Spain: Telefonica to slash 15,000 jobs

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At the end of June the Spanish-based telecommunications operator Telefonica announced the shedding of around 11 percent of its workforce—leading to 15,000 job losses up to the year 2007.

The sharp decline of shares and stocks of the major telecommunications groups has provoked a major restructuring in the industry. This restructuring takes the form of mergers, cooperation between major companies and mass layoffs.

In Spain, Telefonica will shed 4,500 jobs this year; then the same again in 2004 and 2005 to reach the total of 15,000 by the year 2007.

Telefonica inherited the monopoly of its state-run predecessor following privatisation in 1997 and has since become a global player with investments in Mexico, Peru and Chile and the US. It is also owner of the Internet company Terra Lycos.

Since the beginning of 2000, the world telecommunications market has shrunk both in demand and profitability. The sector was badly hit by the collapse of the dot.com boom. The sector has seen a series of corporate mergers and alliances in a frantic struggle to strengthen its position and expand market share by the competing transnationals. This was accompanied by the ordering of huge quantities of equipment, digital exchanges and routers, fibre-optic cables and overpriced license fees for the new mobile networks.

In 1999 Telefonica paid Martin Bangeman, the vice president of the European Commission in charge of liberalising the telecommunications market in the European Union, a salary of about one million pounds a year. He started his new job in July, not even waiting for his mandate as EC vice president to terminate in August of that year.

In 2000 the group bought up the second largest bank in Spain, Banco Bilbao Vizcay Argenteria. The strategy was to unite with a financial partner to project Telefonica in conquering the emerging markets of mobile telephony, Internet access and online banking. At the same time, fresh new capital was available via the bank to project itself onto the Latin American markets of Chile, Peru and Mexico.

In March 2003 Telefonica announced the selling off of 59 percent of its stake in the media group Antenna 3, acquired in 1997. Antenna 3 was in deficit by 30 million euros with a turnover of 637 million euros in 2002. By selling half of its stake in Antenna 3, with a book value of 420 million euros, Telefonica has released fresh cash and will consolidate its interests in the pay television market by merging its pay TV assets Via-Digitial, with Sogecable, the leading satellite broadcaster in Spain.

In Peru, Telefonica has a near monopoly in the fixed line (land line) telecommunications sector. In 1994 Telefonica negotiated with the Peruvian government control of the privatised public local telephony company for the sum of US$2 billion. Half of Peru’s 26.7 million people are living on less than US$1.25 a day. Telefonica maintained high tariffs in the fixed line services, keeping per-minute call charging in place. But the government of President Alejandro Toledo, the biggest user of fixed telephony services, has put pressure on the group to introduce cheaper per-second-call charging by the end of the year. It was agreed to cut the charges for fixed line users by 56 percent.

In Mexico, Telefonica opened its GSM mobile telephony network in the four cities of Mexico City, Monterrey, Guadalajaja and Tijuana in May 2003. With a combined 30 million dwellers, Telefonica secured the opening of 1,400 GSM outlets. The GSM network will extend to 40 cities in Mexico by the end of this year. Telefonica provides mobile telephony services to 2.4 million subscribers in Mexico.

At the end of May 2003 Telefonica launched a bid of 1.7 billion euros to acquire the controlling stake of Terra Lycos, a major Internet company in the US. Management estimates that group earnings will appreciate by 269 million euros after charges, taxes and capital depreciation in the period 2003-2006 after acquiring Terra Lycos. Telefonica presently owns 36.5 percent of Terra Lycos, which has cash reserves of 1.73 billion euros but is not making a profit and has shares trading at less than half the floatation value of 11.88 euros in 1999.

To upgrade its local loop network by introducing digital routers and digitised equipment, the European Investment Bank lent Telefonica about half a billion euros at the end of May. The project allows Telefonica to buy equipment to provide Internet broadband services, ADSL and ISDN, upgrade the communications protocols of cash machines, ATM/IP, and digitise the equipment of the fixed-line services provided by the local loop of Telefonica, allowing high-speed data transmission and integrated telematics.

In Chile, Telefonica runs the loss-making CTC—Telefonica Chile. Mid-April 2003 saw the injection of a US$230 million investment into CTC to upgrade its mobile telephony services. CTC reported a loss of $24.6 million in 2002 against a profit of $5.9 million in 2001. Sharp staff reductions were implemented locally in 2002.

At the beginning of April 2003, Telefonica-Mobiles, the mobile telephony branch of the Telefonica group, joined Deutsche Telekom T-Mobile and Telecom Italia mobile branch, TIM, in an alliance against the European mobile giant Vodafone. It will give their respective customers seamless access to telephony and WAP services outside their respective national network.

It is as part of this drive for global competitiveness that 15,000 workers are to lose their jobs in the next five years. Not a penny of the vast amounts of capital flowing through the telecoms sector will be spent on social welfare for those laid-off workers. The job reductions have been agreed by the General Union of Workers (UGT) and Workers Commissions (CCOO) on “a voluntary basis.” The Workers General Confederation (CGT) has called for strike action against the management plan.