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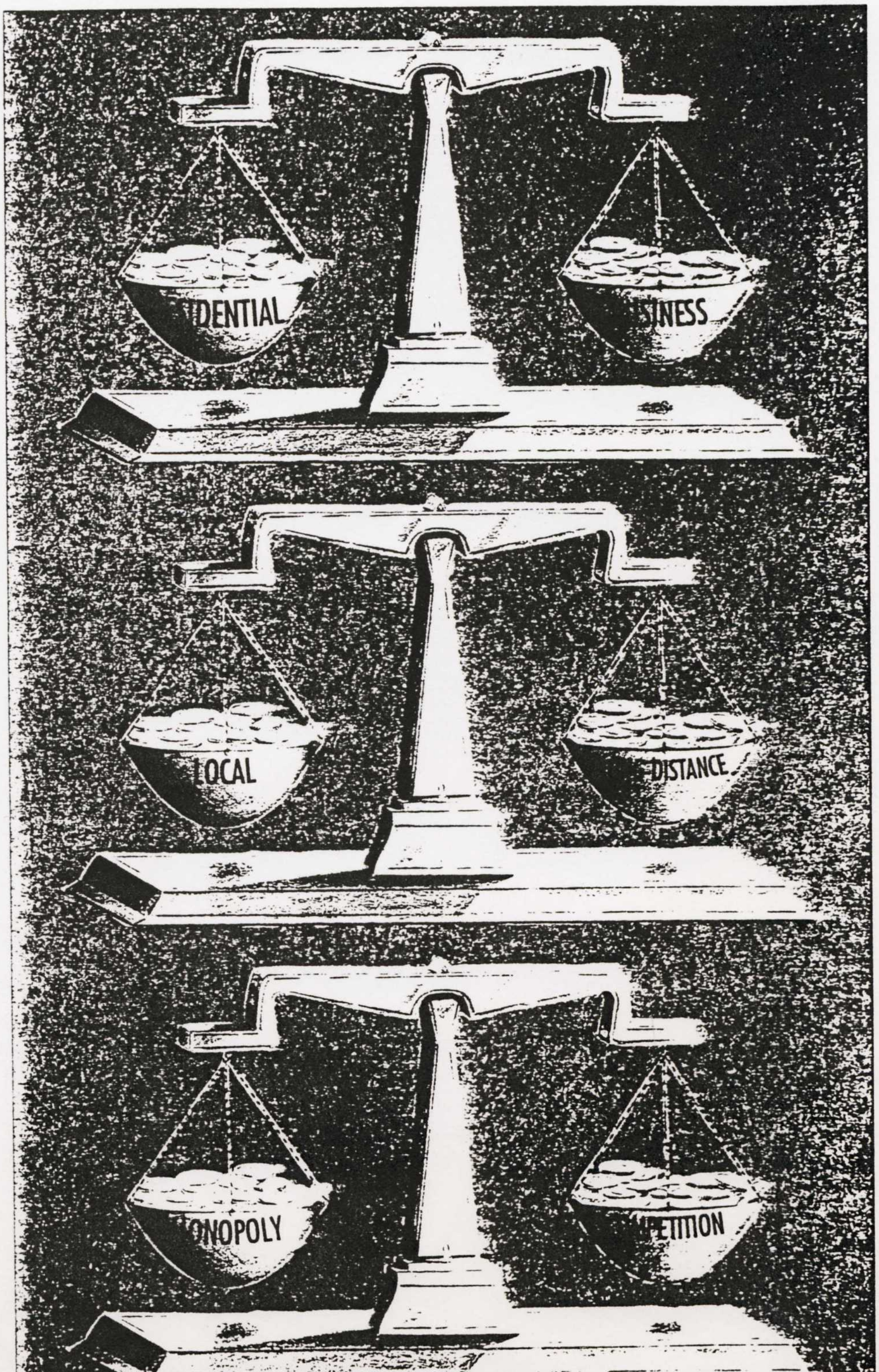
Tariff rebalancing: an exact science?



