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De-monopolisation Tendencies in Dutch Telecommunications: Negotiating State Interventionism and Market Regulation

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De-monopolisation Tendencies in Dutch Telecommunications:
Negotiating State Interventionism and Market Regulation

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Keywords: privatisation, telecommunications policy, regulatory reform, government-business relations in The Netherlands

Abstract

In the Netherlands a delicate compromise was found between measures aimed at liberalisation to promote innovation and market competition on the one hand and consolidation of an exclusive PTT-monopoly on the infrastructure and basic telecommunications services on the other. The policy outcome, however, characterised by a market that is far from transparent, the near-monopoly of PTT on strategic information and the weak position of the administrative agencies, still reflects the dominant position held by PTT before 1989. The obscure regulation of behaviour between PTT and its stakeholders clearly bears the marks of the halfway liberalisation and privatisation measures of the late 1980s. No clear strategic choice was made either for PTT as just one of the players in a liberalised market, or as a national champion in a leading role in industrial policy.

0 Introduction

In the Netherlands there has always been a tendency and even a necessity to follow major international developments. In order to strengthen their economic position as a major European centre for international trade, transportation and financial services, the Dutch decided comparatively early to evaluate their existing telecommunications policy and to formulate alternatives for the future. The Dutch were the first on the European Continent to react to the drastic changes towards deregulating telecommunications and privatising the public carrier in the prime mover countries, the USA and the UK. The Netherlands could be regarded as the first of the...
second mover countries. The radical strategy of the US government to deregulate and liberalise domestic telecommunications and to divest the Bell-system, and the British duopoly policy to privatise the public operator and to allow a second carrier in order to improve economic performance and establish effective competition, were regarded as too controversial and unfeasible to be implemented. The Dutch strategy exhibited a more balanced approach with its attempt to combine the liberalisation of the fringe markets with retaining a legal core monopoly for a privatised 'public' operator. Just because the Dutch response has been relatively moderate, it has served as an exemplar for other European states to restructure their domestic telecommunications industry. Also the recent Dutch proposals to install an effective market duopoly between the incumbent KPN/PTT Telecom and a second fixed network operator, a joint venture of the power utilities, the national railway company and local cable operators, are closely followed in Germany and in other parts of Europe. Initially also the European Community in its 1987 Green Paper closely followed the Dutch scenario to reorganise the former PTT by installing a separate competitive arm in addition to its public monopoly and divesting its regulatory from its operational activities. From the late 1980s onwards, however, the Commission prepared the ground for more radical changes, that were going further than the modest reorganisation measures of the Netherlands, namely the opening up of other market segments to competition (cf. satellite and cellular communications) and ensuring open network provision. This predominant preference of European states and the Community for the Dutch balanced response to telecommunications restructuring must be seen as a strong desire for consensual decision making, not harming the fundamental interests of any of the parties involved.

Before discussing and assessing the traditional structure and policy changes in Dutch telecommunications, we will discuss the economic adjustment policies followed by the Dutch government between 1980-1993. In section 2 the traditional institutional framework of Dutch telecommunications, centred around the public monopoly of the PTT administration will be introduced. In the early 1980s a trend towards de-monopolisation became manifest in Dutch policy making, that led to the implementation of the restriction of the public monopoly, the introduction of moderate competition in the domestic market and the reorganisation of the PTT administration (section 3). The processes of liberalisation, privatisation and regulatory reform are discussed in more detail in the section 4,5 and 6 respectively. The article will close with the actual institutional analysis and some concluding remarks on the major policy shifts in Dutch telecommunications.
1 The Politics of Economic Adjustment in the Netherlands (1980-94)

Between 1945-73 a broad consensus about Keynesian demand management existed in the Netherlands. Government, business, and labour had committed themselves to the national goals of full employment, steady economic growth and the development of the welfare state. The country, already suffering from decreasing economic growth, was hit hard by the oil crises of 1973 and 1978. The situation got worse as a consequence of the so-called Dutch disease: the windfall profits of the production and export of natural gas were not used to strengthen the country’s competitiveness and economic structure, but were utilised for public consumption and the expansion of the welfare system. The bonanza of gas revenues made the inflation rate and the value of the guilder go up, eventually leading to a decreasing competitive position in the world market. At the end of the 1970s the Netherlands was confronted with increasing international competition and a shrinking economy, characterised by lagging investments, deindustrialisation, decreasing exports, increasing imports and a huge budget deficit. Between 1977-83 the Dutch economy found itself in a crisis situation: the centre-right government still gave priority to the objectives of full employment and welfare state programs above flexible adjustment policies; the social democrats did not have a viable alternative; trade unions were losing members and their internal coherence; and tensions in collective bargaining between labour and management were increasing. The established tri-partite framework proved highly inflexible to adjust to the new economic conditions, hampering the formation of an adequate economic response. After a short interval of the centre left cabinet Van Agt II (1981-82), the centre-right Lubbers Cabinets (1981-85; 1985-88) came into force with the pursuit of no-nonsense policies aimed at restoring investment and economic growth, reducing unemployment and maintaining price levels. Only then did the Dutch economy begin to show signs of economic recovery. Another reason for economic revival in the Netherlands was the general upswing in the world economy throughout the 1980s. The major shift in economic policy making took place between 1981-83 when the foundation was laid for the revival of Dutch industry and trade. The effective remedies consisted of a mix of trimming public spending, wage moderation, a market orientation towards the labour market and business in general and the promotion of innovation policies. The steady flow of large government subsidies to ailing industries was cut dramatically: partly as a deliberate consequence of balancing the budget by the centre-right Lubbers Cabinet but also due to cases of misuse of public funds (e.g. shipbuilding). This package of measures proved effective, stimulating economic growth, and cutting back
unemployment and the budget deficit (with inflation remaining low over the years).

Privatisation became another instrument in redefining the boundaries between public and private sector. The Dutch privatisation programme had no explicit ideological motivation: unlike the UK the notions of mass public shareholdings, popular capitalism and free market doctrines were not regarded as important elements in the discussion. Privatisation in the Netherlands was defended as just another pragmatic instrument to economise on the state budget and to strengthen the market sector. Officially, its objectives were to reorganise the public bureaucracy and improve efficiency within government, to reduce public expenditure and the budget deficit and to stimulate entrepreneur-ship and market-responsiveness for economic revitalisation (Andeweg 1988). The budgetary motive to trim the public sector was prevalent in the privatisation programme and the Treasury was the driving force in its implementation. The final results were somehow disappointing: there were hardly any state enterprises to be privatised and the operation was carried out gradually without a clear plan. First, the economy of the Netherlands is characterised by a large public sector and has only a small number of state enterprises that could be privatised. The explanation for this paradoxical phenomenon can be found in the availability of a third private non-profit sector, in which private associations performing public tasks (education, health care, social welfare and social security) subsidised by the state. Leaving aside the hiving off of some smaller state-owned services, only two larger companies were privatised between 1981 and 1994, namely KPN/PTT and the Postbank (a former PTT subsidiary. Secondly, the Dutch government showed a clear preference for reorganising the public sector by retaining the core competences of policy making and by privatising only gradually. The Dutch policy makers so far have opted for a pragmatic approach by converting the government department into a state-owned company, that would operate autonomously from the government, to be followed sooner or later by the sale of shares. So a clear priority was given to the goal of internal preservation and reorganisation of the state enterprise, hereby underestimating the new roles and responsibilities of the privatised company, the government and (potential) competitors in the changing business environment.

The official definition of privatisation in the Netherlands is similar to the international definition. When translated into practice, however, it turned out to be remarkably different from selling state equity that took place in the UK and France. Notwithstanding the sale of some minority participations by the state and the contracting out of certain civil ancillary services, a
far-reaching and irrevocable decision to sell public utilities and/or state-owned companies could not be made in a consensus-oriented country like the Netherlands. One could qualify the Dutch way of privatisation, characterised by bringing former state enterprises under private law without touching upon ownership as a kind of half-way privatisation. After this pseudo-
privatisation measure the independent state-owned company is given some breathing space before (some of) its shares are sold off by the government (its single shareholder), herewith making it accustomed to function like a market-driven corporation. The employment levels of civil servants and the interests of the newly established corporation are protected as much as possible to overcome the resistance of the employees to change. At the same time the former civil servants and the autonomous state-owned company are prepared for the market environment, and the legislative framework is developed and implemented. It is said that this transitional period helps to improve the value of a private share offering by enabling the operator to become more efficient and allowing it time and space to restructure its business activities effectively, sheltered from disruptive market forces. The recent restructuring of the public utilities in the Netherlands has been dominated by the reorganisation of its sectoral champions, namely KPN/PTT, Dutch Rail and the power utilities, that have been given more managerial and financial autonomy. The sectoral dimension of the joint implementation of privatisation and liberalisation measures, namely its relationship with the increase of market competition and the encouragement of innovation has been overlooked. As a consequence, regulatory issues to be negotiated and settled at the industry level, like universal service requirements of liberalised public services, interconnectivity, equal market access, and fair competition, only played a minor role in the political process.

