Laissez-faire and *lagom*

The Swedish market has long been the most open in Europe and at last it is now one of the most competitive as well. The next step is to take national carrier Telia out of state control, so that it too might share in the benefits...

Sweden has always had a somewhat coy relationship with the principles of an open market in telecomms operating. No telecomms law, nor legal monopoly in network and services has ever existed—but an awesome *de facto* monopoly in the shape of Telia, the national carrier, has dominated the market. World-beating levels of penetration in fixed and mobile services, low prices and high performance confirmed the effectiveness of the model. Swedes were liable to get smug about it all: a fully open market, all were invited, but nobody chose to come.

No longer. If Sweden has always been Europe's most open market, it is now probably its most fiercely competitive one as well. Clearly some major carriers are using it as a test bed for competition as well as a springboard for the pan-Nordic market. The Government has been instrumental in creating a pro-competition framework, notably in its dealings with other countries. It has also actively encouraged network competition through the award of contracts to new carriers.

This is all in the good Swedish tradition of fairness and *lagom*—a distinctly Swedish term for even-handedness which borders on neutrality and even passivity. The time has now come, however, for Sweden's Government to rouse itself and deliver results on the other half of this equation: through the privatisation of Telia.

Everything about the domestic and international future of Telia—which at least enters the debate from a position as probably the strongest 'pound-for-pound' telco in Europe—seems to point to an equity sale. The Social Democrat-led Government elected in September 1994 continues to oppose a sale, while Telia is lobbying harder than ever for one to take place.

Sell by date

An opening of Telia's equity would mark the culmination of a lengthy and often painful process of transition for Telia. The company plans to reduce its workforce to around 24,000 by 1997—roughly 50% of levels at the beginning of the decade. All of this is taking place at the same time as the number of competitors it faces has continued to grow. Where trunk and international competition has been intense since 1993—and continues to strengthen—the last year has seen a rise in competing local networks. Telia counts more than 30 competitors in the Stockholm area alone, among them MFS, which has an all-fibre network in the city and Singapore Telecom International, which has negotiated the purchase of the Stjarn TV Group for US$85m from the City Council.

Under the terms of an agreement with the Government which entered effect for three years from the time of Telia's corporatisation in July 1993, Telia is restricted from recovering any access deficit in its local loop through interconnection rates charged to competing carriers. It has therefore been forced, within an overall price cap of NPI-1% which runs to 1996, to embark upon major tariff rebalancing. Peak long-distance rates fell by 36% between the end of 1993 and early 1995; the drop in international charges, where Telia's market share is down to 80%, may reach 50% soon. To compensate for this, local call charges and rentals may double (from a very low base) by 1996. Of course, this strategy may give greater leeway to new fibre and cable television competitors as well as wireless options which one feels may prove a potent force in the Swedish market.

The use of wireless for mobile services continues to grow in Sweden. Telia Mobitel has managed to capture more than 40% of the three-operator GSM market as well as boasting almost 1m subscribers to its NMT networks. Its nearest rival in GSM is Comviq, which has succeeded with a strategy of cut-price entry and subsidised handsets. NordicTel's 'Europolitan' service, aimed primarily at business users, trails a distant third.

StatTel's helping hand

In April 1995 the StatTel Delegation, the Swedish Government agency created to reduce the state's expenditure on telecommunications, opened its

Population: 8.5m

Telephone density: 71%

Regulator: Post & Telestyrelsen

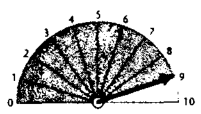
Dominant operator: Telia

1994 revenues: US$5.2bn

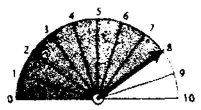
Ownership: 100% state owned

Mobile market status: Analogue monopoly; 3 GSM operators

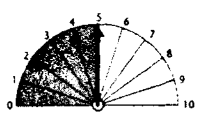
Cellular telephone users: 1.76m



Liberalisation index



Dominant operator strength



1996 investment opportunities

Whether on its own, or as part of Unisource, Telia remains aggressive in the Nordic market which it regards as its own

long-awaited voice services tender. StatTel's aim is to reduce public service telephony costs by at least 25% while hastening the introduction of new voice features and functions. VPN-type functionality is a minimum requirement of StatTel's tender.

