EU favours competition over deals for telecoms

Consolidation would shift costs to the consumer, says digital commissioner

DANIEL THOMAS
TELECOMS CORRESPONDENT

The European telecoms sector's hopes for more consolidation took a blow last week after the EU's digital commissioner backed competition instead of more deals.

In his first significant statement on the telecoms sector Andrus Ansip said that "axing competition rules is not the answer".

He told an audience of industry executives and analysts at the Financial Times-Etno telecoms conference last week that this "would only shift the cost of the networks on to consumers, they would have less choice and higher prices. It would be the opposite of what we want".

It was a stunning rebuke for an industry that had been making the case for in-market consolidation, promising greater investment in next generation networks.

John Strand, a telecoms analyst, said the speech underscored that the future of the continent's telecoms market would be dictated by Margrethe Vestager, the EU's competition chief. "The only voice that is being perceived outside Brussels, in the market and in public opinion, is Ms Vestager's voice," said Stéphane Richard, chief executive of Orange. "So we can probably deduce from that she has the power."

Ms Vestager has already put down a marker, standing firm against a proposed merger of the Danish units of Telenor and Telia.

Margrethe Vestager stands firm

Executives had been trying to convince each other that the Denmark case was a one-off. Indeed, Ms Vestager has been keen to stress every case will be assessed on its own merits. But Mr Ansip's talk made clear competition rather than consolidation would have to be the driver of future investment.

"The whole Danish scenario, I am flabbergasted by, I just don't understand," said Roger Wilkinson, investment leader of global research at Newton Investment Management. "It makes me worried about Europe compared to other areas in the world that are more pro-investment."

While investors are anxious, telecoms executives are angry at what they see as a regulatory reversal after consolidation deals were passed by the previous administrations in Austria, Ireland and Germany.

They are worried because the future of more than £20bn of corporate transactions in the UK and Italy, and any further deals in countries such as France and the Netherlands, are at stake.

The companies most exposed to the hardening line in Brussels include Telefónica, CK Hutchison and VimpelCom, although sentiment across the industry is also being affected.

Henrik Nyblom, an equity analyst at Schroders, said: "Investors are still trying to understand whether [Denmark] was market specific or if we should apply it across the board. Hopefully it's three steps forward and only two back, rather than four, [but] I will allocate my capital accordingly."

Competition policy is not the only factor influencing the commission's thinking. Regulators are also consulting on the future of digital telecoms market. Many executives argue that its ambitious targets to take superfast broadband and 4G services around the region will never be met.

"In the longer term, [this will mean] you are lacking money to invest in new technologies," said Giuseppe Recchi, chairman of Telecom Italia, who added that prices had halved in the past four years in the company's home market.

Hutchison's £10.5bn acquisition of O_2 in the UK will be a crucial test for the commission. Executives are still optimistic that a deal can be struck that will satisfy the antitrust concerns. However, Ms Vestager is expected to demand stringent concessions.

A Brussels lobbyist said that the antitrust watchdog was likely to demand support for a fourth mobile network through the sale of spectrum, or access to a large part of the combined group's network. Such a move could benefit TalkTalk and Sky, which could improve their mobile services.

Mike Fries, chief executive of Liberty Global, said that the commission was in favour of such "structural" remedies to bolster rivals. But he thinks the deals can still happen. "You are going to have to go in with a much heavier toolbox, meaning you'll have to be much more willing to look at structural solutions to what might be a reduction in competition from their point of view," he said. "I don't think the consolidation game is over — its just different."

The problem facing the commission is how to persuade the industry to back its ambitions for a European digital market, while also sticking to its principles on competition.

Mr Ansip acknowledged that the public purse would not fill the investment gap to meet digital ambition for superfast networks across Europe, which researchers at Boston Consulting Group have estimated to be as high as €106bn.

Mr Strand was damning in his assessment of the likelihood that Europe would see its ambitions filled.

"The EU is not on track to a profitable telecom industry, the investment gap of €100bn needed for next generation networks will not be bridged, and the digital single market is an illusion."

CK Hutchison's acquisition of O2 will be a crucial test for the commission's antitrust concerns — Christian Charisius/Reuters

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Digital signals
Brussels positive over cross-border tie-ups

While regulators at the European Commission are turning up their noses at in-country consolidation, they have signalled that if cross-border consolidation to create pan-European networks were put forward they would be welcomed.

Andrus Ansip, digital commissioner, said that such deals were "a way to integrate networks as we move towards a pan-European telecoms market. It can allow telecoms companies to expand outside national borders".

However, telecoms executives were sceptical about the prospects, with the chiefs of both Orange and Telecom Italia — two groups seen by industry observers as potential bedfellows — pouring cold water on the idea.