Privatisation met only little political opposition and legal-constitutional problems were only minor. The mainly pragmatic aspects of the privatisation proposals prevented political opposition, only the small radical left wing parties were against. The Christian-Democrats, the Liberal-Conservatives and the centre-left D66 were cautiously in favour and the main opposition party, the Social-Democratic PvdA, in principle was not against it. The privatisation proposals were opposed by the civil servants unions. For them the privatisation programme was just an excuse for restructuring an inefficient and ineffective civil service. The public sector unions (with a unionisation rate of about 50 per cent) argued that alternatives like co-determination and decentralisation were more appropriate to make the civil service and public management more flexible. When their rank and file did not whole-heartedly support these views, the public sector
unions became more moderate and cooperative. When particular labour conditions, such as job security, payments and social security (cf. the break in retirement schemes) were met, the civil servants themselves were not necessarily against privatisation. The employers' associations regarded the sale of government shares of state-owned companies and the contracting out of public services as belonging to an overall market-oriented economic policy aimed at stimulating the business spirit and encouraging market forces.

The strong dependence of the Netherlands on the world economy has fostered a pro-European attitude and a major interest in the further integration of national markets into some kind of a free trade regime. The country has developed a strong commercial interest in the EC with 77 per cent of its exports and 64 per cent of its imports being exchanged with its EC-partners in 1991 (WRR 1993). The economic gains from European integration have been high: agriculture, transportation and financial services and communications clearly have benefitted from EC-policies (Wolters & Coffey 1990). Dutch policy makers, however, have seriously underestimated the consequences of increasing European integration on domestic socio-economic policies (Van Schendelen 1993). The rapid implementation of the Single Market Programme by 1993 and the concomitant irreversible shift of decision making powers to the European level surprised most Dutch ministries and key industries. The EC had simply been regarded as a large market outlet, rather than an institution in its own right with the powers to constrain the political and economic manoeuvrability of its member states. Since 1988 Dutch authorities have shown a clear interest in the consequences of European integration: public and private policy makers have become more conscious of the significance of the draft phase of negotiations and the need to anticipate the final phase of decision making. The fact that the Internal Market programme has also instigated a process of policy competition between the national institutional frameworks, in which entrepreneurship and deregulation prevailed over redistribution issues, has insufficiently been recognised in the Netherlands. The emphasis of the Dutch political debate had been one-sidedly directed towards European policy convergence, hereby overlooking the fact that besides European businesses, also governments are competing against each other for capital, labour and technology (WRR 1993). In such a liberalising market environment the member states can optimise their comparative advantages by improving the quality of the industrial and educational infrastructure, and establishing other competitive factor conditions.
2 The Established Telecommunications Regime in the Netherlands

Until 1989 the Dutch PTT belonged to the government administration as a corporate unit of the Department of Transport and Public Works. Traditionally the PTT Directorate was subordinate to the Minister of Transport & Public Works T&PW and subject to parliamentary supervision. The PTT administration was assigned a de facto public monopoly on the operation and exploitation of the postal and telecommunications services. The Director General of PTT (DG) was granted certain administrative powers related to the control of the infrastructure: e.g. the authorisation of licenses for private networks and cable systems, the allocation of frequencies, standardisation and the approval of terminal equipment. The PTT administration was also involved on behalf of the Minister in policy formation and implementation. Due to a lack of expertise on the part of the government, postal and telecommunications policies were often prepared and 'ghostwritten' by PTT officials. Besides the operation of postal and telecommunications services, the PTT administration was also responsible for providing money services to the general public (notably giro and savings) through its branches of the Postal Savings Bank RPS and the Postal Giro Bank PCGD. In 1986 the RPS and the PCGD were integrated into the state-owned Postbank company and given corporate autonomy.

The PTT administration was subject to close political intervention with respect to its day-to-day operations and strategic investments. The debates in Parliament about the allocation of the PTT-budget were often meticulous with details and short-term political interests, prevailing over longer term PTT concerns (De Ru 1985). All the financial requirements of the PTT had to be met through the National Budget: the allocation of its resources was decided on a year-to-year basis by the government and agreed upon by Parliament. Given the fact that its profits and corporate financing were government-controlled, PTT therefore had to rely upon internal financing and the cross-subsidisation between its various functions. For instance in the 1970s and 1980s the large profits made by the Telecommunications Function compensated for the heavy losses of the Postal Function. The PTT administration was regularly used as a fiscal instrument to balance the budget. As a consequence PTT's long-term strategy was seriously hampered by short-term budgetary policies, often leading to its charges being raised with the explicit purpose to increase its financial contribution to the Treasury and to postpone investments. The Ministry of the Interior, in charge of stipulating the recruitment and employment conditions within the civil service, set clear limits to PTT's personnel policy. The task of rate
setting was also under the government’s jurisdiction; tariff changes were proposed by the Ministry of T&PW, in close collaboration with the Ministry of Economic Affairs and the Treasury, and finally agreed upon by Parliament. Besides being responsible for an overall tariff policy, the Ministry of Economic Affairs had some influence on PTT’s corporate strategy out of industrial policy concerns, notably the promotion of innovation and regional economic development. The Ministry for Welfare, Health and Culture had to be consulted in all telecommunications matters relating to cable television and media policy.

Another relevant institution was the Advisory PTT-Council, that functioned as a consultative platform, through which the PTT and its major stakeholders could discuss the social, political and economic aspects of postal and telecommunications policy. Besides facilitating the exchange of information and views among the parties involved, this neo-corporatist body, whose secretarial functions were carried out by the PTT administration, was also required to give recommendations to the Minister of T&PW. The system of industrial relations within PTT consisted of a Departmental Works Council at the central level and 200 subdepartmental committees at the lower ranks (Visser & Van Den Besselaar 1993). The prominent labour union, representing PTT staff (a unionisation rate of nearly 50 per cent), is the centre-left AbvaKabo, a public sector union that is loosely tied to the Social-democratic party.

The contradictory role PTT played in public policy was brought to a head by the plan of the government to decentralise the civil service, clearly reinforcing PTT in its search for more corporate autonomy. In 1976 PTT was forced to move parts of its central management (about 3000 jobs) to the city of Groningen located in the North-east of the country. This measure was part of a regional development policy, put forward in 1974 by the centre-left Den Uyl Cabinet, to transfer sections of the Civil Service from the Randstad to the underdeveloped Northern, Eastern and Southern parts of the country. PTT, supported by the Advisory PTT Council, felt once again that the government regarded PTT as a means to achieve other policy objectives than telecommunications and postal policy, namely regional economic policy. The imposed transfer of parts of the PTT headquarters to the North-east was interpreted as an undesirable interference in its corporate management, seriously hampering public service provision. Furthermore PTT-personnel and its labour unions protested strongly to the obligatory character of the plan, implying that some servants were forced to move to another part of the country. By-passing the interests of PTT, the Cabinet finally enacted the decision to transfer parts of its headquarters in 1985 and the whole operation was completed in 1992.
Traditionally the market for public switching equipment has been relatively closed: the major supplier being Philips and the Dutch/American firm ITT/NSEM and the Swedish-based company Ericsson being additional suppliers. Philips was the country's largest industrial employer and one of the world's largest diversified electronics firms. The relationships between PTT, Philips and the Technical Universities of Delft and Eindhoven were really close, including a frequent exchange of information, personnel and funds. With respect to switching equipment Philips, forced by its relatively small share in the world market and lack of technological competitiveness, decided to change its corporate strategy by leaving the national champion alternative for a collaboration strategy. In 1983 Philips Telecommunications decided to catch up by joining forces with AT&T through the creation of APT: this link up with an American company was going against the ideals of establishing a common European technological base and a Common Market, in which Philips was so much involved at that time. For AT&T the agreement was the first step on the highly protected European market, quickly followed by partnerships with Olivetti and Italtel in Italy and Telefonica in Spain. For Philips APT turned out to be a disappointment and it withdrew from the switching market: it gradually shed its shares, eventually leading to a clear takeover of APT by AT&T when Philips sold the remainder of its shares in 1990. After its withdrawal from the public switching market Philips has developed into a niche player in the telecommunications market (business switching equipment, mobile systems and radio facilities).

At first telephone systems in the Netherlands were developed and controlled by private enterprise, quickly followed by the involvement of municipal authorities and the state in the exploitation of local, trunk and international networks. The Telegraph and Telephone Act of 1904 combined the recognition of a license-based system to run public networks with a nationalisation clause to bring local networks under governmental control. The 1904 Act stipulated that the provision of telephone services was exclusively reserved to the Crown, although the government could grant concessions to third parties to install and operate local networks. Although the 1904 Act left room for more than one operator, the government assigned PTT a de facto monopoly to provide telephone and telegraph services exclusively. When restoring and expanding the telecommunications network in the post-war years, PTT-management became more and more convinced that the tight political controls were at odds with the corporate goal of fulfilling its public functions. The lack of freedom of action for PTT management was brought into the limelight at the end of the fifties, when the government
curtailed the investments of PTT, as part of a general reduction of public expenditure, while withheld from negotiating loans on the capital market. As a consequence, the waiting list for telephone connections included more than 100,000 households in 1961. Another serious problem for PTT was the recruitment of qualified personnel, the brain drain of staff to the private sector, and the formal restrictions posed by the uniform standards for civil servants. As a consequence PTT could not compete with private enterprise on the labour market.