Sweden's fierce open market

A competitive edge for DECT

Mating rituals: global carriers

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ASIA-PACIFIC SUPPLEMENT

While most of Europe debates the theoretical merits and challenges of open competition in telecomms operating, Sweden remains one of the few markets in the world where it is being experienced for real. As the dominant operator, Telia, will testify, this is no 'experiment'...

Sweden's fierce pragmatism

Sweden is in the process of moving from 'zero regulation' with a state-owned *de facto* monopoly operator to 'minimum regulation' of an open and fully competitive market. The transformation is not yet complete as the country attempts to find the necessary level of regulation for the telecomms sector. While most European nations are dismantling long-standing legal monopoly frameworks, Sweden is engaged in erecting a regulatory structure where until now a legal vacuum has existed.

From a distance, the 'playing field' created so far appears to be a level one. The dominant operator, Telia (formerly 'Televerket'), is neither *fettered* nor *favoured* by the Government. The impositions of regulation and policy on the Swedish market are arguably less obtrusive than anywhere in the world bar New Zealand. Only time will tell whether this approach proves to be successful or simplistic in the long term.

Major change

The enactment of a new policy towards the telecomms sector took place roughly one year ago on July 1, 1993. On that date the following took place:

- the corporatisation of Televerket and the creation of Telia AB, a state-owned limited company;
- the introduction of a new Telecommunications Act (Sweden's first) setting out the legal principles for a competitive telecomms market and covering areas such as licensing, service provision, tariffs, interconnection and numbering;
- the introduction of a new Competition Law of general scope with relevance to competitive behaviour—especially, in the telecomms market, that of Telia—and the creation of a new Competition Agency to oversee the implementation and enforcement of the Law.

At the same time, a three-year agreement between the Government and Telia entered into force, covering the newly incorporated dominant carrier's major obligations in areas affecting its customers and competitors. This policy agreement should be regarded as the source of fine detail in the regulation of the dominant carrier within the overall framework set out in the Telecommunications Act.

That 'detail' concerns three key areas:

- *universal service*: Telia retains an obligation to provide voice and simple data services throughout Sweden at uniform pricing levels, with a supplementary obligation to maintain public payphones in remote areas;
- *price cap*: for telephone services to residential and small business (non-PABX) customers, Telia must abide by a price cap linked

Sweden is engaged in erecting a regulatory structure where until now a legal vacuum has existed

to the Net Price Index (NPI, an index of retail prices which also includes taxation changes), set at an annual NPI-1% until 1996;

- *competitive behaviour*: Telia must not obstruct the development of competition and must, to an extent, assist in promoting it. For instance, no access deficit charge (ADC) will be payable through interconnection rates by Telia's competitors during the 1993-6 timeframe, despite the fact that the Act allows for the ADC to be taken into account: "reasonable compensation may be payable to the cost for special obligations within the scope of the access-grantor's licence conditions", it says.

The non-application of this aspect of the Act in the current policy agreement between Telia and the Government is indicative of the latter's prevailing mood. The high penetration of Telia's basic network, its alleged low-cost and efficiency of provision, high usage levels and the absence of direct competition in the local access market are deemed adequate compensation for Telia's loss of its *de facto* monopoly.

Some argue that Telia should face tougher regulation in future in order for competition to develop to the full

This is consistent with the Government's clear desire to actively promote competition in the market. "It was the will of the Government to have more competition than before", explains Michael Grant, Adviser in the Ministry of Transport and Communications.

An example is the licensing regime established under the 1993 Act. New operators only need to be licensed when their activities are of a "considerable extent", measured in terms of the number of users, geographical coverage or market share. Although not defined, the market share threshold above which operators must have a licence is thought to be in the 10-15% range. Even then, the Act stipulates that licences *will* be granted "unless the applicant is obviously not capable to pursue the activity on a permanent basis", although frequency-related aspects of mobile operating are an exception to this.

Getting the balance right?

It is this balance between light regulation of Telia and obstacle-free market access for new players which forms the basis of Sweden's open market. Some, however, argue that Telia should face tougher regulation in future in order for competition to develop to the full.