"Cross-border consolidation is easier but it doesn't make a lot of sense for synergies or interest," said Stéphane Richard, Orange's chief executive. Giuseppe Recchi, chairman of Telecom Italia, said that "there is no value creation" and only an "M&A play" from cross-border deals.

Food & beverage

Suntory drafts plans to take on US premium beer makers

KANA INAGAKI — TOKYO

Suntory may consider entering the US premium beer market with a strategic partner after a £68bn merger agreement between the world's two largest brewers.

"Nobody wants to challenge the standard beer [market] that will be occupied by the big merger," Takeshi Niinami, chief executive of Suntory, the Japanese owner of Beam, the US spirits maker, said in an interview.

"We have a competitive edge to go to other markets with our expertise and technology to brew premium beer," added Mr Niinami.

The Suntory chief said he was not alone in weighing up options to adapt to a combination of Anheuser-Busch InBev and SABMiller, creating a brewer responsible for one in every three beers sold globally. Bankers expect consolidation to accelerate not only in beer, but also in markets for wine and whisky.

The deal "stimulates CEOs of all global players. Even at Suntory, we have to think about what to do about the more competitive situation globally", said Mr Niinami.

Japanese brewers such as Asahi and Kirin, which are eager to expand outside their shrinking home market, are being closely watched with AB InBev and SABMiller expected to sell assets in various markets to win regulatory approval for the merger.

However, Mr Niinami said Suntory was not interested in knock-on deals, especially since its focus was on brown spirits such as whiskey and bourbon after last year's $16bn takeover of the Illinois-based maker of Jim Beam and Maker's Mark.

This week, Suntory said it would unwind its joint venture with China's Tsingtao Brewery, saying it would focus on selling spirits and wine in the market.

To ensure financial flexibility after the costly Beam purchase, Mr Niinami is not ruling out the listing of Suntory Holdings in Japan or of Beam Suntory in the US. The privately held Japanese company listed its non-alcoholic drinks and food unit in 2013.

Suntory says it is not ruling out the listing of Beam in the US

Other options that are available include an injection of private equity capital or the sale of non-core businesses, he added.

Still, there are few incentives to exercise those options now since borrowing costs are low in Japan where the central bank is carrying out aggressive monetary easing to bolster the economy.

Mr Niinami, who was appointed the first chief executive from outside the founding family a year ago, said he was satisfied with the progress made so far in expanding Beam sales in North America through ramped up marketing and product enhancements.

Media

Publicis shares plunge amid poor growth and unclear strategy

ADAM THOMSON — PARIS

Shares in Publicis suffered their worst one-day fall in seven years as the French advertising group slashed its organic growth target for this year following flat sales in September.

The poor figures raised concerns that the company has yet to work out its strategy after its failed merger with rival Omnicom.

By mid-afternoon, shares had fallen 9 per cent, but closed 7 per cent down at €58.05 wiping more than €1bn off the group's market capitalisation.

The fall came as the company, which owns heavyweight agencies Leo Burnett and Saatchi & Saatchi, said that revenue in the third quarter was €2.33bn, just 0.7 per cent higher in organic terms than a year earlier. Investors and analysts had expected it to be 2.4 per cent.

On a reported basis, third-quarter revenue was 33 per cent higher than a year earlier thanks to exchange rates and acquisitions.

The Paris-based group led by Maurice Lévy put the lower-than-expected figure down to "continued modest growth in Europe and North America", which together account for the vast bulk of total revenues.

Revenue from North America was €1.29bn during the quarter, 0.4 per cent higher in organic terms than a year earlier but lower than the 2.5 per cent that analysts expected. In Europe, organic growth during the quarter was 0.6 per cent compared with consensus estimates of 2.4 per cent.

Mr Lévy said September was flat amid an unusually large number of clients downsizing or even cancelling campaigns.

He said that he saw the future "with great confidence".

Yet the latest figures are a clear setback for Publicis and will probably raise questions at a time when rivals Interpublic Group and Omnicom have reported much stronger numbers.

€2.33bn	2.4%
Third-quarter revenue at Publicis, up only 0.7% on last year	Growth rise that investors and analysts had expected

Claudio Aspesi, media analyst at Bernstein, described the figures as, "a weak set of results on a standalone basis but a particularly worrying development compared to the overall industry".

Things began to go wrong for Publicis following its failed merger with Omnicom, plans for which broke down in May 2014.

Since then, Mr Lévy has tried to find his stride by buying Sapient, the digital agency, for $3.7bn in a deal designed to give his group an edge in the digital and technology spheres.

But Mr Aspesi said that questions remain over the company's strategy.

"Investors are starting to question whether they know what they are doing," he said.

