Record write-downs by telecom firms

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The collapse of the hi-tech bubble is continuing to send shock waves through financial markets as major telecom companies are forced to write-down the value of assets purchased at the height of the boom.

The latest to be hit is the corporate giant Vodafone, Europe's largest mobile phone operator. Late last month Vodafone announced the largest annual loss in British corporate history.

The loss of 15.7 billion pounds ($US23 billion) was a 59 percent increase on its almost 10 billion pound slump in the last financial year. The record deficit at Vodafone, which was once Britain's largest corporation in terms of market capitalization, is the sharpest expression of the profound crisis gripping the global telecom industry.

Vodafone said its losses were due mainly to the revaluation of some of its global assets, including Japan Telecom, J Phone, Mannesman, Arcor, Cegetel and Grupo Iusacell.

Staggering as the losses are, they could even be understated. Some analysts believe Vodafone did not write-down the true market value of the German company Mannesman, which it took over two years ago in a deal valued at 113 billion pounds.

One analyst, Raj Karia from the London-based stock brokerage firm Canaccord Capital (Europe) told the Associated Press that he expected more write-downs of around 15 billion pounds.

"The company probably should have written down two of its most high profile mobile phone businesses—Germany's Mannesman and Air Touch in the United States—by at least 7 billion pounds," he said. "The next six months to a year will be a very testing time for Vodafone. I think there's the possibility of future write-downs in mobile assets, and this could open the Pandora's Box of financial stability."

Other analysts are of the same view, claiming that Vodafone has written down landline acquisitions but not mobile phone operations.

In recent days, Vodafone shares have slumped to around 95 pence, significantly lower than its 4 pound peak at the height of the telecom stock boom of March 2000. Vodafone shares have fallen by almost 40 percent in value this year alone, driven down by fears from the market that the mobile phone industry worldwide has reached saturation point and future sales will decrease dramatically.

Vodafone by no means is alone in announcing massive losses due to asset devaluation and the global slump in sales and manufacturing of component parts in the telecom industries.

The losses announced over the last few months include:

* Mobile phone group Mm02, which de-merged from British Telecom—a yearly loss of 873 million pounds in late May.

* Japanese giant Nippon Telegraph and Telephone Corp—a $6.5 billion loss for the 2001 fiscal year. (NTT's loss is a record for any Japanese company, eclipsing car manufacturer Nissan Motors loss of 684.3 billion yen ($5.5 billion in 1999). NTT has written off more than $15 billion from failed investments in other telecommunication companies—Verio Inc. and AT & T in the United States and KPN NV of the Netherlands.

* Telecom equipment maker Marconi—a loss of 5.6 billion pounds in the financial year to March 31, one of the biggest in British corporate history. Last year Marconi reported a 70 million pound loss.

Other telecom giants are burdened with huge debts, slumping sales and demand, plummeting share prices and many are on the verge of bankruptcy.

Cable and Wireless last month dropped the value of its business by 4 billion pounds as a response to the collapse of valuations in general in the global telecom industry. Its profit fell to 822 million pounds in the financial year to March 31, compared to 1.8 billion the previous year.

Logica, an IT services and text messaging group, has revised downward the value of its company by 300 million pounds. Logica shares have slumped to their lowest level since January 1998 as its broker Merrill Lynch cut its profit forecast.

Deutsche Telekom announced a first quarter loss of 1.8 billion pounds, an increase from its loss of 358 million pounds a year earlier. Its share price has slumped from a high of 104.90 pounds in March 2000 to around 11.76 pounds. The company's market value has fallen from 317 billion pounds (March 2000) to around 50 billion pounds.

France Telecom has reported that it is facing a debt of 61 billion pounds ($90 billion). Last month its shares fell to an all-time low of 22.87 pounds.

Canadian company Nortel reported a $27 billion loss in 2001 and has had its credit rating reduced to junk status. The company has $4.8 billion in debt and analysts believe that it will need to raise at least $1.6 billion from a share offering to remain properly funded through 2003.

