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# Swiss PTT's Approach to the European Market Unification

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## Introduction

On a forum, convened in Montreux, Switzerland, by *The Annenberg Washington Program*, some seventy telecommunications executives, government officials and academics from the U.S. and Europe gathered to discuss how Europe's economic unification at the end of 1992 will reshape the continent's market for telecommunications services and equipment and how the changes will effect U.S. relations with the new market. On many presentations and addresses and on four panels the experts set forth their opinion on themes like *European Viewpoints*, *U.S. Perspectives*, *Effects on Manufacturers and Service Providers*, and *A Look to the Future*. In his Opening Remarks, Karl Wuhrmann, Deputy Director General and Director of Telecommunications of the Swiss PTT Enterprises, welcomed the guests in Montreux and presented the Swiss PTT. His presentation is reprinted below with a few editorial adaptations:

I will try to explain to you the position of the Swiss PTT in facing the challenge of the new European telecom market. You all know that Switzerland is not and will not – for the foreseeable future – be a member of the European Economic Community (EEC); therefore the sub-head line of this seminar, 'Effects of European Market Unification', has to be considered by the Swiss government and the Swiss economy as carefully as in the U.S.

As I have already mentioned, this presentation deals with today's legal framework and explains the chances foreseen with the introduction of the new law for telecommunications probably in a year's time. I will make some statements on the coherence with the proposed EC 'Green-Book Policy'. Finally, some strategic thoughts on our future activities – to at least maintain today's position in the marketplace – will terminate this presentation.

## Switzerland and the PTT

Switzerland is a small country of about 16 000 km<sup>2</sup>. It counts 6.6 million inhabitants, 3 million households, and a working population of 3.2 million. Gross national product for 1988 was 162 billion US\$, inflation in recent years hovered around 2 percent.

Switzerland adheres to the General Agreement on Tariffs and Trade (GATT), is a member of the European Free Trade Association (EFTA) and is keeping a close watch on developments within the EEC. In telecommunications, Switzerland is a long-standing member of the International Telecommunications Union (ITU) and its agencies, of the Conférence Européenne des Postes et des Télécommunications (CEPT), and of international standards organizations.

Swiss PTT employs about 61 000 persons, 19 500 of whom work in the telecommunications sector. In 1988 net profits were 220 million US\$. Orders placed with in-

dustry totalled 2.7 billion US\$. Swiss PTT is an autonomous federal agency reporting to the Departement of Transport, Communications and Energy of the Government. Parliament supervises all management and financial matters.

Swiss PTT offers a wide variety of services, the networks – most of them in the latest technology – have reached a very high penetration, and our telecom customers profit from good quality of service and moderate tariffs. Let me give you some figures (all figures are per 1000 inhabitants):

- telephone density is 570 main lines
- ~ 11 fax stations
- ~ 10 cellular mobile stations
- 5 telex main lines
- 0.2 subscribers in the X.25 or X.28 mode on the packet-switched network
- ~ 4 Videotex subscribers
- 250 subscribers on CATV networks

Growth rates of the different services vary between 3 and 100 percent per year.

These figures show how important telecommunications are for our domestic and foreign customers, but also for our national economy. An extremely export-oriented industry, many multinational companies with headquarters in Switzerland, the worldwide accepted financial centre and the important tourist facilities are a challenge and an obligation to the Swiss PTT. It is our will to give these important users the telecom facilities they need to support their activities as best as we can.

## The Telecommunications Legislation

The cornerstones of the existing legislation rest on Art. 36 of the Swiss Constitution, which makes posts and telecommunications the *sole responsibility* of the Federal Government. This responsibility has been delegated to the Swiss PTT. The Constitution also states the principle of uniform tariffs for the entire Confederation.

The Swiss PTT's telecom activities are based on a law passed in October 1922, the so-called telegraph and telephone law. Under existing rules, the following areas are the responsibility of the PTT ('monopoly'):

- all telecom services
- radio and television distribution (excluding program production)
- policing duties such as management and enforcement of international regulations regarding the frequency spectrum and technical standards, etc.
- the establishment of the telecommunications infrastructure

Some years ago – the EEC plans to restructure the telecom market were then unknown – our government came



to the conclusion that the existing telecommunications legislation had to be updated in the face of new technologies, the evolving market in Europe and new customer demands. The goals set for the new law were to meet user needs in a reliable and economical way with modern technology in order to provide high-quality services in all parts of the country and to secure the competitiveness of the Swiss economy in the future. Today, the new law is in the parliamentary drafting process.