"The Omnicom deal broke up in May 2014 . . . with no evidence that the organisation knows how to reverse the decline in the growth rate."

See Lex

Invitation for Prequalification

Package TW02, TW04 & TW05

for Supply and Installation of Transmission lines in Pakistan, Tajikistan and Kyrgyzstan associated with CASA 1000 Project

(INTERNATIONAL COMPETITIVE BIDDING)

IFP No.: **PQ/ CASA1000 /TL/TW02/04/05** **Dated: October 23, 2015**

This invitation for prequalification follows the general procurement notice for this project that appeared on the IDB website and CASA-1000 website and in the "Financial Times" on June 22, 2015.

The countries of Pakistan, Afghanistan, Tajikistan and Kyrgyz Republic together have decided to develop cross-border transmission interconnection amongst these four countries to facilitate transfer of surplus hydropower in the Kyrgyz Republic and Tajikistan in summer to energy deficit Pakistan and Afghanistan. The proposed CASA-1000 transmission infrastructure will transfer 1000MW of power to Pakistan and a further 300MW to Afghanistan.

The aforesaid countries have applied for financing from the International Development Association, International Bank for Reconstruction and Development (IBRD), Islamic Development Bank (IDB) and other banks toward the cost of the CASA 1000 Project.

Pakistan, Tajikistan and Kyrgyz Republic intends to apply part of the proceeds of financing from IDB to payments under the contract for "Package TW02, TW04 & TW05 for Supply and Installation of Transmission lines in Pakistan, Tajikistan and Kyrgyzstan associated with CASA 1000 Project" (the Package). The IGC – CASA Secretariat acting as the bid process coordinator for and on behalf of the Inter Governmental Council (IGC) of the aforesaid countries, intends to prequalify contractors and/or firms for the said Package(s) with the scope of work including but not limited to the following:

For Package-TW02 (For Pakistan)

A. Engineering, design, manufacturing, testing, supply, installation, testing and commissioning of the following transmission lines:

(i) ±500 kV HVDC line from Peshawar to Pakistan-Afghanistan border - Approx. 71 km

(ii) Earth Electrode line at Peshawar - Approx. 30 km

(iii) 500 kV D/C HVAC LILO of 500 kV S/C Tarbela sheikh - Muhammadi line - Approx. 15 km

For Package-TW04 (For Tajikistan)

A. Engineering, design, manufacturing, testing, supply, installation, testing and commissioning of the following transmission lines:

i) ± 500 kV HVDC Line from Tajikistan-Afghanistan border to Sangtuda - Approx. 117 km

ii) Earth Electrode line at Sangtuda - Approx. 30 km

iii) 220 kV D/C AC Line from Sangtuda (HVDC) to Sangtuda (existing) Station – Approx.10 km

For Package-TW05 (For Kyrgyzstan)

A. Engineering, design, manufacturing, testing, supply, installation, testing and commissioning of the following transmission line:

i) 500 kV S/C HVAC Line from Intermediate Point to Kyrgyzstan-Tajikistan border - Approx. 125 km

It is expected that invitations for bid will be made during the first half of 2016.

Prequalification will be conducted through prequalification procedures specified in the Islamic Development Bank's Guidelines: Procurement of Goods and Works, May 2009, and is open to all bidders from eligible source countries, as defined in the guidelines.

Pre Qualifications (PQ) Documents in English with Russian translation (in case of any discrepancy, the English version shall prevail) are available for free download on a password-protected electronic data room hosted by Imprima. Requests for access to the electronic data room should be sent to the following email address – bidders@casa-1000.org –stating the name and address of party making the request. The clarifications and amendments if any will also be posted in the PDF format for free download in the same website.

Interested eligible Applicants may obtain further information from and inspect the prequalification document at the IGC – CASA Secretariat (address below) from 09.00 to 16.00 pm between October 23, 2015 and December 23, 2015.

Applications for prequalification should be submitted in sealed envelopes, delivered to the address below by December 23, 2015 (15:00 hours Almaty time), and be clearly marked "Application to Prequalify for:

a) "Package TW02 for Supply and Installation of Transmission lines in Pakistan associated with CASA 1000 Project. ("the Package TW02")"; and/or

b) "Package TW04 for Supply and Installation of Transmission lines in Tajikistan associated with CASA 1000 Project. ("the Package TW04")"; and /or

c) "Package TW05 for Supply and Installation of Transmission line in Kyrgyzstan associated with CASA 1000 Project. ("the Package TW05")".

Electronic submission of applications is not permitted. Late applications will be rejected.

IGC reserves the right to cancel / withdraw this Invitation for Pre-qualification without assigning any reason and shall bear no liability whatsoever consequent upon such a decision.

Attn. to: Olga A. Mandrugina, Ph.D.

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