That view is not for the time being shared by Sweden's regulator, the Post & Telestyrelsen ('National Post and Telecom Agency' or 'NPTA'). According to Jerker Torngren, Head of International Affairs in the NPTA, "we have a mandate and obligation to try and create competition in the market, not simply to *allow* it. Since Parliament wants competition, we know that some measures have to be taken to achieve it", he says, with the qualification that, "although there is active participation in creating competition, we do not achieve it by putting restrictions on just *one* operator, namely Telia."

New agency

Under the Swedish system, the bulk of regulatory responsibility rests with the NPTA since the Ministry of Transport and Communications' primary role is that of Telia's owner. The NPTA began life in July 1992 when Televerket's Frequency Allocation Board was separated from the operator. Since then it has taken on the regulatory role defined in the 1993 Act, adding responsibility for the postal sector in March of this year.

Like Europe's other embryonic regulators, the NPTA has spent recent months easing into its new position. "We've had to build up our competence", says the Agency's Jerker Torngen. "It's an entirely new situation for the telecomms market in this country", he says, but insists that "we are not mentally bound to old thinking on how the telecommunications sector should be run."

Fashionable argument suggests that for all new regulators it is important to be independent of the state. This is especially so for the NPTA given the Government's 100% ownership of Telia. Jerker Torngren has few worries: "we don't have any problems with the fact that the Government is the owner of the main operator." Michael Grant of the Ministry agrees. "The Ministry's ownership role is kept completely separate from regulation of the market", he says, "and the regulatory powers have largely been transfered to the Agency from the Ministry."

The NPTA's responsibilities include licensing, frequency management, standards and the representation of Sweden in international forums.

Licensing policy is a good illustration of the Agency's independent position, backed by the provisions of the 1993 Act. "The Government has no influence whatsoever in our licensing decisions and no influence whatsoever in the conditions which we attach to each individual licence", says Torngren.

Indeed, Telia has recently taken the NPTA to the Administrative Court over the inclusion of ONP provisions in its leased-line operating licence. Telia objects on principle to ONP conditions relating to the most basic types of leased line, which it says are already obsolete in Sweden.

Perhaps the biggest question surrounding the NPTA concerns whether it possesses the necessary ability and authority to regulate a competitive market. The answer to this question will determine the long-term character of Swedish telecomms regulation and, by extension, the market itself.

Agree to differ

That classic regulator's nightmare—interconnection agreements between operators—illustrates the challenge facing the NPTA. According to Jerker Torngren of the NPTA, "these are considered to be commercial agreements between private entities", with the NPTA having a non-binding mediator's role when an agreement between two operators cannot be reached.

The most difficult negotiations have been between Telia and its major domestic rival, Tele2, for the latter's proposed long-distance service. Tele2, which is owned by Kinnevik and Cable & Wireless, is not too happy with the interim agreement reached last month and set to last for the rest of this year.

According to Lars Grönberg, Executive Vice President of Kinnevik and acting President of Tele2 until this month, the argument centres on whether Telia should charge cost-based or market-based interconnection rates, with Tele2 at present paying 50% on top of the local call rate for the use of Telia's local loop. Although obviously wanting market-based charges, Grönberg suggests with irony that "in *a good Swedish way* the decision will be something muddy in between."

"Telia is being allowed to recover through the interconnect charges what they are losing in their agreement [on universal service and price caps] with the Government", says Grönberg, adding that "Telia is saving SKr10m a month by delaying it." As a result, he says, "up until 1996 at least, most consumers will have to wait before competition has an impact on local charges."

For its part, Telia has argued for an open and transparent system of interconnect charges and thus probably sees some advantage if the process of bilateral negotiations between individual carriers set out in the Act fails to deliver satisfactory results. In the meantime, the situation can hardly be said to be *hurting* the dominant operator.

This episode has drawn attention to the question of effective regulation in Sweden. Critics allege that the NPTA is strong on administration but weak on true regulation, being unable to back up its decisions with any enforcement powers.

This may in part be due to tradition. "In Sweden we do not delegate such legally-binding powers to a state agency", says Michael Grant of the Ministry, adding as if in mitigation that, "it is a new environment for Telia and the competitors."

