Globe Talk: U.S., Europe still under pressure

December 30 2005

The telecommunications industry continued to be cutthroat in 2005 worldwide, not least with SBC Communications buying out AT&T and Verizon expected to merge with MCI by early next year.

But even as legislators debated whether or not such mega-merger deals would violate anti-monopoly regulations, it has become clear that the telecommunications industry is no longer simply concentrated in the hands of traditional carriers. The fact that corporations that have had no deals in the telecommunications market until recently are now eager to get a slice of the telecom pie is stepping up competition in the already competitive market. Certainly, the fact that Internet giants such as Google and Yahoo! are trying to get an edge with Voice over Internet Protocol communications technology, as are major software groups including Microsoft, is keeping even big names such as AT&T on their toes.

Yet the U.S. market was relatively tame this year compared to its European counterpart, which has seen not only new entrants into the market, but considerable changes and aggressive moves even among the established carriers. For instance, Germany's Deutsche Telekom announced its biggest layoff plan in its history, while Spain's Telefonica bought out British mobile carrier O2, and Britain's Vodafone -- the biggest wireless provider in the world -- bought out a number of carriers in overseas markets. In addition, Switzerland's Swisscom tried to buy out Ireland's Eircom but was stopped at the eleventh hour by the Swiss authorities. Such changes were only but a few significant developments in the industry over the past 12 months in Western Europe alone. With entry into the European Union, Eastern Europe too has been seeing more than its fair share of changes in the telecommunications market as more multinational providers see opportunity in the region.

Still, there will be plenty of opportunities for both traditional carriers and non-telecommunications companies to take advantage of, or lose out because of, continued change in the dynamic market. According to an industry report by a New York-based credit-rating agency released earlier this week, the markets in Europe as well as the Middle East and Africa are expected to remain relatively stable in the new year, but it will likely be negative in the United States.

"The high level of (merger and acquisitions) activity observed recently among telecom firms is just one of the factors reshaping the U.S. telecommunications sector," said Richard Siderman, an S&P managing director, adding, "Our overall outlook for wireline telecom is negative, reflecting our expectation of accelerating competitive pressures, in the form of wireless substitution and alternative voice over Internet protocol technology."

Certainly, the fact that carriers now need to look out for rival carriers and Internet companies, but also cable providers, is another source of worry for traditional phone companies, given that cable companies are becoming increasingly popular as telephone network providers by packaging their phone services alongside television broadcast and broadband connectivity.

Interestingly enough, though, S&P anticipates the European market to be more stable after a year of considerable turmoil across the continent.

"Mirroring operators' more aggressive stance and the increasing operating pressures that are rapidly extending throughout the sector ... for the first time in many years, we do not have any A rated (European) telecom operators," said credit analyst Leandro de Torres Zabala. However, 74 percent of the companies were in the A-minus to BBB-plus range. Furthermore, despite threats posed by the possibility of more buy-outs, investment-grade credit quality for telecommunications companies in the region is expected to remain solid next year.

In Canada, meanwhile, cable and telecommunications operators have stepped up competing in each other's tradition areas of dominance, which has led to increased opportunities as well as risks.