlined here in all details. Instead of a historical review I will only give two brief comments each of which contain a German-French aspect:

- First it needs to be pointed out that the German Postal and Telecommunication union DPG - with whom the INPUT Consulting GmbH co-operates very closely - fought against privatisation like many other unions of this sector and developed an independent reform concept for the modernisation of Telekom. This concept had been strongly inspired by the status of France Telecom at the time as an autonomous public enterprise. The DPG could not, however, carry through its reform model against the predominance of the neoliberals. In the end, the union focused on securing central interests of the employees during the transition period from being a public service to gaining private structures - an aim it accomplished by means of a four week strike in 1994.
- Second, the German debate often overlooks the fact that the defeat of the French socialists in the election of March 1993 and the closely following announcement of the bourgeois government to privatise France Telecom meant a sensitive set-back for the German privatisation opponents and might have even decided the conflict. The idea of a strong German-French bloc of modern state and non-privatised telecommunication enterprises had lost a lot of reality prospects due to the change of power in France.

From history back to the present: During the "going public" of Deutsche Telekom the share of the Federal Government at the property of Telekom sank to 74%, whereas the German government budget has not immediately profited from the first "going public" of Telekom. The issue of shares was carried out via the means of a capital increase and the state did not sell any of its shares, as is the case with comparable cases of public telecommunication enterprises going public. Thus, the total proceeds of the action amounting to DM 20 billion were credited exclusively to Telekom.

Due to an agreement between Telekom and the Federal Government, the Federal Government is not allowed to sell any of the Telekom shares it owns at the stock market before the year 2000. It is possible, however, to sell shares to strategic investors - in this case an equity swap is primarily considered, i.e. a cross-over participation with France Telecom. In order to get the urgently required money somehow, not only in order to fulfil the Maastricht criteria, the former Federal Minister of Finance, Theo Waigel, had already started to "park" Telekom shares with a national bank, the "Kreditanstalt für Wiederaufbau" (credit institution for restructuring). This institution is supposed to sell the shares to the public from the year 2000 onwards. In the meantime, the credit institution for restructuring holds almost 25% of the Telekom shares, 11% of which have only been sold to the national bank in the last couple of days, i.e. already under the aegis of the new federal government. Legally, the state property share at Deutsche Telekom has thus recently gone below the magical limit of 50%. After all the fierce battles that were fought about privatisation, it seems to be quite strange that this step has hardly been registered by the German public and has not prompted any controversies. Whereas Dominique Strauss-Kahn categorically ruled out a further reduction of the national share to under 62% on the occasion of the rating of the second tranche of France Telekom, his new German colleague and brother, Oskar Lafontaine, does not seem to consider the already occurred loss of the national majority at Deutsche Telekom to be a problem. Maybe not yet - the man has only been in office for a couple of days.

## **2. Liberalisation and Regulation of Telecommunication in Germany**

Thus, privatisation in Germany is to a certain extent a "fait accompli", which at least at the moment is hardly being discussed any more. The situation is different, however, with respect to the liberalisation and regulation of the telecommunication sector which at the moment are at the centre of fierce debates in Germany. What exactly is being discussed?

In Germany, the telecommunication law has been passed already in 1996. This law removed all supply monopolies, the last of which was - like in most other member states of the EU - the telephone service monopoly by the 1st of January 1998. The German Telecommunication Law is rightly considered to be the most liberal of the world. It contains three basic positions:

1. Competition is supposed to be the highest principle and most outstanding regulation aim - all other orientations - i.e. such of a social and infrastructural nature - are as a matter of fact not as important.
2. The former monopolist Deutsche Telekom is - not without good reason of course - being rated as the dominator of the market, whereas its competitors are being rated as "soft little plants which need to be protected" and which require the protection from the independent regulatory authority - therefore this is a clearly asymmetrical regulatory approach at the cost of Telekom. In this respect it needs to be mentioned that apart from the "resellers" the competitors are mostly capital-intensive metal enterprises or public utilities.

3. the market will be opened up in an unlimited way - all interested parties may, via a licence, offer services, establish and operate networks in the former monopoly area without the licences being restricted in their number and without the requirement for the obligatory supply of certain areas.

The German Telecommunication market has not only opened up legally, its opening up shows itself also in certain facts: Meanwhile some 200 licences have been awarded for telephone infrastructure or service companies. Another estimated 1.300 companies are active in areas where licences are not required.

For months now there have been strong battles around the area of "liberalisation and regulation" in the German telecommunication sector. The main opponents are Deutsche Telekom, its competitors, the regulatory authority and the political protagonists. The conflicts are not only being carried out on the market, politically and in the media, but also very often in front of the courts. The main conflict lines are certainly not "typically German" but rather of a classical nature and they are very much disputed in Germany. There is always the central question of how strongly the competition may be forced without endangering the Deutsche Telekom in its substance, i.e. in its function of providing infrastructure, innovation and employment and in its industrial and political significance as one of the few telecommunication companies of Europe, which could establish itself as "global player" on the highly competitive telecommunication market. Always on stake is also the company value of the Deutsche Telekom AG, which does not only affect the state in its role as the principal shareholder, but also 1.9 million German citizens and two thirds of the Telekom employees who own shares of the company.