Such a view is understood but not accepted elsewhere in the industry. According to Kurt Gladh, who heads the Swedish user association NTK, "the feeling in Sweden is that the Government should not interfere in areas where the market will define the rules itself, but when *opening* a market to competition we must avoid building in a delay mechanism." Gladh's view is that "the speed of progress is too slow, the rules should be more clear and firm and we should give more powers to the NPTA. If they are not given more authority, true competition will take more time because it is not in the interests of the big operators to make changes", he warns.

The capability of the NPTA and the legal framework within which it operates also concern StatTel, the state body created to procure cheaper and more efficient telecomms services for Government offices and agencies. According to Ann-Marie Nilsson, StatTel's General Manager, "the question now is whether the system is good enough to deal with interconnection fees at a price level which encourages voice competition."

Tele2 shares that concern. Kinnevik's Lars Grönberg says of the regulatory regime that "it works well enough for us to continue to work within it. I felt we made progress during 1993 but on the issue of interconnection I got impatient at the end of 1993 when we asked for arbitration. Our major criticism is that it takes too much time." Grönberg's worry is that "the Law is not pushing Telia, as the dominant carrier, hard enough", and in his view, "we need an arbitration process with sanctions that puts an incentive on everyone to move faster."

It is no great surprise to learn that Telia dissents from this view. A leading Telia figure suggests that the NPTA is "strong enough" and stresses that the Competition Agency, formed to police the 1993 Competition Law, "has the teeth" needed to ensure a fair and competitive market.

"In Sweden we do not delegate such legally-binding powers to a state agency"

Nobody can accuse the Swedish state of being 'soft' on Telia when the Government itself has sponsored an incisive redirection of market share

The Government—in the shape of the Ministry of Transport and Communications—is adopting a 'wait and see' attitude to the need for more intrusive regulation in future. This attitude, in the context of Telia's overall support for the regulatory status quo and the opposing view held by users and new players alike, suggests *prima facie* evidence that the system must be too soft on the telecomms 'establishment', as represented by Telia.

This might be an accurate—and thus critical—assessment of the regulatory character of the Swedish system were it not for the dramatic havoc wreaked against Telia by Government-backed *market* initiatives. Nobody can accuse the Swedish state of being 'soft' on Telia when the Government itself has sponsored an incisive redirection of market share *away* from Telia to its rivals.

Challenge from within...

This shift has been orchestrated by StatTel, the body formed in 1991 to increase the 'value for money' obtained by Government agencies in their expenditure on telecomms equipment and services. Its procurement deals cover a potential user base of some 200,000 state employees.

StatTel has so far exceeded its target—a 25% reduction in Government telecomms spending—in the areas which it has addressed. In doing so it has set the Swedish market alight and banished any notion that Telia is being cosseted by its owners.

The StatTel 'bombshell' was dropped in May 1993 when, after a tendering process which included Telia, Tele2 and BT of the UK, a framework contract covering price and service levels for national data transmission was awarded to France Telecom Transpac. Telia, according to one insider, was "shocked and devastated."

StatTel's General Manager, Ann-Marie Nilsson, has come to personify the body's actions for both supporters and detractors alike. "The quality and price of the available public data network was not sufficient", she says bluntly, arguing that the tender represented "a carrot not only for Telia but for new entrants to come into Sweden and set up new networks."

It is this aspect of StatTel's approach which angers its critics. Ostensibly a body created to reduce Government expenditure, it is claimed that Nilsson has added a secondary—and some say far too personal—agenda in promoting competition to the detriment of Telia. "She *wanted* to choose an alternative to Telia", says one insider close to the negotiating process.

Nilsson herself is unrepentant. "I think the Government is aware of what we are doing and is encouraging us to take that broader perspective", she says. "I think it is very important that we are always showing that we are determined about competition", she says, arguing that "it has helped all concerned when the *Government agencies* chose someone else."

...brings benefits

"Our decisions have had a very big impact on the Swedish telecomms market", says Nilsson, pointing to the benefits of the Transpac deal—in particular the price—which extend far beyond state sector procurement. "Our deal has set a standard: the current market price is close to that which we got from Transpac", she maintains, with the comment that "Telia still works from cost-based pricing, but today that no longer applies for us—it's market prices which interest us."

