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Privatisation And Regulatory Reform Of Telecommunications In The Netherlands: The Case Of The Royal PTT Netherlands (KPN)

This article provides a case study of economic and political adjustment in Dutch telecommunications policy. The restructuring process in the Netherlands is illustrative because it represents the early response of a small and open economy to the drastic changes in the international political economy of telecommunications. The modest size of the Dutch economy and the ample opportunities it offered foreign competitors to enter the market, made it difficult to prolong the established public monopoly regime and furthermore constrained PTT's domestic and international business ambitions. PTT was granted an exclusive control and management of the national postal and communications network: the concession for the construction, maintenance and exploitation of the telecommunications infrastructure and the reserved services (telephony, telex and data transport). Large countries and multinational firms have started to dominate international decision making on liberalisation, standardisation, privatisation and international trade policy, and have thereby seriously reduced the freedom of action of smaller firms and nation states.

Before 1989: A State Monopoly

Public policy in the Netherlands throughout the 1980's has involved a retreat of the state in favour of market forces, a cutting back of the welfare state, the contracting out of government tasks and deregulation. Within the political community it became clear that state intervention in the national economy had been over ambitious and that a redefinition of the boundaries between the public and the private sector was necessary. The government introduced an overall reconsideration programme to trim the high level of public expenditure and restructure the public sector. Another aim was the reorganisation of the central bureaucracy.

Before 1989 the Dutch PTT had a *de facto* monopoly on the provision of the postal and telecommunications services. For more than a century the political discussion about PTT-policy was dominated by political-administrative arguments and the corporate interests of the PTT administration was of minor importance. Technological and market developments did not challenge the public monopoly of PTT and did not have any impact in Dutch policy making before 1981. PTT was a state enterprise with a public law status. Belonging to a government department, its employees were civil servants and its corporate decisions concerning tariffs, revenues and expenditures needed governmental and parliamentary approval. PTT's manoeuvrability was constrained by tight government controls: the Minister for Transport and Public Works was politically responsible, the financial aspects belonged to the jurisdiction of the Treasury, and the domain of wages and labour conditions to the Interior.

Therefore, the formulation of telecommunications policy in the monopolisation period (1881-1981) could be characterised by a clear domination of governmental interests over PTT interests. The Treasury used post and telecommunications revenue as a macro-economic and fiscal policy instrument; the Ministry of the Interior kept the PTT-administration within the civil service and rejected to make PTT's employment conditions more flexible; and Parliament refused to give up its right to a detailed supervision of PTT in socio-economic matters. In addition to the internal control set by government and parliament, PTT-management was subject to the mild external controls of a neo-corporatist PTT *Raad* (Advisory PTT-Council), that was supposed to make recommendations to the Minister on all policy matters concerning PTT and its public services and to keep an eye on its management conditions. This Advisory PTT-Council also served as a body for external advice and consultation between PTT and its stakeholders (notably employers associations, PTT unions, consumers, Chambers of Commerce, and regional interests).

Forced to change

In order to expand and upgrade its network and facilities for the future PTT needed large investments and highly qualified personnel. These two conditions could not be met within the traditional state-controlled system. All these considerations gave way to the installation of two high-level governmental committees, the Committees Swartouw and Steenbergen. Finally during the discussions in parliament over the recommendations of the two advisory committees, it became clear that the natural monopoly was eroded by a number of structural forces and a more market-based organisation of the Dutch telecommunications industry and an alteration of the legal status of the PTT had to be considered. After the Dutch government had been convinced of the necessity of restructuring telecommunications in the early 1980s and had put forward some broad guidelines to trim the public monopoly and to reorganise PTT, the process of reorganisation of telecommunications was undertaken mainly by PTT itself. This was due partly to a lack of knowledge and experience on the part of the Cabinet and parliament, leaving the public administration ill-equipped for the supervision over and restructuring of the Dutch telecommunications market. There were however also clear intentions related to fiscal objectives, protectionist considerations and the notion of public service, all of which persuaded the government to concede PTT such a privileged role in the process of organisational and institutional reform.

