

Irish government sells off state telecom company

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The Irish Minister for Public Enterprise, Mary O'Rourke, announced last week the privatisation of Telecom Eireann--the republics' main telephone and communications operator. Telecom Eireann (TE) dominates the Irish telecommunications sector, controlling 90 percent of the fixed-line market as well as 70 percent of the growing mobile-phone market. The TE flotation should make the company the fifth largest on the Irish Stock Exchange, with a valuation of around £4 billion (5 billion euros).

In a ruthless drive to become as competitively placed as possible, TE has sought to slash its labour costs in the run-up to privatisation. Under an agreement with the unions, the company has secured 2,500 redundancies out of a workforce of 11,000. The employee share ownership scheme gives the work force a 14.9 percent stake in the company in return. As one London broker put it, "the most important thing in all privatisations is the need to change the culture of the company." Dick Spring, the former leader of the Labour Party--which used to be the main opponent of privatisation--is now the union-appointed nominee to the TE board.

This privatisation is seen as a marked shift in the government's attitude to the sale of state companies. As the *Financial Times* put it, "Successive Irish governments have balked at the idea, but the Fianna Fail-led coalition has approached it with a new pragmatism". This "new pragmatism" merely reflects the response of the Irish government to the demands of the large transnational corporations for the deregulation of national markets, and the offering up of cheap labour and resources. In this case, the main players have been US and British-based corporations, and specifically the computer software giant Microsoft.

At the beginning of last year, Microsoft revealed that

it would not be basing its European Internet "mirror" site in Dublin as anticipated, but had chosen London instead. The European site would "mirror" the Microsoft home site in Seattle, which receives 190 million hits per day from 1.4 million users worldwide. Throughout the previous year, TE worked hard to get the Microsoft site located in Dublin, as it was felt that this would greatly enhance the Republic's image as a location for advanced telecommunications and Information Technology projects. According to a briefing note prepared by Robert Herbold, Microsoft's chief operating officer, the decision not to locate the site in Dublin was due to the following five main reasons:

- For large-scale global digital communications, Ireland is a marginal and uncompetitive location.
- The major global operators such as BT, Global One, World Com and others have told Microsoft that their investment plans do not include Ireland. This is because they do not perceive the Irish market as being a modern regulatory and friendly environment for investment.
- The Irish market is perceived as not being deregulated. Ireland has only one major local operator, Telecom Eireann. Therefore the Irish market lacks the real competition essential in this rapidly growing business.
- The facility at Telehouse in London has all the necessary "peering" arrangements for business operators. Peering is the complex software and contractual arrangements whereby companies at the centre inter-relate to each other.
- The absence in Ireland of large-scale Internet Service Providers (ISP) with good international links.

The note then explained that the next stage of Microsoft's European Internet development would be in electronic commerce, where products are downloaded

and sold over the Internet. "Electronic commerce will require a vast amount of bandwidth. Ireland urgently needs to provide this infrastructure in this new way of doing business. A co-ordinated effort to achieve this is currently being undertaken by Forfas, IDA Ireland, the Department of Public Enterprise and the Department of Enterprise, Trade and Employment," Herbold wrote.

The Microsoft note also mooted an interest in new legislation covering intellectual property, protection against software piracy and related issues, as well as offering advice on the Irish tax rate.

Amidst denials from TE that it had lost the flagship Internet site because it was unable to meet the necessary technical requirements, O'Rourke immediately announced that TE's monopoly position would be abolished by the end of 1999 and not 2000, as had earlier been agreed with the European Commission. The telecommunications regulator, Etain Doyle, also announced that the "liberalisation" would be completed by the end of the year.

On December 1, 1998, TE's state monopoly was ended. The *Irish Times* hailed the move as the inauguration of "a new era". The *Times* elaborated: "This is a sensible and well judged decision. Increasingly, Telecom Eireann's monopoly on voice telephony was an anachronism in a State which aims to project itself as the European centre for advanced telecommunication services."

On the same day as the abolition of its state monopoly, TE announced it would be investing £100 million to develop its broadband infrastructure. (Broadband communications allow the high-speed transmission of voice, video or data information along a cable carrying several channels at once.) This would form part of a £350 million capital investment in infrastructure for 1999 and will lead to an 80 percent increase in high-speed fibre-optic availability on the network from 55,000 kilometres to 95,000 over the next year. As part of this investment TE would begin trading in Northern Ireland.

Two weeks later, TE announced it would be changing its name to Eircom, as surveys showed that outside Ireland the present name often created confusion. (In the United States, for example, some of those polled thought the firm was the Iranian State telephone company.) The company predicted that in future, 20 percent of its business would come from outside of

Ireland. TE's chief executive, Alfie Kane, said the new identity would help accelerate changes and act as a catalyst and motivator for staff.

A month later there was a major reshuffle of the TE board, with three of the four government appointees being replaced; and a deal was done with the unions over job losses. The company was now ready for sale.

Ireland has the fastest growing economy in Europe. Recent years have seen a tremendous concentration of transnational production in the republic--especially by computer-based firms. This has led to the accruing of vast wealth for the corporations, but for the population it has brought high levels of unemployment and social dislocation.

From the standpoint of companies like Microsoft, Ireland offers a great potential. As an English-speaking country, the Internet is expected to take root more easily than in non English-speaking markets. It is the largest pan-European call centre location. While fixed-line penetration is well below the European average, the mobile-phone sector is growing at a fantastic rate. The top 5,000 companies account for 70 percent of the £1.5 billion yearly telecom traffic. The Republic is seen as an extremely lucrative market, with global operators such as MCI Worldcom and Ocean already in fierce competition.

But in order for the global corporations to realise this "potential" they have to first destroy any vestige of the former state-owned industries. The recent developments at Telecom Eireann are part of this process. Neither is there any longer any pretence to justify such ventures as benefiting consumers. As the *Irish Times* put it, "If the British experience is any guide, there will be routine complaints about the regulation of the industry and allegations that some companies are intent on 'cherry picking' in certain markets. Several years on, there may be suspicion among consumers that monopoly in some markets has been replaced by duopoly, in which two major players carve up the market... All this is in the future. For now, the prospects appear bright."



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