The question of *price* remains the most contentious aspect of the StatTel decision. Björn Norrbom, President of Telia MegaCom (the subsidiary formed to handle major accounts), accuses France Telecom of "buying themselves into the market." He is fiercely critical: "they seem to have a way of pricing products and services in the French market that is different from the one used when they come here", and he argues that "we know that we are *at least* as cost-effective as the French."

That allegation is flatly rejected by the successful bidder. Lars Persson, Director General of France Telecom Network Services Nordic AB, refutes accusations of under-pricing: "we are building a totally new network using the most modern technology. We are mixing X.25 and frame relay in the same network backbone. Our overheads are growing only with the business and we are outsourcing where it is possible. By being efficient in this way we have lower costs."

Persson concedes that "there was a certain element of 'investment' in our bid—a new company cannot get profits from 'day one'", and accepts that the Nordic subsidiary operates under conditions unlike those in today's French market—conditions, one might add, that would be unthinkable there.

"So what if they *are* buying their market share?", asks Kurt Gladh of the user group

NTK; "the deal with France Telecom Transpac was a milestone in demonstrating that competition is here." Gladh welcomes their impact in the Swedish market, saying, "they give the impression that they are small, quick, hungry and professional—and determined to really do something."

Since completing the StatTel agreement, Transpac has signed six agencies, including five of the seven largest, to the deal. It claims that the network provided for the Swedish Police, which entered operation in February of this year, is the largest VPN in Europe.

France Telecom also gained a follow-up success with StatTel when chosen (in partnership with Sema Group Info Data AB) earlier this year as one of two suppliers of X.400 electronic mail to the state agencies. The other winner was the Swedish Post Office as Telia missed out once more.

Again the price offered by Telia was far higher than those of the winners, even after reductions during the final stages of negotiation. Dismissing claims that the Transpac bid was unnaturally low, Lars Persson emphasises "our price for the StatTel e-mail agreement *is* realistic."

StatTel is currently engaged in the latter stages of a framework deal for PABX procurement which should be completed any time now. Government agencies will have access to 'call off' contracts specifying the price and functionality of PABX equipment.

StatTel's next big initiative will come in the voice services market. A specification for tender should be ready early next year with the process complete within six months of its release. The contest for the voice contract may be slightly different from previous deals because Telia's low voice charges reduce the scope for undercutting on price, although Telia's overheads will still probably place it at a cost disadvantage.

Instead, the emphasis is likely to be on features and virtual private network functionality. "If you want to buy voice service, how do you procure it?", asks Ann-Marie Nilsson. "One way is to tell the vendor the specific profile of your requirements based on the functionality you want to achieve." Even at this early stage she does not look favourably upon the dominant carrier: "I'm quite convinced that Telia will not sell VPN to the Swedish market until *we* force them to do it."

It may come as a surprise for outsiders to see just how little opposition there has been to StatTel-Transpac contract on what might be called 'nationalistic' grounds. This is in itself a refreshing change from the windy rhetoric of xenophobia which pervades so much of the industry in Europe and beyond. Sweden deserves to be congratulated for this more mature attitude to global trade and economics.

According to Jerker Torngren of the NPTA, "the word 'nationality' is not used in our Telecommunications Act. As for concepts like 'reciprocity' or *national* restrictions", he says, "we don't believe in them."

The principle seems generally to be accepted. There has been little overt pressure, for instance, to keep the French out of the Swedish market until equivalent opportunities are opened in France. "Some would say we have to wait for others to liberalise before we do, but I think that is ridiculous", says Ann-Marie Nilsson, adding "I think it is a good thing for Sweden to liberalise even if nobody else does it."

"Open markets are a firm policy objective for us because Sweden is so dependent on international trade", says Jerker Torngren in outlining Sweden's multilateral approach to market opening as opposed to the bilateral 'tit-for-tat' game played by a sadly large majority of important countries. "GATT is our strategic line forward", agrees Johan Martin-Löf, Telia's Director of International Affairs; "we in Sweden are committed to convincing others of the benefits of an open market by this means and by our own actions."

Justified?

