

Chapter 11

A history of recent German telecommunications policy

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The federal government of West Germany established a commission in 1985 to find ways of improving the telecommunications system by promoting technological innovations, developing international communications standards, and introducing competition in the telecommunications markets in West Germany and in Western Europe as a whole. Traditionally, the continental European PTT system has been a state monopoly, with one agency in charge of post and telecommunications. The mandate of this agency is to provide the market with universal services rather than favor the special demands of certain groups of customers or one company. Our commission, which consisted of politicians, industrialists, a labor union leader, scientists, lawyers, and a specialist in business administration (the author), created a proposal for restructuring the telecommunications system in the Federal Republic of Germany, a set of policies which, no doubt, will persist in the unification of Germany. The fundamental restriction on the commission was that the basic law of the Federal Republic of Germany, our constitution, should not be changed. (To make any change in our constitution requires two-thirds of the parliamentary majority.) Our constitution, drawn up in 1948, includes Article 87 stating that post and telecommunications is the responsibility of the federal government as a part of the federal administration. To change this part of the constitution in the short run is impossible; in the long run, I think it will change.

Telecommunications, as a part of the German PTT, the Bundespost, is headed by a minister who is responsible not only for the entire administration but for its day-to-day management. Two previous commissions in 1965 and 1971 had recommended that the ministry be separated from the day-to-day operations. But on both occasions the recommendations were not implemented because of opposition by the labor union. Therefore, our commission had to face considerable obstacles.

When we made our final report to Chancellor Kohl, he immediately decided to start the legislation process to bring our recommendations to a vote. Initially the recommendations did not argue for privatization; for, as I mentioned, to convert telecommunications into a joint state company like the German airline Lufthansa is possible only if Article 87 were changed. Only marginal areas, especially data processing, software, customer services, or equipment sales tend, as in the past, to be given to subsidiaries, which are limited companies. But ownership is not the only question with regard to liberalization. If our recommendations only lead to privatization and avoid monopoly, that would not necessarily be a better road. We have to establish competition in our telecommunications markets, and since our constitution does allow private competitors freedom in the marketplace, for the time being this is where short-term advances will be made.

The commission recommended that the market be completely liberalized for all terminal equipment, including even the telephone, which is currently under a monopoly. With the exception of the old telephone service, any private supplier should be permitted to offer all the other telecommunications services – an open market arrangement. This means that particularly small and medium-sized users who are not in a position to develop their own communications system could choose from an array of services offered by new private suppliers. Though no private suppliers presently exist, our hope is that, when they do, they will enter the market and offer new services.

Such services will not be subject to authorization by the government. At this point, our recommendations go still further than the liberal regulations of the United Kingdom and Japan, where the suppliers require government sanction. In the field of terminal devices and services, the aim is to have as much competition as possible to ensure that all customer needs are satisfied.

The installation and development of a telecommunications infrastructure covering the entire country will continue to be the responsibility of the public enterprise named Telekom. It will be required to ensure nationwide coverage of Germany and to charge every customer the same prices. The politicians on the commission insisted that we provide for uniform quality for all customers, that there be safeguards against emergencies and crises, and that the needs of our national defense system be met.

Accordingly, the state organization Telekom will continue to exercise a monopoly in regard to the telecommunications network. This arrangement is on condition that private service companies can lease

transmission lines at competitive terms, however, which means prices for leased lines have to be affordable to a private supplier. Should this not prove to be the case after a trial period of three or four years, we recommended that the network be open to general competition.

The economic framework of the future will depend on the behavior of Telekom. If Telekom successfully develops the new infrastructure network (e.g., ISDN), gives leased lines to private competitors, and opens the market, it will remain as a monopoly. If not, the monopoly will be broken up.

The commission felt that the network monopoly should not apply to all means of transmission and recommended the following exceptions. First, data communication via satellite should be open to competition; in addition, foreign satellites should be used for data transmission between private customers. (This is a recommendation of the green book of the European Commission, and we followed it in our report.) Second, cellular radio telephones will be provided by private suppliers. Telekom and other private suppliers are in competition in mobile communications. Public pay phones also are not part of the monopoly. Rather, private companies may buy public pay phones from Telekom or install them by themselves. Telephone service as a transmission of the spoken language, what is called POTS in the United States, will likewise remain a state monopoly, but not the combined services.

We also recommended that new services including voice, text, picture, or data should be open to competition. (In the meantime, the law concerning the restructuring of Posts and Telecommunications passed German parliament.) We have to wait and see what new legislation passes through parliament to know the fate of this recommendation. Indeed, with increasing integration of telecommunications, the voice will no longer occupy the special place it used to hold. Anyone who wants to reduce the state monopoly could achieve this with the introduction of new telecommunications services, which also includes voice.

The implicit premise underlying our recommendations is that innovation can and will break monopoly. The restructuring of the telecommunications sector is not seen as a singular, once-and-for-all intervention, but as a continual process of adapting to changing situations and requirements. What, then, will become of Telekom? It is logical to expect that Telekom will respond to the healthy pressures of the marketplace, a new situation for Telekom. It will be stimulated to redouble its efforts and will require freedom for entrepreneurial action. With the growth of market control, it will be possible to reduce

administrative controls, especially regarding the management of their own personnel. As a result, Telekom should experience more freedom.

The inflexible salary scale for civil servants conflicts with a market orientation. Especially for management, it should be possible to exceed the limitations of the existing salary scale for public service. Telekom has to be able to attract experienced, dynamic managers from the private sector. The ministry cannot be subordinated to the forces of market competition, yet the enterprise has to be active in a market. The operations of the postal services and of the telecommunications service are taking different paths in their technical development and demand differentiated business concepts. For this reason, separation of the two is imperative.

The Minister would like to establish a third public enterprise for post bank services. The subsidizing of the postal services from the profits drawn from the telecommunications sector should be gradually discontinued. Currently, the postal service gets about 1.5 billion German marks per year from telecommunications profits. In any case, the cross-subsidization should clearly be shown in separate budgets for the two or the three units.

In the future the customer will have a wide choice of equipment, as in the United States. We should have it in a short time; however, the main benefits will be the new services and competition offered by the public enterprise and private companies. That is a large step for us.