Gradually the PTT monopoly drew more and more criticism. In the 1970s the increasing demand of business for dataservices and leased circuits market, challenged the reliability, flexibility and capacity of the then saturating telephone network. In order to meet business demand PTT needed to upgrade and expand its infrastructure, but was severely constrained by a government curtailing public expenditures and by a lack of capital and qualified personnel (Arthur D. Little 1981). So in the early 1980s both government and business were convinced that a thorough reconsideration of the established regime and the effects of technological, economic and international developments in telecommunications was required. It also became clear that PTT could only fulfil its proper function in this changing environment, if it gained more corporate autonomy. After telecommunications was also mentioned as a priority sector in re-industrialising the Dutch economy, the government finally realised that a profound investigation of the position of the PTT administration in the domestic telecommunications industry was needed.

3 De-monopolisation of Telecommunications in the Netherlands 1981-1994

In 1981 the centre-right Cabinet Van Agt I installed the Swarttouw Committee to investigate PTT's present and future responsibilities in the light of the developments to be expected in the field of communications technology. For that purpose representatives of PTT, the Advisory PTT-Council, the domestic equipment industry, and the information-related industries were consulted (the labour unions and consumer organisations were not heard). In its 1982 report the Swarttouw Committee recommended that structural reform was necessary. Although it supported the preservation of PTT's monopoly on the infrastructure and traditional telecommunications services, the Committee concluded that the market for terminal equipment and value added services could be liberalised. The markets for terminal equipment and tele-services should be
liberalised and develop into a level playing field in which PTT could compete with others on equal conditions. The Committee argued that direct political influence on PTT’s policies concerning investments, rate setting and service provision, it should be transformed from a government department into a state-owned joint-stock company. Furthermore a separate supervisory council needed to be established, in which the major organised interests within society were represented.

In 1984, nearly two years after the publication of the Swarttouw Report, the centre-right Lubbers I Cabinet endorsed the main recommendations of the Committee in the first White Paper, although actual measures were not yet taken. This delay was partly caused by changes in the cabinet from centre-right to centre-left to centre-right again, but on the other hand was due to the Social Democrats and the Christian Democrats, that regarded the Swarttouw proposals as too radical. The negative effects a proposed liberalisation of the equipment market would have upon employment within PTT and the manufacturing industry, the hiving off of PTT from the government administration and the creation of an independent supervisory council outside parliamentary scrutiny, caused serious political tensions (Arnbak 1986). The White Paper enforced the broad outlines of the Swarttouw Report by following its recommendation of the future PTT monopoly to be restricted to the installation, maintenance of the public infrastructure and the exclusive provision of telegraph, telephone, telex and datatransport services. In one respect the White Paper differed markedly from the Swarttouw Report: while the former recommended the liberalisation of all terminal equipment, the latter proposed only a partial termination of PTT’s monopoly on telecommunications equipment. The main reason for maintaining PTT’s equipment monopoly seemed to be defensive, however. A termination of it would have serious employment effects on the domestic equipment industry and the PTT-administration.

The next step in the structural reform of Dutch telecommunications was the installation of another committee in June 1984 to evaluate the present responsibilities and functioning of the PTT administration and to propose adjustments in the status, structure, task and supervision of PTT. The policy recommendations, made by the Swarttouw Committee and endorsed by the government in the 1984 White Paper, were not implemented as yet, but mainly served as a guiding line for the new consultative and advisory round. The Committee’s Report, published in July 1985, stated that a future telecommunications policy should balance monopoly and
competition and elaborate upon the dual role of PTT. As a public utility it should provide the network and be able to play a leading role in the development of new services. As a private enterprise PTT would be allowed to offer terminal equipment and tele-services in open competition with third parties. The Committee argued for a new governance structure in which PTT would be granted with an exclusive concession for the operation of the public communications infrastructure and the provision of the basic post and telecommunications services. In this concession-based regime a line could be drawn between the mandatory provision of reserved services and advanced services offered in an open market. Furthermore the concession could contain certain guidelines and preconditions with respect to universal service provision, quality of service, tariffing, consultation etc., to be acted upon by the concession holder in the operation of the licensed services. The Committee stated that PTT’s traditional involvement in regulation, licensing, type approval, standardisation and policy formulation needed to be separated from its operational function of the providing services. The functions of rule-setting, licensing and supervision would be taken away from PTT altogether and assigned to a special agency in charge of post and telecommunications regulation attached to the Ministry of T&PW. The institutional framework for postal and telecommunications policy would be completed by an Advisory Council on Telecommunications and Post RATB and a Consultative Council PTT. The first would consist of a small group of independent experts advising the Minister about the performance and development of the infrastructure and the concessioned services. The second would facilitate communication between PTT and its major stakeholders about policy issues also related to PTT’s public functions.

Regarding PTT’s future status the Committee proposed to restructure it from a government department into a state-owned company. The Committee strongly recommended a legal entity status through a joint-stock company: this would enable PTT to execute its corporate and public functions more freely and it would prevent the government from interfering directly with the daily operations and hampering corporate planning. The Committee proposed that the future PTT holding should develop into a decentralised organisation, made up of three subsidiaries, one dedicated to Mail and a separation of the Telecommunications function into a public utility company exclusively in charge of the operation of the infrastructure and the provision of reserved services, and a commercial company active in the competitive markets of terminal equipment and tele-services. The reason for separating the public and private activities of the Telecommunications branch was to secure fair competition by preventing a cross-subsidisation of its competitive services.
In December 1985 shortly after the publication of the Steenbergen Report the government followed with the presentation of the Second White Paper. The Cabinet strongly supported the conclusions of the Steenbergen Report, fitting perfectly into its official privatisation and deregulation policy. The 1985 White Paper argued for an orchestrated and simultaneous implementation of the policy measures aimed at the structural reform of PTT, the opening up of the terminal equipment and tele-services markets and the enactment of a new institutional framework by 1989. The White Paper was directed towards encouraging innovation and competition in the provision of telecommunications facilities, while at the same time securing the nation-wide and uniform provision of basic services. The government solve the entangled discussion about the delineation of PTT’s monopoly in terms of traditional and non-traditional terminal equipment (caused by the 1984 White Paper) by proposing a full liberalisation of tele-services and terminal equipment. 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) and two separate post and telecommunications subsidiaries with a Ltd corporate status (BV), all subject to private law. The decision to split the Telecommunications Function was postponed. This future PTT, in which the state would be the sole shareholder, was given permission to negotiate loans on the capital market, to enter into joint ventures and to develop a market-based wage and working conditions policy. 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 issuing of the concessions (and the stipulation of the conditions attached to it).

The majority of the stakeholders reacted positively to the Steenbergen report and the consequent 1985 White Paper. The large users, computing firms, service providers and consumer representatives found their pleas for a more transparent market honoured. The domestic equipment industry was one of the few parties along with PTT and its unions, to criticise the reform proposals as going too far. The manufacturing industry asked for a gradual introduction of the restructuring measures within five years, because this would give the industry time to adjust itself to the new market conditions. Although it broadly endorsed the Steenbergen recommendations, PTT put forward some preconditions that had to be met in the new situation and criticised some of its proposals. First, PTT stated that it needed sufficient time to prepare and adjust its internal organisation and corporate strategy to the new business environment. In order to start on an equal footing with its major competitors, it advocated prompt political
decision-making and a simultaneous implementation of all the measures to be taken. Secondly, PTT noticed a pro-computing bias in the Steenbergen Report, underestimating the structural conflict in terms of regulation and standardisation between the information/computer industry with its global free trade ideology and the telecommunications sector with its nation-wide public service tradition. The insistence on allowing the resale of leased lines in the Steenbergen Report, aroused in PTT a fear of the dangers of bypass and cream skimming. Private companies could provide services selectively and at a lower price than the PTT could do and leaving PTT with high-cost low revenue customers. Thirdly, PTT felt disappointed at the rather one-sided attention given to the telecommunications branch and its prosperous prospects, hereby overlooking the postal division. Furthermore the effects of the proposed reform measures upon employment within PTT were not examined. Fourthly, PTT strongly opposed the proposal to split its Telecommunications Function into separate public utility and commercial subsidiaries. This separation was considered undesirable and detrimental as it would obstruct the exploitation of economies of scale and scope between the provision of the basic and the enhanced services. Furthermore a divesture of the telecommunications division would imply another major internal restructuring, while that division at the time was already in the process of reorganising its functional structure to increase market responsiveness and relocating its headquarters as part of the regional economic policy of the government.

The PTT workforce agreed with corporate management to keep both the telecommunications and the postal services and the public and the commercial activities within the telecommunications function integrated. The unions were not really convinced that the plc-structure, put forward by the Steenbergen Committee, was the appropriate status for PTT in the future. Both were still slightly in favour of the more moderate sui generis construction in which PTT (as some kind of a para-state organisation) would have more freedom vis-a-vis the government, but would nevertheless remain within the public sector. When the public sector unions realised that this was not feasible, the employee representatives moderated their criticism and joined the discussion on the reorganisation and the implementation of the new PTT structure. Since the question of whether PTT ought to have a public or a private status had become less important, two things remained important for the organised PTT workforce: it strongly favoured an integrated organisation that remained 100 per cent state-owned.
The Dutch legislative framework, established in 1989, was based on a system of privileges and obligations for KPN to secure its exclusiveness in the provision of basic services and to protect the public interest by forcing KPN to safeguard the provision of these services. The Telecommunications Act was set to accomplish the following purposes:

- to promote the development of the public infrastructure and basic services in a socially and economically responsible way;
- to increase KPN's operational, financial and strategic scope;
- to increase the business opportunities for other companies in the equipment and the tele-services markets.