StatTel's attitude to Telia has been unforgiving, with any 'bias' apparently working against the national carrier rather than in its favour. Ann-Marie Nilsson by now realises that she has few friends within Telia and admits, "they were very annoyed by the fact that *their owner* challenged them in this way."

Due to the controversy created and the obvious damage done to Telia's image in the domestic market (and perhaps beyond), that 'challenge' is worth dissecting:

- StatTel's *raison d'être*—the reduction of unnecessary Government expenditure—should be applauded by taxpayers everywhere;
- the idea that benefits negotiated for state sector users will be applied more widely in the market place seems justified;
- the refusal to submit to blinkered nationalism is a lesson which other countries in Europe should learn, and quickly.

Against these positive factors must be

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weighed any 'damage' inflicted upon Telia by StatTel's decisions. In truth, any such damage appears to be mostly short-term in character. As StatTel's Nilsson argues, "when they lose a bid like this, it helps Telia to convince all within the organisation that they need to change."

Over time, if Telia is right in its belief that the winning bids are too low to be profitable, it will be well positioned to pick up the pieces when calamity strikes (the frame contracts are renewable annually). If not, Telia is now fully aware of the price and productivity benchmarks to which it must aspire if it wants to recoup it losses among state agencies and elsewhere. In either case, the state's insistence on an open market would be vindicated. That may be of little consolation to Telia right now.

Cable & Wireless has been engaged in a prolonged attempt to bring Telecom Finland into Tele2

Coming second?

StatTel's highly public, landmark decisions have not just been taken at the expense of Telia. In some ways they have been equally damning for Tele2, nominally Sweden's 'second carrier' and thus, in theory, heir apparent to chunks of business loosened from the old edifice of *de facto* monopoly by the forces promoting competition. Could this be another case (like that of the UK's Mercury) where the second carrier, its costs and prices modelled too closely on the dominant operator, loses out as soon as true competition arrives in the market?

Not in the opinion of Kinnevik's Lars Grönberg, who recounts Tele2's success in the international services market (it began operations in 1993) with which it launched its attack on Telia: "we are doing much better than expected and taking market share more quickly than expected. Consequently, we are keener on launching national telephone services to a broader market from 'day one'."

Swedish users, wishing to place calls on Tele2's often cheaper international service, dial '007' rather than Telia's established '009' prefix. This is obviously a marketeer's dream: "one of the reasons for our success is that we have managed to establish a brand name—'007' and James Bond—for our service."

To date, Tele2's revenues from international traffic are 100% up on internal forecasts—equating to a 15% share in that section of the Swedish market that is directly connected to AXE exchanges which support alternative carriers. "If we are as successful in marketing national services, we will be performing very well indeed", says Grönberg.

While Tele2's interconnection battle is a dominant factor in this matter, there is a fractured substrate of doubt concerning the shared ownership of the 'second' carrier by Kinnevik and C&W. Tele2 has been investing in its own right in capacity on new cables from Sweden to Latvia and Finland and two cables to Denmark. It appears to wish to make its mark as an international player.

Even so, speculation over the long-term relations between its two shareholders is growing. According to Lars Grönberg, Kinnevik and Cable & Wireless "are both very happy" and, he insists, "unlikely" to want to change the ownership arrangement. Others suggest that C&W is seeking to reduce Kinnevik's majority position.

Cable & Wireless has been engaged in a prolonged attempt to bring Telecom Finland into Tele2, fanning the Finns' anger caused by Telia's boast to 'deliver' the entire Nordic market to the Unisource partnership. Even as Kinnevik dismisses suggestions of any dilution of its holding, C&W is in talks with Telecom Finland with an aim which is definitely *not* to reduce its own 40% stake.

In terms of its potential as an across-the-board second operator, Kinnevik's holding in the Comvik cellular company looks increasingly attractive. Franco Fedeli, the new President of Tele2 who took over at the beginning of July, says "both companies—Tele2 and Comvik—have their own very strong brands."

"Should we legally or in any other way move them together?", asks Lars Grönberg; "our basic philosophy is that companies should be independent." Even Grönberg will admit that "this, of course, is a potential area of conflict between Cable & Wireless and Kinnevik." As the ritual mating dances of would-be global telecomms carriers are played out over this summer and beyond, that statement may contain a haunting structural truth.