1989: A new telecommunications act

In the new telecommunications setting, established on January 1, 1989, the public monopoly of PTT was reduced to a core monopoly and replaced by a concession-based system. PTT was authorised as exclusive concession holder for the provision of the infrastructure and the reserved services (telephony, telex, data transmission) on a universal service, including international service and provide leased circuits to any interested party for all sorts of value added services. There were two exceptions on the infrastructure monopoly of PTT. Municipal ownership and private use of local cable networks were tolerated for the time being. Cable operators needed special licenses to move beyond broadcasting. Furthermore private telecommunications networks were allowed to operate side by side with the public infrastructure where PTT could not provide comparable facilities. The interconnection between private and/or cable networks without using the PTT infrastructure (bypassing), was, however, strictly forbidden. All other telecommunications facilities, value-added network services and terminal equipment was a PTT monopoly. The terminal and switching equipment PTT rented to its customers and installed within the network, was purchased from its court suppliers Philips, Ericcson, and ITT/NSEM, with Philips being the dominant manufacturer of equipment. After AT&T took over Philips, it held more than 50 percent of that market, with Ericcson and Alcatel (which took over ITT/NSEM) dividing up the other half. The liberalisation of the market for value-added networks services in the Netherlands has evolved into an oligopoly in which PTT Telecom with its partner Infonet is one of the market players, competing with IBM, Reuters, GEIS and BT-Tymnet. The relative position of PTT Telecom in the telecommunications market has so far been stronger than was expected in the original pre-1989 scenarios.

Although implementing a more restricted core monopoly on the reserved basic services, the new telecommunications framework of 1989 was still based on the traditional guiding principles of economies of scale, universal services and unity of control. On the one hand the establishment of a concession regime on the exclusive provision of basic services a uniform and nation-wide voice telephony and mail network. On the other hand the exclusive provision of these services by PTT allowed PTT/KPN to start from a solid financial and commercially viable base. A successful development of KPN into an internationally competitive group in telecommunications and distribution services would surely benefit the Treasury by raising substantial financial revenues to the sigle shareholder (through dividends and the sell of shares on the Stock Exchange).

A public monopoly persisted through an exclusive concession given to PTT for the control and operation of the infrastructure and the provision of the dedicated services telephony, telex, telegraphy, leased lines, and data transport. Furthermore an administrative separation has been created between PTT's public utility and commercial functions. The public branch was subject to government oversight and the private part free to enter the liberalised markets. To cope with this distinction between concession-based and commercial services, PTT was forced to keep accounts on the exploitation of the dedicated public services and its competitive activities separate. Next to the exclusive provision of the public infrastructure and the basic services, PTT has diversified successfully into value added network, tele-services, cable and satellite television and audio-visual industries and internationalised itself through foreign acquisitions and building up strategic alliances. PTT's operational tasks were separated from its former regulatory functions and consequently a new institutional framework of separate bodies for consultation, advice and rule-making has been established to look after the interests of the major stakeholders and other interest groups involved in telecommunications policy (the consumers, business, the government, the Treasury, equipment industry). This framework succeeded the neocorporatist Advisory PTT-Council.

Another objective of the new Telecommunications Act was to encourage competition. In 1989 the markets for value added networks, tele-services and peripheral equipment became fully liberalised. This was a clear response to the demands from consumers, big business users and the services-oriented industries. The equipment manufacturing industry turned out to be less powerful than in other countries (notably France and Germany) partly because of its small scale and furthermore because of internal cleavages between the exclusive club of court suppliers, made up of one (semi-)domestic supplier (AT&T/Philips) and two foreign providers in (ITT/Alcatel and Ericcson) and a group of excluded suppliers like Siemens and other potential new entrants. The role of the trade unions in the reform process in the 1980s was at first defensive. Later when the unions realised there were no feasible alternatives to privatisation they played a more positive role in the restructuring of the PTT-administration by an active involvement in the design of the wages and labour conditions of the new KPN-company. So far the number of redundancies within KPN (both Post and Telecom) has been marginal.