Controversy has dogged the actions of StatTel since it was created in 1991. The procurement deals negotiated by StatTel cover a potential user base of some 200,000 state employees in a country whose population is only 8.5m. The agency made a dramatic debut in May 1993 when, following a tender which included bids from Telia, second carrier Tele2 and BT, a framework contract covering price and service levels for national data services was awarded to France Telecom Transpac. France Telecom also gained a follow-up success when chosen (in partnership with Sema Group Info Data AB) by StatTel last year as one of two suppliers of X.400 electronic mail to the state agencies. Again, Telia was excluded from the deal.

Those seeking to prosper in the Swedish market have been waiting for two years since the data contract was awarded for the voice tender to be opened. The same key players are likely to compete. The country's public services currently spend nearly Skr2bn (US$285m) per year on telephony services, with the tender covering roughly half that amount. Even though one of the tender's aims is to reduce the amount spent, the contract still represents a significant prize in the Swedish market.

Pots and kettles

The opening of the tender was undoubtedly a catalyst for the announcement in March 1995 of the formation of Telenordia, a new venture in Sweden combining the Concert services of BT of the *UK* with two of its Nordic distributors, Telenor of *NORWAY* and Tele Danmark of *DENMARK*. As the latest twist in the saga of changing relationships between the Scandinavian PTOs, Telenordia caused Telia to lose its cool in a very un-Swedish fashion.

The intensity of Telia's response was expressed in the fact that it seemed to think that it had more chance of a sympathetic hearing for its disquiet over Telenordia in Brussels rather than Stockholm. Telia's appeal to DG-IV of the Commission came in the same week as the opening of the StatTel tender. Angered by the inclusion of its Danish and Norwegian neighbours in BT's new venture, the company's head of Corporate Strategy, Bertil Thorngren, said, "we simply want to have the same opportunity in Denmark. The Swedish market is wide open. Tele Denmark has a legal monopoly on voice services and about 80% of the market up to 1998. There is a monopoly in Denmark, a monopoly in Norway and in the UK there is competition. This means that you have quite a force with two monopolies and we can't fight back."

In European telepolitical terms this protest was screamingly funny. The Telia-led Unisource grouping, already in trouble for having failed to notify the EC regarding the inclusion of Telefónica of *SPAIN* and AT&T in the alliance, mixes part-privatised monopolies (Telefónica and PTT Telecom of the *NETHERLANDS*) with glacial state-owned monopolies like the PTT of *SWITZERLAND* and fully competitive state-owned companies like Telia.

Telia had a point when it raised its objections regarding Danish and Norwegian involvement in Telenordia; unfortunately, Telia was the last company in the world that could have credibly made that point in Brussels. The Commission's response to Telia's complaint merely blamed legal problems which prevent it forcing EU countries to open their markets before the 1998 deadline.

The deadline for bids in StatTel's voice tender was 1 September 1995; after evaluation, the winner should be in a position to offer services from the first quarter of 1996. Telia's response to losing out in past StatTel tenders has been one of anger. It was particularly critical after the award of the data contract to a subsidiary of one of Europe's largest monopolies, France Telecom. The administrators of Sweden's truly open market hold little sympathy for that view.

Global aims undergo shift

Telia has long been among the most active of carriers on the international scene. The openness of the Swedish market undoubtedly helps it in this respect: an ISR and PTO licence in the *UK* for instance, would not have been granted if the Swedish market were closed or, probably, if Unisource rather than Telia had applied for it. Cultural ties have helped Telia to expand into *ESTONIA* in the fixed and mobile sectors, while cellular licences have followed in *LATVIA* and *RUSSIA*. The disappointment at losing out over the Lattelekom privatisation should not be underestimated, however—especially after the Swedes had told anyone who would listen that they had won it, only for Riga to disagree.

There are even suggestions of shifting sands underneath Telia's involvement in Unisource. The December 1994 decision to capitulate to AT&T (through Uniworld) bore the hallmark of Dutch or Swiss conservatism, and Spanish realism in terms of its Latin American holdings—rather than Telia's original aim for the group of mid-sized carriers. Nobody will talk about it publicly, but there are clear signs that Telia has begun to think that its future lies elsewhere.

Whether on its own, or as part of Unisource, Telia remains aggressive in the Nordic market which it regards as its own. In addition to Unisource subsidiaries and distributors in *FINLAND*, *NORWAY* and *DENMARK*, it has been lobbying hard for DCS-1800 licences in both Denmark and Norway. This is a route to market entry in wireless which Unisource has hinted it might follow elsewhere in Europe.