Still a force...

Headline-grabbing StatTel decisions which go against Telia are worthy of attention and comment but ultimately the characteristics of the Swedish market will be determined by three ongoing attributes of Sweden's former *de facto* monopoly operator:

- efficiency;
- price vs quality;
- ownership.

Sweden is not a huge market: with just 8m inhabitants, and despite the presence of a generous handful of export-oriented multinationals, it is neither the 'Hong Kong' of Scandinavia nor a massive national market in its own right. It has attracted the attention of major players like France Telecom, BT (which has a contract to provide international services to the Swedish Foreign Ministry) and others as much for its rarity as an open market and as a Nordic beachhead.

Do not forget, however, that the global free market ethos which pervades Sweden's politics can be sensed in the corridors of Telia. If the creation of Unisource turns out to be a brilliant gamble it will be seen as an act made easier—and made more obvious—by the open regime of telecomms in Sweden (one could scarcely say the same for the Dutch, the Swiss or perhaps even the Spanish).

Nor would it be right to suggest that Sweden's liberal market conditions and Telia's response to them represent an entirely new phenomenon. As Johan Martin-Löf, Director of International Affairs at Telia, points out, "we've been 15 years on the road to transformation since the opening of the terminal market in 1980." This has proved highly important ahead of what he admits was "the very dramatic formal change that took place last year."

Efforts by Televerket/Telia to reduce its manpower are well underway. Down from 48,000 to 34,000 in the last two years, Bertil Thorngren, Executive Vice President of Telia, says that a further 13,000 jobs must go in the next three years although 3,000 new people will be recruited in some positions.

Just as importantly, Telia last year disposed of its Teli manufacturing subsidiary (Ericsson is the proud new owner). In doing so it removed one of the major anomalies of its corporate structure.

Such efficiency increases—although hardly an argument for an immediate re-writing of the 'Guiness Book of World Records'—are an essential part of Telia's long-term strategy. Subliminally, they are also a plank of the argument for the removal of Telia from the vestiges of state control.

Balancing act

The strong liberal credentials of the Swedish telephony market make it perhaps surprising that Telia, like most others in Europe, has yet to undertake extensive tariff rebalancing. Telecommunications services in Sweden are *cheap*—unlike almost anything else in the country—but the historical distortion remains. Under the Swedish model, this must be rectified in the face of stiff competition—not under the safe monopoly conditions enjoyed by most in Europe.

Telia's Bertil Thorngren is convinced that the NPI-1 price cap gives the flexibility required for rebalancing: fixed line rentals and local call charges are said to be priced at roughly half of cost, with long-distance and international charges set to fall by up to 50% in compensation. Telia is not so naive as to believe that rebalancing this situation—in terms of a simple accounting exercise—is a complete long-term riposte to the gathering competitors which face it.

But this will be the ultimate battleground for Telia. As Johan Martin-Löf points out, "despite the headlines—and all the new grand deals—the telecomms business still lives on plain old telephony." To this end Telia has accelerated its domestic network investments even while pushing Unisource globally.

According to Lars Rydin, Vice President of Telia's Network Services Division, 75% of the 5.9m subscriber lines are digital. The target now is for 100% digitalisation by the end of 1997 (instead of 2000) following a revision announced in June. This entails an investment of SKr4bn (US$500m) per year between now and the end of 1997. "We are pushing some new services hard, but I think there are still some user needs to be identified", says Rydin.

As part of that process, Swedish customers will be offered fixed connections to Telia's ATM backbone on a commercial basis from the end of this year; Rydin hopes to provide switched service as soon as possible, probably from the beginning of 1996. Together with its Swiss and Dutch partners in Unisource, Telia has selected AT&T equipment for use in the pan-European MoU trial of ATM. The Unisource trio will to some extent form a subgroup within the MoU exercise, offering commercial trials to 'real' customers within the three countries.