The present legislation did not make it clear in what way the government could effectively regulate such a dominant market player as KPN. The proposal for a legal separation of PTT Telecom was originally included in the 1989 Act to serve the policy objective of fair competition in the domestic market by making cross-subsidisation between the utility and the commercial divisions virtually impossible. The advocates of separation maintained that the established structure enabled PTT Telecom to subsidise its commercial activities (notably terminal equipment, advanced services and foreign investments) through its exclusively concessioned services. The government and KPN agreed in 1992 that a divestiture of PTT Telecom was politically undesirable and would be counterproductive for the domestic telecommunications sector, given the relatively small size of the Dutch PTT and the intensity of international competition. As the national champion, PTT Telecom should be allowed to build up a strong presence in foreign markets through internal growth and establishing international strategic partnerships on the basis of a strong footing in its home market. PTT Telecom argued that, in view of increasing competition and the size of its foreign competitors, such a legal separation would hamper its universal public service obligation in the domestic market and deteriorate its position in the international market. Another argument for dropping the legal separation of PTT had to do with the fact that the divesture of PTT public and commercial functions into two separate companies presupposed a formal and stable boundary line between the regulated and the non-regulated markets. In a business environment where rapid technological developments and international deregulation already challenged some of the dedicated services, the stipulation of such a public-private borderline seemed to be very difficult to accomplish.
The Dutch government was more or less surprised by the ongoing deregulation to create a European integrated market. In the final stage of drafting the 1989 legislation, the public officials were slightly surprised by the Commission’s plans for a common telecommunications market. After a brief investigation, the Ministry of T&PW was reassured that the Telecommunications Bill was compatible with Community legislation. After 1989 Dutch telecommunications policy was brought into line with the enlarged scope of EC legislation by (partially) opening up the markets of satellite, mobile and data communications to competition. The liberalisation process in the Netherlands received a new impetus in the Summer of 1992, when McKinsey (1993) was commissioned to investigate the needs of the user community with respect to the availability, quality and pricing of such telecommunications services. The McKinsey Report contained a positive evaluation of PTT Telecom’s residential telephone services, but criticised the operator’s business services. Both PTT Telecom’s domestic and international telephone services were rated as more than adequate and relatively cheap. McKinsey made clear that service provision to large users was below average. The consultancy firm was also asked by the Ministry to examine the then existing telecommunications policy and to make recommendations about a future organisation of the market. These policy alternatives should be based on increasing service provision to business users, strengthening KPN’s position on the international market and ensuring equal access and universal service. After less than four years, it became clear that the focus in Dutch policy making had to be shifted from giving priority to the general socio-economic interest of telecommunications, as expressed in the 1989 Act, to the interests of large business users and the promotion of competition. On the basis of the evidence and the scenarios provided by McKinsey, the Minister argued for the option of managed competition between 1993 and 1998, trying to find a balance between state-protected monopoly and free-for-all liberalisation. The public monopoly of the past would be phased out and replaced by an oligopolistic telecommunications market, characterised by new entry and PTT competing with mobile operators, cable operators, service providers etc. The basic assumption of the 1989 Act, namely the principle of unity of control, was effectively challenged by techno-economic developments and the increasing influence of EC-legislation upon domestic policy.

The Dutch government proposed to introduce network competition by allowing private companies with wayleaves to sell excess capacity on their existing networks to third parties. By offering a premium for a nation-wide license to provide an alternative fixed network, the Minister intended to instigate cable operators, Dutch Rail NS and power utilities to collaborate
by integrating their infrastructures and consolidating their businesses into a new public operator. If this plan were to be approved and implemented, the Netherlands would become one of the few European countries to allow network competition. From 1995 onwards, competition between PTT and a single contender in the provision of leased lines, data services and closed-user group telephony, would be allowed. In line with the Commission’s recommendations for an Internal Services Market to be implemented by 1998, the government suggested that public voice telephony would remain exclusively provided by KPN for this transitional period. Somehow ironically, in its quest to increase telecommunications competition, the Dutch government was still strongly involved in the development of this market duopoly by protecting KPN and imposing the collaboration of semi-public operators to create an alternative provider. At that time, the Dutch government still controlled KPN and NS Dutch Rail as their single shareholder and regulated the cable and utility companies (the large majority owned by local/regional authorities).

The government argued that the corporate interests and long-term viability of PTT could be improved by gradually liberalising its critical markets of network provision and basic services, while establishing a transitional duopoly before genuine competition could eventually be introduced. The government also assumed that its plan to phase out PTT’s exclusive rights before 1998 would have a positive effect on the valuation and floatation of KPN after 1993. The government turned susceptible to allow overseas investment in the prospective second operator if certain preconditions were met. Foreign participation would be restricted to 25 per cent and the international operator would be selected on the basis of the reciprocity argument (i.e. the openness of the candidates’ home markets). In January 1995 Telecom 2 made a clear decision for the American telephone company Bell South. The government also proposed to establish asymmetric regulation for a transitional period by awarding Telecom 2 a license by the Summer of 1995, even if it can not guarantee a nationwide coverage during the first years of its operation. Also it was not against any linkage between the prospective second GSM operator and the future alternative network provider. The pleas for speeding up the liberalisation process and installing an independent regulatory agency separate from the ministry were considered as understandable but nevertheless were pushed aside as not being urgent enough.
4 The Liberalisation of the Dutch Telecommunications Market

In the new telecommunications setting the public monopoly of PTT was reduced to a core public monopoly, that authorised PTT as exclusive concession holder for the provision of the infrastructure and the reserved telephone, telex, data transmission services on a universal basis, including international service and provide leased circuits to any interested party for all sorts of value added services. All other telecommunications facilities, value-added network services and terminal equipment could be provided in a free market environment. From 1991 onwards measures were taken to liberalise more market segments, that previously belonged to PTT’s exclusively concessioned services. For instance, the provision of satellite services was partially opened up to competition (a complete liberalisation of satellite communications is envisaged in 1995) and the market for datacommunications via fixed links and leased lines was liberalised. Both in mobile services and infrastructure provision will be established late 1995. The voice telephony will only be opened up to competition after 1998.

Traditionally, the provision of telephone equipment was a PTT monopoly. The terminal and switching equipment PTT rented to its customers and had installed within the network, was purchased from its court suppliers Philips, Ericsson and ITT/NSEM, with Philips being the dominant manufacturer. With respect to switching AT&T (after having taken over the Philips subsidiary), held more than 50 per cent of that market, with Ericsson and Alcatel (after the acquisition of ITT/NSEM) making up the other half. In general the market for switching equipment was a highly sensitive market where the political interests of supporting the domestic industry often prevailed over the efficiency arguments of foreign competitors and the corporate interests of PTT. An illustration of this was the announcement by the government in 1984/85, that three manufacturers would be selected to upgrade and digitise the public infrastructure. PTT had asked for only two suppliers of digital switching equipment, notably AT&T/Philips and Ericsson, but the government decided to add ITT/Alcatel to the list, fearing the closing down of its Dutch subsidiary. Ten years later when PTT finally had achieved corporate autonomy, the Alcatel-ITT agreement was reversed: PTT Telecom decided to drop Alcatel as court supplier (with the exception of GSM equipment). In the mid-1980s the terminal equipment market was severely challenged by cheap non-approved equipment imported from the Far East. Today that market despite being liberalised is still dominated by PTT: its share in the PABX-market has decreased to about 50 per cent. In the post-1989 situation, PTT benefitted from a clear bias in
the liberalisation measures of the terminal equipment market in favour of the former monopolist by being allowed to remain actively involved in the testing and certification of terminal equipment. PTT was privileged because it automatically received the required approval of equipment to be sold or rented, while its competitors had to rely on time-consuming procedures at the recognised testing agencies and long delays before the actual certification was given.

The development of videotex in the Netherlands was heavily influenced by the strong position of PTT and the relatively weak position of the publishing industry, the computing industry, service providers, cable operators and the equipment industry (Bouwman & Hulsink 1992). PTT claimed a leading role in the Vidiitel experiment by assuming the roles of network provider, service operator and information supplier. About the role of network provider, there was no doubt that, being the acknowledged key actor in telecommunications policy, PTT should orchestrate and control the development and diffusion of videotex. The role of service operator caused more problems: PTT, the public broadcasting organisation, the publishers and other information providers all made a bid for this part. The official introduction of Vidiitel in 1984 was followed by the development of other competitive initiatives with videotex. In the mid-1980s, the large publisher VNU had become involved in two experiments with the provision of tele-services through cable networks. VNU wanted to extend its stronghold in traditional publishing to the development and diffusion of new media and electronic publishing. VNU was hampered in its ambitions by a restrictive telecommunications and media legislation, protecting the public monopoly of respectively PTT and the public broadcasting system. For example PTT simply turned down an offer from VNU to harmonise the two videotex systems. When the lack of demand proved another setback in the effective diffusion of new electronic media in the consumer market, VNU withdrew from the videotex market.