Set it free

The question of privatisation may be as politically vexing in Sweden as in any other country. In terms of Telia's future progress—both internationally and in defending its market share at home—it looks like a necessary next step. It would have a number of complex aspects, notably a setting out of relations with the state once the current agreement expires in 1996. A flotation would also need to be highly international given Telia's size relative to that of the domestic stock market, although that too would be good news for the operator. It would also mark the completion of Sweden's transition from a fully open *de facto* monopoly market to a fully open *and* competitive one. ■

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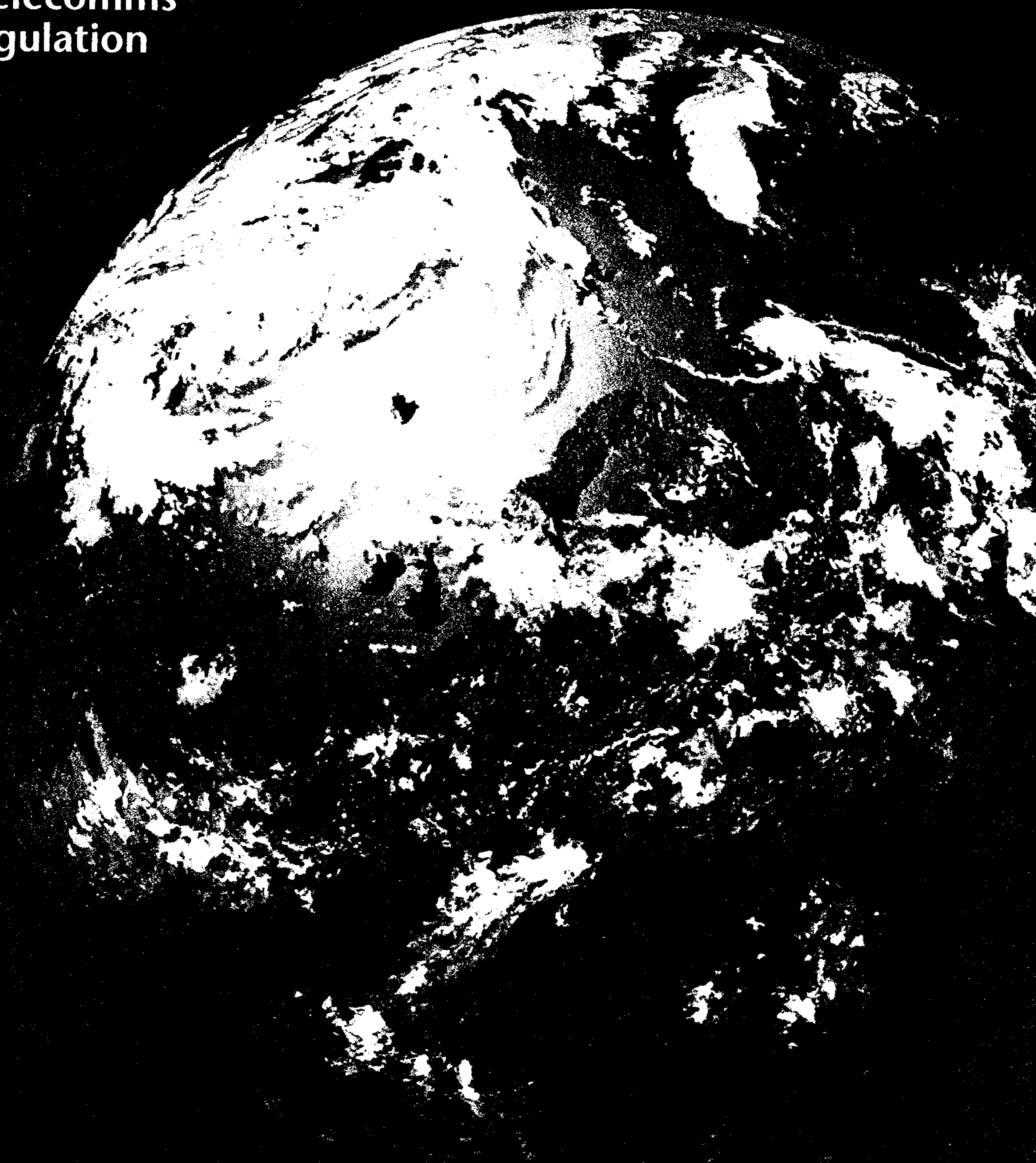

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