Reviewing the draft of the new law, the following key issues are worth mentioning:

- the legal status of the PTT as a state-owned service provider and the unity of the PTT – post and telecommunications – remain unchanged
- *telecom services*, to be subdivided into *basic service*, defined as the transmission and switching of messages by any electromagnetic means for *third parties*, and *extended services*, defined as services which complement, modify, store or otherwise manipulate messages to be forwarded over the network by means of the basic service
- *the basic service* and the physical network remain the sole responsibility of the PTT (monopolized infrastructure and basic service), with the obligation to provide this service equally in the totality of Switzerland
- *extended services* provision shall be open to the market; PTT may provide extended services, as long as it adheres to the rules of the competitive market
- *subscriber equipment* will be liberalized, but only type-approved equipment may be sold and connected to the network; type approval will be granted according to European rules for certification and testing of equipment
- *separation of regulatory and operational matters*: a consultative commission shall prepare major regulatory issues independently of PTT for the government; the detailed terms of reference of this commission still have to be worked out

Evolution of the European telecommunications market will be strongly dependent on the decisions of the EEC and its member countries in this field. After publication of the 'Green Book', the 10 'positions' have been carefully studied in Switzerland. A first analysis shows that the key points in our draft law are not in contradiction with the EEC positions. The evolution and application of the different 'directives' within the EEC now has to be carefully observed, and, if necessary, appropriate steps will have to be taken.

### Other Aspects

Legal conformity to the EEC is only one aspect; other fields have to be considered, too, to review the position of the Swiss PTT in the evolving new European surroundings. I will now address on some of these other aspects:

Let's have a short look at the *procurement legislation* and practice. Our procurement practice is based on a federal ordinance which prescribes free competition wherever possible. This ordinance does not give any significant preference to domestic industry. In practice this means that the offer with best cost/quality and serv-

ice relation in a competitive market has to be taken into account. On the cost side, it is not the price alone for buying the material which is the main issue but rather the total life-cycle cost of a product which must be taken into account. This gives industries with a strong base in Switzerland for engineering, service, maintenance and documentation an undoubted advantage. Quality also means that the product has to be in line with technical specifications. In this field, Switzerland strongly favors open international standards. They are already widely applied, and we are waiting for the new standards – like the ETS series – coming up. Today, about 90 percent of our investments is paid in Swiss-francs to the domestic market. But approximately 60 percent of that money is paid to multinational telecommunications or EDP manufacturers directly active in Switzerland. For the time being, we do not anticipate that procurement practice has to be changed dramatically with the new European rules, but the draft of the 'directive' will have to be analyzed in detail.

As already mentioned, *international telecommunications standards* play a major role in our strategies to develop networks and services. The standards shall be mandatory for all telecom systems and services, regardless of category. Having said that, we postulate that active cooperation in standardization is of strategic importance to the Swiss PTT and to the Swiss telecommunications industry; therefore, we intend to fully cooperate and to actively participate in the respective standards organizations, such as CCITT, CCIR, ETSI, ISO, etc., to support fast and coherent standards elaboration.

*Research and development in the telecommunications field* is the mandatory first step to being in a position to actively contribute to the standardization process. Switzerland, therefore, already has actively participated in international research programs. We intend to strengthen this collaboration in the precompetitive and pre-normative field in different European research programs, such as RACE and others. We hope that open support by our EEC partners will further facilitate our partnership.

In Europe, an open network of *certification and approval laboratories* is planned. This will facilitate free trade in telecom materials by mutual acceptance of certification tests made by any participant in the network. Switzerland is willing to participate actively in this network and is also willing – this has already been stated by the signature of the Memorandum of Understanding (MoU) of NET – to accept otherwise approved equipment to be connected to our network.

To speed up *service and network harmonization* in Europe, a certain number of MoU's on network and services have been – and will in future be – drafted. As in the past, Switzerland is willing to cooperate with other European network and service providers and is, therefore, prepared to sign up new MoU's. We already have signed the MoU

- on ISDN in Europe
- on the digital mobile communications system (GSM)
- on broadband field trials

We think this new style of intensive cooperation with most of the European network and service providers will

lead to a fully harmonized European telecommunications market.

In spite of all the mentioned international activities and cooperation, Swiss PTT will have to review its position in the European and worldwide marketplaces. The traditional bilateral agreements with carriers and service providers in other countries will – in an even more competitive international telecommunications market – be of less importance and not sufficient to secure our position in the international market. Active participation and/or partnership in worldwide international service providers, especially in the field of value-added services, is a promising way to defend our interests.

## **Conclusion**

Telecommunications are of the utmost importance to all advanced economies, certainly those with an ever increasing services sector. They secure the long-term survival of trade and industry and provide them with the cutting edge needed in the face of today's stiff competitive environment: speed and wide dissemination of information. In Switzerland, more than 50 percent of the working population is either directly or indirectly employed in the 'information' sector which is just becoming increasingly decentralized.