Particularly relevant and controversial has been the conflict about "interconnection"- which in concrete terms deals with the question of how much the competitors of Deutsche Telekom have to pay for the joint use of the telephone network. In this case the regulatory authority has laid down a price of 2.7 Pfennig per call minute - a price far below the limit required by Telekom. When this decision became known, the value of the Telekom share dropped dramatically and within one day the company lost DM 8 billion in market value. Another impact of the low interconnect rate was that it encouraged Deutsche Telekom competitors to lease capacity from the former state monopoly - instead of building their own networks.

On this basis, entirely surprising market developments have taken place: Its not the great competitors of Telekom like Mannesmann, RWE and Viag with their own infrastructure who are gaining power on the market, but rather the small enterprises without their own networks who are taking market shares of Telekom.

### 3. Privatisation, Liberalisation, Regulation - a first result

How does a first and naturally provisional appraisal of privatisation, liberalisation and regulation in the German telecommunication sector look like?

Let me point out several aspects:

Deutsche Telekom has completely changed since its privatisation and under the pressure of competition. The internal structures of the enterprise - which for a long time have been in a state of permanent change - do not relate to an authority any more, but are more characterised by their market and customer orientation. The company philosophy shows hardly any sign of the old spirit of a "public service" any more, but it contains a lot of an - even moderate - orientation at the "shareholder value". This value shows a really satisfying rate, if one takes the stock exchange price as a measure: If in comparison to the general development the "T-share" was considered an "underperformer" for a long time, then it has really stood its ground in the turbulence of the last couple of months and is quoted today at slightly below DM 50 - almost 65% above its initial rate in November 1996.

- Above all, Deutsche Telekom has become smaller: A harsh "downsizing" course reduced the number of employees in the past couple of years by one fifth, which corresponds to a reduction of about 50,000 jobs between 1993 and today. At the moment, 184,000 people are employed with Deutsche Telekom. The reduction of personnel is supposed to be continued in the next couple of years at the same or at an even higher speed. Privatisation and liberalisation were therefore certainly no employment programme for Telekom, but rather the opposite, whereby one should not underestimate, however, the job saving effects of the new technologies in this context. The big question is now, however, whether the massive job losses with the ex-national ex-monopolist may be compensated by the employment organisation created by the "new entrants". This is a highly disputed fact and serious dates are not available. An alleged number of 102.000 jobs were created in the German information technology and telecommunication branch in the past two years, whereby the sharp tumble at Telekom would be clearly overcompensated. There are, however, strong doubts about this figure. According to a forecast of the scientific institute for communication services, medium-term employment increases will occur in the wake of privatisation and liberalisation (plus 87,000), but there will be a negative long-term balance (minus 76,000). This, however, would be a really miserable balance for a sector that is considered to be the boom branch as such and growth factor No. 1.
- How have the market structures developed? We have already mentioned the surprisingly good performance of the alleged small suppliers who do not have their own infrastructure and the starting problems of the big network competitors of Telekom. As a whole, however, the competition has shown effects which could almost be called dramatic: According to the latest assessments, Deutsche Telekom has lost approximately 25% of its market shares in the market segment "distant calls" in the past few months since the total liberalisation. As a reaction to these heavy losses, the Telekom-management has announced drastic price reductions of up to 60% a couple of days ago. This will further accelerate the rapid price lapse which is characteristic for the market developments of the past few months.

- Using the telephone has without a doubt become cheaper in Germany. Forecasts according to which telecommunication will become a luxury item in the wake of privatisation and liberalisation and according to which poor people will not be able to afford telephone calls, have been clearly refuted up to now. It remains open, however, whether it may be feasible in a generally liberalised environment to secure the constant telecommunication supply on a high technical level for everybody at payable conditions - which means in concrete: The question for a modern universal service. There are more and more signs that indicate that the German model of liberalisation in general shows considerable weaknesses in the areas of innovation and modernisation of infrastructures with regard to the requirements of an information society. As things have developed up to now, for instance, there will be no investor in Germany who would be able and prepared to provide a full-covering realisation of a network based on glass fibre ("fibre to the home").
- This construction fault becomes more and more obvious to the German telecommunication policy, and at least to those people who do not restrict their view by neoliberal blinkers. The German telecommunication and postal workers' union is pleading for a correction of the regulation practice and a revision of the telecommunication law and finds itself more and more supported in this requirement. Thus, the Federal Minister of Economics of the new government announced in the last couple of days that "he wants to go a different direction in telecommunication policy. Without any doubt, the customer has profited from the lively competition on this sector. Now, however, there is the threat of a ruinous competition which bears a high risk not only for Telekom and its employees, but also for other enterprises, who have invested in telecommunication networks. Suppliers of telecommunication services, who themselves have not invested in networks, are demanding such low prices that the market is starting to get damaged. Thus, not only these enterprises are starting to have difficulties, but the construction of telecommunication networks as a whole is being endangered".
- The head of Deutsche Telekom has put this fact in a somewhat short but more concrete phrase: "I do not think it is the role of Deutsche Telekom to fire people because we have to subsidise companies that don't invest".

All signs are indicating that the German telecommunication policy will remain very exciting!