Reorganisation

In order to stimulate the flexibility, market responsiveness and efficiency of the PTT-administration, the government supported its reorganisation from a state department into a holding company with the plc-form (NV, KNP) and two separate post and telecommunications subsidiaries with the Ltd-form (BV, PTT Telecom and PTT Post), all subject to private law. PTT should be entrusted like any other private enterprise with the corporate goal of striving for sufficient levels of return on investment and allowed to create subsidiaries and enter into joint ventures with other companies. The PTT was given permission to negotiate loans on the capital market, to enter into joint ventures and to develop its corporate wages and labour conditions policy. The government made one reservation implementing these structural reform measures: it was stipulated that PTT in the new situation had to generate about the same (high) level of revenues (through taxes and pay out of dividends) As its traditional contribution to the annual government budget. Compared to the rather strong political interference and detailed parliamentary supervision of the past, the government influence was restricted to the appointment of members of the Supervisory Board, certain rights on behalf of its role as sole shareholder and the licensing of the concessions. However, the majority of the members of the new Executive Board were recruited from the private sector, including the KPN-president Mr. Dik who came from Unilever and the CEO of PTT Telecom Mr. Verwaijen came from the Dutch branch of ITT/Alcatel. Other important executives were former senior executives of IBM Nederland and UCN Nuclear Energy.

After 1989 PTT NV was able to conduct its own pricing policy within limits and on certain conditions. Any tariff increase for the public services had to remain below the consumer price index and still needed ministerial approval.

After 1989 KPN (Royal PTT Netherlands) has become the largest private employer in the Netherlands with a workforce of 100,000 of whom about 30,000 were PTT Telecom employees. In the new situation KPN was given access to the capital market. This improvement of financial flexibility has led to a steady increase of investments in the telecommunications and postal infrastructures and new technologies to annual levels of about Dfl 3:5 b. KPN freed itself from the traits of a state hierarchy and developed into a commercial enterprise with a stronger focus on various product/market combinations. PTT appears to be developing into a transnational multi-media conglomerate by safeguarding its dominant position on the Dutch information and communication markets, while at the same time building up a strong international presence through establishing a chain of sales offices all over the world and international acquisitions and strategic alliance with telecommunications operators, distribution companies, the Dutch Girobank, IT-suppliers and information providers. In 1992 KPN had a turnover of about Dfl 16b and profits were Dfl 3b, PTT Telecom accounted for 67 and 80 per cent and PTT Post 67 and 31% respectively KPN's total revenues and profits (see Table 1).

So far the results of the internationalisation strategy of PTT Telecom have been somewhat disappointing. The large majority of the PTT Telecom's revenues (more than 80%) were still generated by the exclusively licensed services and the results of its domestic and international participations were only modest. Its commercial activities in the Caribbean, Central Europe, the Ukraine and the Unisource venture were to involve high investments and start-up costs, that might take a relatively long time to recoup. In 1993 PTT Telecom ranked seventh in the Top 10 of international telecommunication carriers in the world.

Table1
Key Data PTT Telecom

	1981	1985	1989	1990	1992
Total revenue (in billion Dfl)	na	na	8.8	9.5	11.1
Operating Profit (in billion Dfl)	0.3	1.1	2.4	2.6	2.8
ROI-index Workforce	6.1	9.6	12.3	12.7	12.4
(x1000)	29.6	30.6	31.5	31.8	34.2

na= not available
Sources: PTT/KPN Anual Reports

1993: A second liberalisation round?