When the growth of Vidiitel slowly drained away after 1987, PTT asked for more harmonisation between the various experiments. A more or less established pattern of cooperative relationships between Vidiitel and the other experiments has emerged in 1990 through the integration of the various systems into the system integrator Videotex Nederland VTX. This newly established system (in which PTT held originally a 30 per cent share) provided a fully transparent network environment in which providers could deliver their information services in one general format, while the system operator VTX took care of transport and network management. Under the guidance of PTT, supported by the Ministry of Economic Affairs and potential investors, a form
of harmonisation and system integration was accomplished. On the basis of its dedicated role as network provider PTT played a mediating role between the various experiments. After nearly ten years of experimenting, PTT had come to realise that a successful diffusion of videotex required a joint effort of common carrier, service operators and information providers and that these particular functions needed to be integrated. Another motive for this more collaborative attitude was the (pseudo-)privatisation of PTT in 1989 that allowed it to enter into joint ventures. The liberalisation of the telecommunications market forced PTT to change its strategy from domination on the basis of a public monopoly to a more persuasive one directed towards harmonising the various systems. PTT was able to play the role of key actor pushing the notions of collaboration and system integration forward. In its capacity of exclusive concession holder PTT provides the infrastructural facilities, in its capacity of a commercial firm PTT offers through its daughter VTX an umbrella service Viditel and as a semi-competitor it exclusively provided the Viditel-system for closed user groups (only in 1992 Viditel was integrated in VTX). In 1994, when VTX still had not achieved its break-even-point, the situation became for another time critical, when two large information providers, the Postbank and the RABO Bank, would no longer utilise the videotex network and decided to provide their telebanking services off-line. The announcement of VTX to provide gateways to and -probably- integrate its services as a subsystem in the worldwide Internet might be the last chaper in the history of videotex in the Netherlands.

The liberalisation of the market for value-added network services (VANS) in the Netherlands has evolved into an oligopoly in which PTT Telecom, together with its partners AT&T/Unisource and Infonet, is one of the bigger market players, competing with other strong international players like IBM and GEISCO. In 1993, the VANS market benefitted from the liberalisation of datacommunications, and resale of leased lines being permitted. For instance these measures allowed for RAM Mobile Data, jointly owned by the BellSouth and France Télécom, to become active as the operator of a wireless datatransmission network and hence enter competition with PTT Telecom in the cellular market niche. In the market segment for (international) datacommunications large and/or competitive foreign operators, British Telecom, Transpac/France Télécom and Esprit Telecom are building up a presence in the Netherlands. These contenders are increasingly bypassing PTT's public network by rerouting traffic through their worldwide networks, extended with local networks and leased network capacity in the Netherlands. So far the position of PTT Telecom in the liberalised telecommunications market has been stronger than originally was expected in the pre-1989 discussions.
In the early 1990s the Dutch cellular market was relatively underdeveloped with a low market penetration, overcharged pricing, and faults in service provision. Like Belgium and Italy, the Netherlands have been slow in opening up the market for mobile communications. This was partly caused by an awaiting and protective government, who was insufficiently aware of the economic benefits of mobile communications and the positive effects of competition upon overall productivity and efficiency levels (PA 1993). Also PTT Telecom has been relatively slow to realise the market potential of cellular technologies. The reasons for this are manifold: bad marketing (one-sidedly concentrating on car telephony), poor quality of service, lack of price differentiation, and a go-it-alone strategy regarding sales and service provision. Only in 1993 PTT Telecom extended service provision to third parties through independent retailers, and established a network of retail outlets for the sale of cellular equipment. Instigated by the liberalisation proposals of the European Commission and the fear of losing the country’s competitiveness, the Minister and the relevant policy community were persuaded to replace the public monopoly on mobile communications by a more open mobile market in 1992. The political process lost momentum and came to a complete stand still one year later. Only in 1995 a cellular duopoly will be established, in which a second operator will compete with PTT, and new licenses for paging and other mobile services will be franchised. It took more than two years to reach a parliamentary agreement concerning the legislative proposal to allow competition between PTT and a contending cellular operator. So far decision making about the opening up of mobile communications (GSM) is characterised by slow responsiveness and strategic neglect (the government), tactical manoeuvring (PTT) and delays caused by interdepartmental clashes and legal-administrative dismissal.

The Dutch telecommunications system contains two separate local infrastructures: a PTT-controlled system and a extensive cable network under the control of municipal authorities, exploited by regional public utilities or private cable companies. Due to an obscure formulation in the 1904 T&T Act municipal cable networks were not subjected to the PTT monopoly. The installation and exploitation of these local networks was solely allowed for broadcasting on the basis of an exclusive authorization given by PTT. For new interactive services a special franchise from PTT was needed. Only a few of these licenses were granted to cable companies (mainly for experimental purposes). PTT stipulated the technical conditions that the cable networks had to meet and exclusively provided the broadcasting signals for the local cable networks and provided the interfaces between these networks. Although the penetration rate of
cable in the Netherlands is high (about 90%) there was little or no harmonisation of standards in the national cable system. Furthermore the legislative regime prohibited any collaborative efforts among these local monopolists and PTT was reluctant to furnish licenses for special cable services. PTT regarded the cable system as belonging to its public monopoly and was eager to control this part of the telecommunications infrastructure too. To that end PTT had established Casema, that as a private cable operator became actively involved in the cable market.

After the Swarttouw Committee and the 1984 White Paper had asked for further research on the subject of infrastructural coordination, the Cabinet in 1985 announced the installation of an advisory committee dealing with the investigation of harmonising the cable and the local PTT networks. This Zegveld Committee was asked to investigate the possibility and desirability of an integration of the two separate local infrastructures into one PTT-controlled. One year later the Committee advised in favour of the future harmonisation of the two local infrastructures into one integrated broadband communications network to be controlled by PTT. In its plea for network integration the Committee was led by the techno-economic considerations of economies of scale and scope and by optimism concerning the large-scale diffusion of fibre optics and eventual technological convergence. The low costs of a universal network and high-capacity optical fibres, would enable a cost-effective exploitation of cable television and facilitate the promotion of tele-services. The modernisation and enlargement of the two existing networks without at the same time integrating them would lead to notable losses of capital. In 1988 the Zegveld recommendations were endorsed by the Cabinet. Like the Zegveld Committee, the Cabinet expected that in the long term an integrated broadband communications network would take shape, in which the distinction between the PTT and the cable network would disappear. This future broadband network should be part of the exclusive concession given to the PTT. The Cabinet argued for a passive role of the government in the harmonisation process by delegating the essential tasks (cf. degree of network integration, timetable and takeover price) to the two major stakeholders in the process, namely PTT and the VECAI association. The government also refused any financial participation in the process of network integration.

In 1989 PTT and the association of cable operators started bilateral negotiations to decide on a joint approach to the integration of local networks, dealing with such issues as the planning of the conveyance, compensation and the promotion of and control over the exploitation of new
tele-services at the local level. These discussions gave way to laborious negotiations concerning the conditions and control of these services. In 1991 the cable operators found it impossible to commit themselves to the idea that network distribution and the exploitation of interactive broadband services would fall exclusively within the jurisdiction of PTT, while making it extremely difficult for them to move into new businesses. PTT insisted that a local broadband communications network ought to be centralised and be brought under its exclusive control. Subsequently it has taken over several cable networks and entered into strategic partnerships with other (potential) cable operators. A strong concentration trend took place between 1992-95, when several municipalities sold their cable networks to the power utilities, KPN’s Casema and PTT Telecom. Another factor that surely has contributed to the breakdown of negotiations was the increasing influence of EC legislation upon domestic telecommunications policies between 1988-91. The Dutch strategy of network integration was going against the liberalisation and deregulation trajectory set by the European Commission. In the Spring of 1993, however, the government took the decision to liberalise the cable regime in the near future. From 1994 onwards, cable operators were permitted to collaborate and merge their networks and were allowed to offer interactive applications and data services (with the exception of voice telephony to be liberalised by 1998). Although network integration might be traded in for network competition, however, it is still far from clear whether and when some form of effective competition will eventually be established. KPN already controls a substantial part of the cable sector and prevent any serious competition from the dispersed cable community. Together with Philips Media, KPN with its subsidiaries Casema and PTT Telecom expands from distribution into programming and the provision of interactive broadband services.

5 The Privatisation of KPN/PTT Telecom

The floatation of KPN meant the final step in the privatisation process, leaving the pseudo-privatised stage of the state-owned joint stock company for a corporation listed at the Amsterdam Stock Exchange. After 1989 KPN became the largest private employer in the country with a workforce of 100,000 of whom about 30,000 were PTT Telecom employees. In order to become more efficient and effective in the market place and more attractive for (potential) financial investors, KPN/PTT started a rationalisation programme of substantially trimming overhead and labour costs and entered into international strategic alliances. The successful
corporate development of KPN clearly benefited its single shareholder, the Dutch government with the annual contribution (dividends and taxes) to the Treasury rising from Dfl 1.5b to Dfl 2.3b in eight years (1985-92)(Annual Reports PTT/KPN). The government might also have been pleased with the effect of KPN’s increasing internal efficiency and commercial successes, increasing the company’s at the moment of its floatation. The government’s decision to sell off shares of the integrated KPN holding company, including the sale of the PTT Post subsidiary, could have influenced the valuation negatively. According to the 1989 legislation the government was allowed to sell off only a minority of the KPN-shares. In the Summer of 1993 the Minister announced that between 1994-1998 a majority of the shares (varying between 51 and 70 %) would eventually be sold. The state would retain a minority participation in the newly privatised company of about 30 per cent. Notwithstanding the fact that the Cabinet has dropped the claim to keep more than 50 per cent in the hands of the state, a set of protective measures has been built into the floatation procedure to leave the controlling interest of the government untouched and to prevent a hostile takeover. In June 1994, the government sold 30 per cent of the KPN/PTT shares on the stock market. Shortly before the floatation, the pay out ratio has been increased from 40 to 50 per cent to enable a higher valuation of the sale of the shares. The Centre-left Government furthermore attracted the acquisition of shares by KPN-staff and small investors by relatively underpricing the shares and giving 'sweeteners' to private shareholders. The revenue of the sale was approximately Dfl 7 bDFL, with roughly a third of KPN’s total workforce having acquired shares. The remaining 40 per cent of the shares will be sold off by the government in due time. The government has decided that the revenues generated by the floatation will be used to reduce the relatively high public deficit and for infrastructural investments in the Dutch economy.