Corporate thrust

One of the first—and perhaps still the best—of Telia's responses to the onset of real competition was the creation of its MegaCom subsidiary. It targets 100 of Sweden's largest national and multinational accounts which generate about 25% of total revenues from business customers in Sweden

Björn Norrbom, President of Telia Mega-

If the creation of Unisource turns out to be a brilliant gamble it will be seen as an act made easier—and made more obvious—by the open regime of telecomms in Sweden

Telia is definitely *not* one of those advanced carriers which espouses competition in the world market while relying on assured protectionism at home

Com, claims that the subsidiary is responsible for 60% of the turnover of Unisource Business Networks (UBN) in Sweden. "Competition in our area is more intense than for any other part of the Swedish telecomms market. Almost all our major competitors in Sweden have started out by going for the big accounts", he says.

Together with MegaCom, a key focus for UBN's offerings in the Swedish market will be pan-Nordic services. This reflects the significant proportion of Swedish trade—and therefore business telecomms traffic—with other Scandinavian countries. Since the collapse of Nordic unity in telecomms, the Swedes, Finns and Norwegians have been aggressively seeking to build their positions in each other's markets. "It's always sad to burn bridges", reflects Thomas Svalstedt, Managing Director of Unisource Business Networks Sverige, "but sometimes you have to do this."

Although in theory the Law gives Telia total pricing freedom in its dealings with large business customers, in practice that flexibility can only be applied very selectively. "We can set any price we choose—but we'd have to live with the consequences", says Björn Norrbom. Price aside, MegaCom's approach is based on providing support and solutions to major customers. In April, Telia and consultants WM-data AB agreed to form a joint-venture in the field of IT management and consulting.

MegaCom, as a low-margin, high-efficiency subsidiary of the dominant operator, may be a useful barometer of Telia's transformation. "From a customer perspective—which is what really counts—there is still a lot to be done", says Norrbom, who nonetheless asserts that,"Telia is faster on its feet than the old Televerket, and MegaCom has led this."

The final hurdle

It would be wrong to describe Telia as 'schizophrenic'—torn between its obligations as a national carrier and its global adventuring through Unisource—but there is one ambiguous and troubling aspect of its current situation: state ownership. Telia is definitely *not* one of those advanced carriers which espouses competition in the world market while relying on assured protectionism at home. The relationship between Telia and the Government is thus largely a financial one which those who criticise state ownership would see absolved.

The historical precedents are not good, however. Telia's corporatisation and the separation of regulation and network operating in Sweden took place *late*, even by European standards. Arguments that were used to explain that old anomaly—cheap, reliable services and the world's highest telephone penetration rate mean there is no need for change—are surfacing again with regard to privatisation.

Yet the logical conclusion to be drawn by Sweden's lobbying for a free and open market in telecomms, represented for Telia by the creation of Unisource, would be to take the dominant operator out of state ownership. Indeed, total Government control of the Swedish and Swiss components of Unisource (alongside the hefty state stake in PTT Telecom) is probably the only pervasive flaw in that trio's bold global strategy.

StatTel has demonstrated—perhaps to excess—that Telia can expect no favours from its owners. Apart from the lenient obligations agreed to in its policy agreement with the Government, Telia should offer no favours in return. There are now some signs of a change in policy with Per Westerberg, Minister of Privatisation, saying that he supports the flotation of Telia conditional upon his re-election in September.

Telia's Bertil Thorngren, for instance, describes privatisation as "inevitable, but only after competition has become established." Thorngren himself knows the lurking danger—in monetary terms—of continued state ownership. In 1992, the Government relieved Telia of more than SKr7bn (US$1bn) in 'dividends' and loan repayments. "I called it 'bankrobbery' at the time, and I still say the same now", says Thorngren.

Wind of change

The position is perhaps best summed up by Kurt Gladh of the user group NTK, who says, "Telia has made a lot of progress but it still needs some 'fresh air'—perhaps privatisation would help provide that in the long term."

The irony of this situation is that Telia has so far anticipated many of the changes that have overtaken all traditional carriers of its kind. Now, the conditions in which it operates both at home and abroad mean that state ownership is, at best, slightly *odd* and, at worst, a major handicap to its long-term plans. The political debate on privatisation *may* soon be settled in Telia's favour: the conditions which make it essential are fast growing to maturity and Telia cannot accept a typically Swedish compromise on this issue. ■