After the first liberalisation round of 1989 in which the market for services and terminal equipment was liberalised, the Dutch legislation was brought into line with EC legislation by the opening of the markets of satellite, mobile and data communications between 1991-1993. A report by McKinsey Consultancy (1993) suggested four policy alternatives for the restructuring of the Dutch telecommunications market: (a) liberalisation of public telephony while preserving the exclusive rights of PTT Telecom on the infrastructure; (b) the consolidation of the exclusive rights of PTT Telecom on the network and the reserved services, together with government regulation with regard to the introduction of new services, quality of service, tariffing and infrastructural development; (c) limited network competition: PTT has an exclusive service obligation for voice telephony and alternative operators are allowed to provide data services on the basis of leased circuits; and (d) free for all competition on the former dedicated markets of network provision and voice telephony. The liberalisation process in Dutch telecommunications received a new impetus in the Summer of 1993, when the Dutch government proposed to introduce network competiton. The plan would allow private companies with way leaves, such as cable operators, Dutch Rail NS and utility companies, to sell network capacity on their existing infrastructures. The Dutch government encourages these companies to form a consortium and to integrate their infrastructures to provide a nation-wide alternative network. By offering a premium for a nation-wide license to provide an alternative network, the Minister intended to instigate the collaboration and integration of NS Dutch Rail, utilities and cable operators into a new public operator. From 1995 onwards, network competition between PTT and a contender would be allowed (like in the UK), an effective duopoly between PTT Telecom and a single contender could be established. The government suggested that voice telephony remained a monopoly until 1998 (with the exception of closed user groups). The markets for voice would be liberalised from 1998. This is in line with the European Commission recommendations for an Internal Services Market.

Local infrastuctures

At the local level Dutch telecommunication contains two separate infrastructures: a PTT-controlled system and a cable network under the control of municipal authorities, exploited by local public utilities or private cable companies. Though the penetration rate of cable is high (more than 90%) there is little or no harmonisation of standards in the national cable system. PTT regards the cable system as belonging to its public monopoly and is eager to control this part of the telecommunications infrastructure too. To that end PTT together with the operator of the national broadcast network Nozema, established a joint venture called Casema (PTT's share 76.5%), that as a private cable operator became actively involved in the cable market.

Though the government has retreated from the telecommunications domain, it is not as yet clear what role it sees for itself in the changing situation. With the mere liberalisation of some parts of the telecommunications market, the (pseudo) privatisation of PTT and the creation of the present institutional framework for advice, consultation and supervision, the Netherlands is somewhere discarding the old regime of direct public control, but without yet really accepting the new regime based on market co-ordination and economic regulation. In the present post-monopoly context with no real competition in the market place, weak controlling bodies, a biased government and a lack of experience with competition policy, the final outcome might be sheltering PTT and the domestic market away from the outside world. Especially when we take the so far inadequate institutional structure of monitoring and supervision and the half-hearted introduction of competition policy into account, such a post-monopoly setting reinforces the already dominant political and economic position of PTT.

Conclusions

The new domestic regulatory framework is still in the process of establishing itself and learning how to fulfil its obligations properly. It is furthermore confronted with the emergence of an EC-wide regulatory regime requiring national legislation to be brought in line with European legislation and the expansion of the traditional public operator and emergence of strong international competition in the telecommunications market. The present framework in the Netherlands could be characterised as a halfway house between the traditional public monopoly and the Anglo-American model of regulation: leaving the first and heading for the second. The Dutch framework is still bound to the conditions of the past in which PTT, as a separate government department was in charge of carrying out the monopolistic exploitation of the network and the telephone and telegraph services with an almost exclusive involement in regulatory policy-making. On the surface this situation has changed with the introduction of competition in the markets for telecommunications services and equipment; but analysed more closely, nothing has really changed. PTT is still economically and politically controlled by the Dutch telecommunications sector. The current situation exhibits a dynamic and aggresive PTT knowing exactly what to do in the new business environment and a rather passive government not knowing what to do in such a postmonopoly context.

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Note

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