After the implementation of the de-nationalisation and liberalisation measures of 1989 KPN had to adapt its internal organisation to the changed external environment and strive for profit-maximisation and return on investment. KPN staff lost its civil servants status and became subject to one collective labour agreement, that brought wages and working conditions more in line with the private sector. The higher ranks of PTT Telecom’s management (about 200) have been moved from collective pay terms to performance-related and personal contracts. As a consequence overall salary levels were reshuffled with wages in the lower ranks decreasing in relative terms and wages in the higher grades increasing (Van Den Besselaar & Visser 1993). A Central Corporate Works Council has been installed, in which employee representatives and
company management negotiate about operational and strategic issues concerning the corporation. In the new situation the trade unions are only represented at the holding level of KPN, they no longer have access to the district level and related companies. PTT Telecom aimed to create sufficient internal flexibility by implementing reorganisation measures like decentralisation and divisionalisation, the upgrading of personnel by job replacement and retraining programmes and the recruitment of highly-qualified staff from outside. In 1990 PTT Telecom initiated a total quality management campaign to increase its quality of service to residential and business users by emphasising customer care, client satisfaction and account management. Besides the overall introduction of itemised billing in 1993-94, PTT Telecom especially targeted business customers through creating decentralised units and regional business centres, and appointing account managers to settle customised contracts with large users (e.g. bulk discounts and tailored services).

Since 1989 PTT Telecom’s workforce initially rose from approximately 30,000 to 34,000 in 1992, and then has fallen down to about 32,000 by 1994. This increase of staff was caused by PTT’s bid to digitise its network, promote new telematic applications and hiring skills and capabilities which were relatively underdeveloped in the corporation (notably sales and marketing know how). In 1992 management of PTT Telecom revealed a rationalisation programme, arguing that in the medium term growth could only be realised by consolidation and cost efficiency at home and expansion abroad. The programme outlined the cutting back of 10 per cent of its labour and overhead costs within two years. The shedding of labour would take place through natural wastage and no forced lay offs were announced. Although already being one of Europe’s most efficient telecommunications companies, PTT announced a new efficiency drive in 1994 to cut back another 10 per cent of its total workforce, involving 3000 to 4000 lay offs in the medium term. Facing the effects of increasing international and domestic competition and far-reaching automation of network switching, the unions were convinced that it was better to participate in the negotiations about shedding labour than to be left out. With the telecommunications market losing more and more of its monopolistic structures, PTT Telecom has transformed from a functional single-product organisation into a multi-divisional company far more responsive to the market than before. It attempted to diversify into a multi-services provider and build up a customer orientation by directing marketing efforts on profitable markets (dataservices, tele-services and international telecommunications). In its attempt to meet the demands of both residential and business customers PTT Telecom partially succeeded: while
the quality levels of its residential services were rated as more than sufficient, its service provision to business users showed several shortcomings. Besides the restructuring of its businesses, PTT Telecom decided that also the lower district levels of the corporation needed reorganisation. In order to be close to the market and to cut operational management costs, the functional form of the districts was replaced by a more decentralised grid structure.

The erosion of its monopoly has prompted PTT to embark upon a diversification and integration strategy and move into various segments of the electronic information market. PTT Telecom has moved into the expanding market of business communications by responding to the need of large diversified companies to manage their information flows and provide customised network services with ‘one-stop-shopping’ facilities. Another stronghold of PTT Telecom is in the market of value added network services, electronic data interchange and dedicated wide-area networks. In the newly emerging multi-media market, KPN/PTT Telecom has strengthened its position. Besides control over the telecommunications infrastructure and the leading cable operator Casema, KPN has diversified in audiovisual production, videoconferencing, interactive television services and videotex. In August 1994 KPN established, together with the US-based company Graff and Philips, the joint venture Teleselect, to promote the development of pay-tv and video-on-demand. Furthermore PTT dominated the development of videotex services and gained a solid position in type approval and consultancy. Late 1994 KPN announced the establishment of PTT Multimedia, including all its various business ventures in the newly emerging electronic market place.

In the market for international business services, PTT Telecom has followed an expansionist strategy by entering new geographical markets and linking up with foreign business partners. The reasons for establishing cross-national alliances were to be found in the limited size of the Dutch home market and the search for increasing economies of scale in its business operations and to achieve a global coverage for its services. A major international endeavour of PTT Telecom was its active participation, together with middle-sized operators, to establish a joint venture that should become a European long distance operator. In 1994 this company Unisource (workforce approximately 1000) became incorporated in the AT&T-inspired federation of Worldpartners as its European branch. Originally Unisource was established in 1992 as a strategic alliance of PTT Telecom with Televerket/Telia (i.e. the Swedish PTT) with the purpose to provide managed network services to large international business customers. In order to deve-
lop international end-to-end communications services Unisource set up a commercial agreement in 1992 with US Sprint to increase worldwide coverage. One year later, the Unisource initiative was extended with the participation of the Swiss PTT, and ownership equally divided among the three participants. The collaboration with Sprint turned out to be a technical and commercial disappointment. After emergent problems in interconnecting the two networks, due to differences in basic technology used, Unisource decided to terminate the agreement with Sprint. Instead, Unisource linked up with SITA, the airlines telecommunications cooperative, and with KDD, the Japanese international operator, for service provision outside Europe. Although still lossmaking in 1993, the future might look better in 1994, when the Swedish/Dutch/Swiss alliance made deals with Telefonica, the Spanish public operator acquiring 25 per cent of the Unisource shares, and AT&T to provide global services jointly. By linking up with Telefonica, that will fold its datacommunications and international services into the joint venture by 1994, Unisource will extend its business activities into Southern Europe and Latin America. In June 1994 Unisource announced that it would join the AT&T-dominated Worldpartners consortium, in which it would acquire a 20 per cent stake. In the Autumn of 1994 Unisource and AT&T extended and deepened their collaborative venture by forming a 1 $b equity partnership, called Uniworld. In this new company, 60 % owned by Unisource and 40 % by AT&T, the two partners will merge their European data, satellite and business voice services.

PTT Telecom also became active in the newly emerging markets in Central and Eastern Europe, Indonesia and the Carribean. It established cooperative arrangements with some of the Eastern European telecommunications administrations (Czech Republic, Slovakia, Bulgaria. Its strategy to penetrate the Hungarian market showed mixed results: its bid to participate in Matav (the Hungarian PTT), failed, while the Pannon consortium, in which PTT Telecom and its Unisource partners were represented, was awarded to become the country’s second mobile operator. Together with its partners AT&T, Bundespost Telekom, Danish Telecom and the Ukranian administration, it is involved in overhauling the Ukranian telecommunications infrastructure. PTT Telecom also attempted to acquire stakes in the national operators of newly industrialising countries in South East Asia. This strategy proved relatively successful in Indonesia, when PTT Telecom became actively involved in the modernisation and expansion of the existing telecommunications network in 1993 through a strategic alliance with Telkom, the country’s national operator. For that purpose it decided to expand the collaboration with local partners by acquiring a 30 per cent stake in PT Bakrie Electronic Company (90 DFLb), a private Indonesian operator, a year later.
In the post-1989 framework the operational and regulatory tasks of PTT were separated through the establishment of a concession-based regime. The government had granted the concession holder KPN the exclusive right to install and operate the public infrastructure and basic services, being at the same time forced by law to offer these reserved services nationwide and meeting certain performance standards. Because of its obligation to provide public services at uniform charges, PTT needed some sort of protection to be able to carry out and finance its concessionary activities. This would prevent it from the effects of (potential) competitors bypassing the network and cream-skimming the commercially attractive markets. The HDTP-body of the Ministry of T&PW was given the responsibility for the regulation and supervision of the concession holder and the postal and telecommunications industry. With the exception of the reserved services to which it was subject to modest tariff regulations, PTT was responsible for setting its own tariffs. For the provision of the reserved basic facilities, a price cap system was installed, that was based on the weighted average of tariff changes of the dedicated services. This system of price controls implied that the cumulative tariff increases in the telecommunications domain had to be less than the Consumer Price Index CPI. PTT had to submit a preliminary proposal for tariff changes to the Minister, who, after having ensured that the terms of the price cap formula were respected, would enforce the plans. So far PTT has carried out the process of tariff rebalancing gradually with modest price increases of local calls and line rentals, all within the CPI-0 price cap, and by a continuous series of substantial price cuts of international communications. The reaction of consumers representatives has been modest and balanced: it accepted the price increases of the basic services and criticised the raise of rental charges. The consumers association regarded PTT’s decision to raise rental charges as unnecessary, because they were already among the highest in Western Europe. Furthermore raising rentals would be an easy way for PTT Telecom to secure its standing revenues, without seeking real competition.

