Europe's telecoms remain on toes

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The rapid change in Europe's telecommunications industry stepped up further as Swisscom acknowledged Wednesday it was in talks with Ireland's Eircom for a potential buyout.

"Swisscom confirms that it has entered into discussion with Eircom in relation to a possible transaction. However, there can be no certainty that an offer will in fact be made," the Swiss telecom group said in a statement. It also pointed out that the company "considers various investment opportunities on a regular basis."

Certainly, Swisscom has made a number of attempts to buy out rivals over the past few months, most notably Telekom Austria and Cesky Telecom of the Czech Republic, but both plans fell through. Swisscom is currently rumored to be in talks with Danish telecommunications group TDC as well.

Eircom is the biggest fixed phone-line operator in Ireland, with about 80 percent of the overall market and 600,000 subscribers for its Internet services. Nevertheless, the company valued at around $3 billion according to analysts has been facing financial difficulties in recent years amid heightened competition in the European telecommunications sector. The company was held privately from 2001 to 2003, when it was bought out by investor George Soros and media executive Tony O'Reilly, among others. It returned to be listed on the Dublin stock exchange last year.

Eircom acknowledged that another unnamed rival had approached it for a potential buyout deal earlier this month.

Whether or not the Swisscom deal with Eircom goes through, there has been no shortage of buyouts and mergers among European network providers in recent weeks. Early last week Spain's Telefonica announced that it will buy out British mobile-phone carrier O2 for $31.5 billion. The Spanish phone group said that the acquisition will allow it to expand its hold on the British and German markets, where it has remained weak, unlike in Spain and Latin America, where it remains the dominant telecommunications network provider.

Yet even Telefonica is facing challenges despite the fact that it is the fifth-largest phone group in the world in terms of revenue, given that later in the same week as its O2 deal, rival Auna Telecomunicaciones was bought out by cable operator Ono for $2.65 billion. Meanwhile, Auna's mobile operator Amena has been sold to France Telecom.

Ono Chairman Eugenio Galdon told the Financial Times that he expects the buyout will double its market share of the fixed-line market to more than 20 percent in Spain.

Still, Telefonica is not alone in feeling the heat of heightened competition despite its significant size. Even German telecom giant Deutsche Telekom is feeling the heat these days, as it announced earlier this week that it will slash 32,000 jobs over the next three years in an effort to cut costs and meet new demands from the industry, namely in broadband and Voice over Internet Protocol. In the near term, though, the restructuring efforts will cost the German phone group at least $4 billion to encourage early retirement and other means of personnel attrition in the company.

Deutsche Telekom Chief Executive Kai-Uwe Ricke said Wednesday, however, that the company should be saving about $2 billion each year from 2009 as a result of the job cuts. He did, however, make a point of highlighting the rapidly changing landscape of the industry in Europe.

"We are all aware of the European challenge facing us -- and not only since the Telefonica deal," Ricke said in a speech to investors and analysts in Bonn.