Swedish giant Ericsson, which made its first ever annual loss in 2001, has also been forced to undertake a share offering to try and raise $3.1 billion in capital to help it through the industry's downturn. Sales of its main item, mobile phones, have remained stagnant.

WorldCom is facing a debt of $30 billion and its credit rating has been cut to just above "junk" status. WorldCom shares have plummeted from a $64 high three years ago to around $2.65. Its chief executive Bernie Ebbers has been forced to stand down because of the company's collapsing share price, mounting debts and an investigation underway by US officials into its accounting practices. Controversy also surrounds Ebbers over a personal loan from the company of $366 million.

Dutch telecom firm KPNQwest filed for bankruptcy late last month after failing to raise sufficient funds to maintain operations: another victim of mounting debt and slumping revenues. KPNQwest operates Europe's largest fibreoptic network and has been described by analysts as one of the more spectacular failures among telecom firms. It may soon be forced to shutdown its 25,000 km data network if it can not find a buyer for the business.

With the collapse of the speculative bubble in the telecom industry and its associated profit slump, decreasing sales, manufacturing cutbacks, investment cutbacks and bankruptcies, those that will bear the brunt of the industry's instability and crisis will be workers around the globe.

The telecom companies have announced massive job destruction through restructuring plans in order to cut costs and try to once again to attract investment and loans to their corporations. The announcement of job losses is widespread and does not take into account the tens of thousands of jobs that will be destroyed at smaller companies that rely on contracts from the major telecom companies.

The job cuts announced include the following:

* German company Siemens is set to cut 6,500 jobs in its telecom infrastructure division on top of 10,000 layoffs already announced.

* US networking group Lucent Technologies in late April announced plans to cut 6,000 jobs from its present workforce of 56,000. Tens of thousands of jobs at Lucent were cut last year as part of a $2.7 billion restructuring plan. The company recently made a loss of $535 million for the last financial quarter. It was Lucent's eighth quarterly loss in a row.

* Swedish mobile phone maker Ericsson has also announced plans to axe 20,000 jobs over the next two years from its 82,000 workforce. The latest job shedding follows the 22,000 employees shed last year.

* Logica is set to slash 700 jobs worldwide, including almost a quarter of the workforce at its mobile phone operations after a slump in sales of text messaging equipment. Around 300 jobs are likely to be cut from its UK plants.

* Cable & Wireless has cut 8,000 jobs in its global division and cut 2,500 from its regional businesses. It is planning to shed at least another 1,000 jobs in the United States as it integrates its US acquisitions.

* Marconi, which has already laid off 13,000 workers, is also expected to announce further job cuts as it writes-down assets by around 800 million pounds.

* Japanese firm NTT has shifted 100,000 of its workers to lower paid positions and has asked many to accept early retirement. No figures on the number of jobs destroyed have been published.

* Mm02 has cut 1,400 jobs in the UK as part of a 123 million pound restructuring plan.

* WorldCom Inc., the US long distance telephone company, is considering plans to reduce its workforce of 16,000 by 20 percent. The proposed cuts follow a total of 12,000 laid off in the past two years.

* Motorola is reported to have laid off around 40,000 workers in the past year.

* US phone giant Verizon revealed plans to eliminate nearly 3,000 jobs in New York State and New England.

* Deutsche Telekom is set to reduce its workforce of 260,000 by 30,000 over the next three years.

* Canadian based Nortel, North America's Number 2 maker of telephone equipment plans to cut 3,500 jobs or 8 percent of its workforce.

* KPNQwest has announced plans to lay off nearly one third of the 2,000 workers at its headquarters in Hoofddorp in the Netherlands.

The lives of workers in the telecom industries who now face unemployment or severe cutbacks in conditions and continuing job insecurity form a stark contrast to those of the chief executives who raked in unprecedented wealth during the share boom.

For example, Logica chief executive Martin Read, who led what was considered to be one of Britain's star high-tech companies, was earning a reported 27.3 million pounds a year. Vodafone chief executive Chris Gent was reported to have earned a staggering 10 million pound bonus as part of the deal to take over German telecom company Mannesman.