The 1989 Act required PTT to submit an audited annual report to the Minister on the results and the development of the reserved services (i.e. publishing statistics on quality of service, network capacity, tariffs, financial results etc.). Under a statutory obligation PTT Telecom was also obliged to provide its major stakeholders with accurate planning indications for the medium term, concerning investments, prices, standards and policies regarding the future provision of
the infrastructure and the dedicated facilities. On the markets for value-added services and
terminal equipment PTT was allowed to compete freely. Originally the present legislation
presupposed a clear separation of PTT's Telecom's public and commercial activities through
distinct reporting and accounting systems. This was seen as the first step to a de facto divesture
of PTT Telecom into two subsidiaries, originally proposed for 1994. The decision to separate
the public and the commercial tasks of PTT Telecom, however, was abandoned in 1992. The
then Minister expressed her opposition to such an organisational divesture, arguing that a further
curtailing of PTT's monopoly in a relatively open home market would be counter-productive to
its internationalisation strategy, and consequently dropped the issue.

The liberalisation and privatisation measures were accompanied by the creation a new
framework for advice, consultation and supervision. In the new situation the jurisdiction for
both policy making and rule-setting concerning the post and telecommunications sectors fell
under the directorate HDTP of the Ministry of T&PW. Besides keeping responsibility for draft
legislation, HDTP acted as a kind of regulator and supervisor for the postal and telecommunications sectors. The establishment of HDTP in 1988 implied that regulation and supervision
were separated from the operation and exploitation of the exclusive concessionary functions, that
before were all integrated within the PTT administration. HDTP was entrusted with the
administrative task to survey the concessionary functions of KPN and to control the tariffication
of its reserved business activities. Furthermore it scrutinised KPN from cross-subsidising its
reserved and commercial activities and became ultimately responsible for type approval of
terminal equipment, frequency allocation, and licensing operators and cable systems. HDTP also
acted as PTT's (sole) shareholder on behalf of the government.

The advisory and consultative structure of the Advisory PTT-Council was replaced by the
Advisory Council for Post and Telecommunications RAPT/CAPT and the Consultative Body
PTT Telecom. RAPT/CAPT is a statutory advisory committee made up of independent
experts, making recommendations to the government on the broad lines of policy, technological
developments and Parliamentary proposals in the fields of post and telecommunications. It is
also consulted by the Minister in the review of KPN's annual concession report. Compared to
the former Advisory PTT-Council, RAPT/CAPT covers a larger area, but on the other hand
it was mainly concerned with advice on broad policy lines. The purpose of the Consultative
Body PTT is to act as intermediary between PTT and its stakeholders (notably equipment
suppliers, service providers, customers, employers and employees) to discuss policy issues of a general nature and national significance, that had a direct relevance for the exclusively concessions services assigned to PTT. In 1992 a new body is established, the Consultative Body on Postal and Telecommunications policy OPT, in which government and the major parties involved in the telecommunications industry, would periodically meet. The reason for the creation of this new departmental body was the absence of a consultative platform where the Ministry of T&PW could discuss operational aspects and policy issues with the public operator KPN/PTT and its stakeholders. Whether the OPT-agency really supplements the established institutional framework (notably the Consultative Body PTT Telecom) without overlapping responsibilities and functions, remains to be seen. The interests of foreign operators active in the domestic telecommunications market, like British Telecom, Transpac/France Telecom and Esprit Telecom are notably not represented in the aforementioned consultative bodies.

Initially the framework for advice, consultation and supervision & regulation was created to guarantee a well-balanced relation between PTT's public function and the private organised interests and to increase the strategic flexibility of the Dutch telecommunications sector. The present institutional framework of Dutch telecommunications fell short in at least four ways. First the policy information made public by PTT in its capacity of exclusive licensee was considered insufficient by PTT's major stakeholders. In practice the lack of information provided by the regulated PTT obscured its public accountability and hindered parliamentary oversight of the industry. Secondly, the newly created telecommunications market was not yet working perfectly, lacking proper conditions such as equal access and fair play. Thirdly, it was thought that the new framework was inadequate for monitoring PTT's activities and promoting new entry, innovation and fair competition. Fourthly, the newly established regime was not equipped to cope with the demands and requirements of the Internal Market and EC-legislation.

The first criticism launched by the business community concerned PTT Telecom's secrecy about the prevalent conflicting loyalties between the commercial and the utility functions and its reluctance to give policy information about its public activities (i.e. the operation of its concessionary services and the long-term plans concerning the telecommunications infrastructure). In the newly installed regulatory and supervisory framework PTT was obliged to report on investments and long term planning directly related to its public activities and
subjected to an auditing regime. Minister and Parliament were supposed to check these plans on the basis of criteria such as economies of scale, universal service, international competitiveness and innovation capacity. So far PTT has not been able to fully comply with this condition, and it has seemed unable or reluctant to present adequate strategic information about its long term strategy with respect to its public functions. The second complaint referred to the fact that the separation of PTT’s public utility and commercial activities was not yet clear enough and the relationship between PTT and its competitors and customers in the post-monopoly market was not transparent. Consequently, the implementation of the administrative separation between the public function of PTT and its commercial activities in the liberalised markets was insufficient.

The third criticism referred to the relatively weak position held by the newly created bodies vis-a-vis PTT. In terms of expertise and staff HDTP was too poorly equipped to guide and oversee the liberalisation process. HDTP’s manoeuvrability was restricted by the structural information asymmetry between the concession holder and its supervisor, and by its close ties with the government. The small size of the Directorate, an ineffective recruitment of staff, and its rather late creation (Spring 1988) have all contributed to the malfunctioning of HDTP both as a watchdog and as a policy unit in charge of stimulating innovation and market competition. The poor quality of the regulatory and supervisory functions was illustrated further by the difficult contacts between PTT as concession holder, the government and its customers in the two Consultative Bodies. These institutions were originally established as a platform for regular consultations between PTT Telecom and its customers about the capacity, character, and quality of the infrastructure. After their introductory period, these Consultative Bodies received severe criticisms for being ineffective and informal, lacking any formal authority and decision making powers. The stakeholders of PTT Telecom were highly critical, both of the information provided by PTT and of the Body’s functioning. The negotiations within the body were open-ended and it did not have any compliance and sanctionary mechanisms that could force PTT to go into detail on its long-term infrastructural planning. This triggered rumours about anti-competitive practices and collusion between PTT’s concessionary and commercial functions. The fourth shortcoming of the established framework referred to its inflexibility to respond to the increasing jurisdiction of the European Community on domestic policies. The Internal Market Programme of the Commission, together with the ongoing international deregulation of telecommunications, forced Dutch policy makers to update their legislation on a relatively short notice.
The effects of EC-legislation were underestimated by the Dutch telecommunications community. In order to meet the post-1989 Community regulations, the Dutch government had to liberalise the markets of mobile communications, satellite and datatransport services, and certain national arrangements concerning tariffing, frequency allocation, VAT, resale of capacity and number planning etc). The Dutch governance regime, characterised by the retreats of the state, certain privileges for KPN as national champion and self-regulation, could not cope with the detailed regulations set by the Commission to secure open network provision ONP and fair competition. The fact that issues like interconnection, access charges, non-discrimination and fair play, needed supervision and dispute settlement, was not really understood in the Netherlands.

Although it’s true that the Ministry of Economic Affairs has increased its political influence on shaping telecommunications policy at the expense of the Ministry of Transport and Public Works over the years, the instrument of competition policy to control any abuse of the dominant position by the concession holder was overlooked (Hulsink 1993). The creation of an OFTEL/FCC-like regulatory agency, relying upon independent expertise and de-politicised decision-making to increase the transparency of both the domestic market and the overall institutional framework, has been given only little priority. The government has followed only partially the pleas for an independent administrative body. At the end of 1994 it announced that HDTP would gradually be hived off from the T&PW department. HDTP would become a semi-autonomous agency, with a budget of its own, but still operating within the Ministry. This prospective regulatory agency, to be established before 1998, would include two units, one dealing with frequency allocation and the scrutiny of peripheral equipment and the other with the supervision of networks and services. The new Telecommunications Bill, to be drafted in 1995, should effectively cope with these reform measures and the consequences of structural techno-economic developments of an increasing integration of telecommunications, computing and broadcasting on the one hand, and a differentiation of various information and communications functions and patterns on the other. In the long-term this might necessitate an administrative reshuffling between the ministries in charge of telecommunications, media and trade & industry and an adjustment of the existing governance structures in these domains.
7 An Organisational and Institutional Analysis

The system of policy formation and implementation in the Netherlands and in domestic telecommunications in particular, exhibited a distinctive framework of concerted action and seeking consensus between public and private authorities. Such a negotiated system facilitated the active search for compromise solutions that were acceptable and mutually advantageous to all the major parties involved and avoided political conflicts and controversies. The Dutch have a policy tradition of using corporatist boards and ad hoc advisory committees, based on institutionalised interest group representation, that function (semi-)independently from Cabinet and Parliament. These committees attempted to create internal consensus, as well as within the relevant policy communities. The character of the involvement of external advisory boards in the policy process changed with the installation of the Steenbergen Committee. Compared to the other committees, the Steenbergen Committee was composed of a triumvirate of experts in the fields of business administration/automation, telecommunications engineering and labour/corporate law. In the Committee consensus was created in a de-politicised, technocratic and business-like manner by emphasising the combination of mere fact finding and the consultation of the various stakeholders. Instead of being a broadly composed committee, where all the various interest groups participated and conflicting interests could easily emerge, the Steenbergen Committee was small, its members highly qualified and without political ties, and the various interest groups were consulted separately so as to reduce political conflicts to a minimum. These factors facilitated the enactment and implementation of the Steenbergen proposals into the official telecommunications policy of the Dutch government.

One of the reasons why the Steenbergen Committee was so successful was that it clearly benefitted from the work the other relatively ineffective committees had prepared. Nevertheless, it was the Steenbergen Committee that made the political breakthrough possible. The rather moderate proposals of the Swarttouw Committee for creating a distance between PTT and government, were shelved, because of strong opposition from the left-wing parties, trade unions and the protected domestic equipment industry. A new impetus to elaborate upon the Swarttouw proposals was facilitated by the programmes of the Lubbers Government, launched in the early 1980s, to cut back the public sector. The Steenbergen Report advocated a corporate autonomy for PTT and more market competition in postal and telecommunications service provision. For the financing of the modernisation of its network PTT would no longer put pressure on the
Budget. The combination of liberalisation and privatisation, as suggested by the Steenbergen Committee, fitted perfectly within the plans of the government to cut back the public sector. As a consequence, the Cabinet subscribed to the Steenbergen proposals within six months and the report was whole-heartedly accepted in Parliament.

After a period of intense negotiations, the new legislative framework was finally adopted and implemented. Although the fringe markets were liberalised and PTT was corporatised, the principles underlying and guiding the new legislative framework still relied, just like before, on the natural monopoly of the public network and the basic services and the protection of PTT’s privileged position against by-passing and cream-skimming (i.e. unity of control). It was believed that the 1989 Act would be flexible enough to cope with the major techno-economic and international developments taking place in the short and medium term. At the time the Netherlands did indeed have one of the most liberal regimes in Europe (after the UK), in the early 1990s, however, the country lost its comparative advantage and fell back on an average liberalisation path. The effects of the ongoing liberalisation and deregulation trend, triggered by techno-economic developments and the active involvement of the European Commission, has clearly been neglected in the Netherlands. Just when the Dutch had completed their new legislative framework after the Swarttouw and Steenbergen investigations in 1987/88, the European Commission started to unfold an impressive list of rules, directives and regulations to create an Internal Market of telecommunications equipment and services. While most member states were implementing the EC-liberalisation programme in their domestic settings, the Dutch policy makers exhibited a defensive attitude to reappraise and adjust their governance regime between 1988-92. As a consequence, the Netherlands was forced merely to follow and implement European legislation, since their own regulation, supervision and steering of domestic telecommunications was inadequate. Although the liberalisation of datatransport and satellite communications was prepared no substantial action was taken before 1993. For example the complaints about insufficient supply of planning information by PTT, the conflict of interest between its public and the commercial functions, and equal access/and fair competition, that arose between 1989-92 were played down by the government. These problems were regarded as transitional shortcomings of the new regime. The government still regarded telecommunications policy, supporting the interests of the domestic industry and national infrastructure, and PTT-policy, preserving the corporate interests of PTT, as convergent and identical.
From 1992 onwards the political agenda contained issues that urged examination, discussion and settlement. In Dutch policy making the focus was, however, on negotiating single topics and short-term problems, like legislative amendment to liberalise mobile communications; the review of the 1989-legislation in 1992-93; the decision whether to carry out the separation of PTT Telecom and the floatation of KPN envisaged in 1993-94; and the consolidation of private operators into a single services and the installation of a network duopoly (1994-95). A coherent long-term strategy for the domestic telecommunications industry, putting the various issues, bottlenecks and alternatives in a larger perspective, was notably absent. In their search for consensus, Dutch policy makers were able to bring about only gradual and incremental change: they were poorly equipped to cope with major disturbances in the international telecommunications (e.g. technological change, European integration).

After implementing the new legislative framework the policy-makers of the recent past failed to recognise the need for a post-Steenbergen update with a clearer market orientation and a more transparent institutional structure. The adopted strategy was above all aimed at protecting PTT’s interests in the new context and avoiding controversial decisions. Although privatisation and deregulation have created a revaluation of market principles at the expense of hierarchical state intervention, too little thought has been given to the fact that, even in such a liberalised environment the government cannot rest on its laurels. One important task for government remained in the hived-off public utilities, namely to determine, monitor and supervise the framework within which public service could still be provided and competition stimulated. The administrative agencies HDTP, RAPT/CAPT and the Consultative Body PTT were originally designed to prevent one of the parties dominating the rest and to guarantee on healthy competition. This administrative set-up made an uncomfortable combination of supervision and consultation unavoidable. Reality has made it clear, however, that these institutional arrangements are insufficient. On the basis of its traditional monopoly and its persistent hegemony in strategic expertise, PTT has been able to shape the conditions of the current framework through its direct involvement in the preparation of the 1989 Act and through its close links with the Minister and HDTP. PTT and the government (as shareholder and regulator) had a mutual interest in strengthening the strategic and economic position of PTT Telecom by keeping its public and commercial activities integrated and moderating (or delaying) radical liberalisation and deregulation proposals. This would facilitate the corporate expansion of KPN and turn its floatation into a commercial success. Because of PTT’s strong position in the present post-monopoly context it might be difficult to change this situation.
For 1995 a network duopoly is envisaged in which managed competition will exist between KPN and a Dutch-based contender. The liberalisation programme will continue with the opening up of voice telephony by 1998. The government finally seems to realise that telecommunications policy includes more than PTT-policy alone. The international expansion of PTT Telecom was furthered by keeping voice telephony exempted from the Dutch liberalisation proposals. This would allow PTT Telecom to keep a solid base in its home market. The interests of cable companies, public utilities and other private operators were nourished by allowing them to diversify into the provision of telecommunications services. The plan for an envisaged network duopoly and full liberalisation clearly responds to the articulated need of large business users for cheap, flexible and customised telecommunications services. A few critical comments on the recent proposals to initiate a second deregulation round could be made. First, in these proposals consumers’ interests are made subordinate to the interest of business users and market forces, making universal service and regulation more complex and difficult to achieve. Besides the goal of public service provision, government intervention still seems to be required to regulate (scarce) radio frequencies and number plans, and dispute resolution about interconnection and access charges. Secondly, the proposed distinction between voice and datatraffic made in the original plans would be difficult to regulate and supervise in a fully digitised network environment. Thirdly, the implementation of effective network competition could be impeded by the dominance of the PTT-owned Casema in the cable market. Fourthly, the Minister’s proposal for allowing only one nation-wide operator, in which cable companies, utilities, and Dutch Rail NS participate, could be seriously questioned. Given the lack of expertise, investment capital and market orientation, the cable companies, Dutch Rail NS and the public utilities rely on (a) strong foreign business partner(s) in order to compete effectively with PTT.

The underestimation of competition aspects has been one of the determining factors in the malfunctioning of HDTP and the Consultative Body PTT Telecom. Furthermore competition policy as a means of improving the performance of domestic business, the network industries and the national economy as a whole, has also been overlooked in the Dutch setting. An important plea for structural reform was made by PTT itself. After losing its legal entity status in 1954 PTT-management was severely handicapped in the operation and carrying out of its public services due to political constraints and detailed supervision. Technological and economic developments in telecommunications in the 1970s and 1980s made the lack of flexibility on the part of the government apparatus with respect to investment and employment conditions even worse. Notwithstanding the high degree of government interference and supervision, the fact
that PTT was extending its scope of activities in that period by gradually incorporating new infrastructural and service developments into its monopolistic portfolio of activities (with some of them only indirectly related to PTT’s core function) was not yet questioned. In the home market it diversified from traditional telephony into newly emerging markets (like cable and datanetworks, enhanced services. Together with its partners from Sweden, Switzerland and Spain, PTT Telecom was became strongly involved to create the integrated European long distance carrier Unisource that would provide one-stop shopping services for multinational companies. Later this joint initiative by the PTTs of small/medium sized countries was followed by a joint venture of Unisource with AT&T Europe and extended beyond Europe when Unisource decided to join the AT&T-inspired Worldsource consortium. PTT has not resorted to the courts in effort to enforce its monopoly, but was taking up the competitive challenge as combative entrepreneur by increasing internal efficiency, lowering tariffs and improving its quality of service. PTT controlled its external dependencies by enlarging its knowledge base and capabilities at the expense of its stakeholders and controlling the policy formation process by actively participating in trade associations, and building up partnerships with various market players.

8 Summary and Concluding Remarks

Public policy in the Netherlands throughout the 1980s 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, privatisation and deregulation. Within the political community it became clear that state intervention in the national economy had been overambitious and that a redefinition of the boundaries between the public and the private sector was necessary. This provided the political opportunity which some sections of the telecommunications policy community were waiting for. The drawn-out affairs of PTT striving for more independence fitted neatly within the deregulation and privatisation programmes of the Lubbers government. 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 advisory bodies, the Committees Swarttouw and Steenbergen. Finally during the discussions in Parliament over the recommendations of the two advisory Committees, it became clear that the erosion of the
natural monopoly demanded a more market-based organisation of Dutch telecommunications and an alteration of the legal status of the PTT. After the Dutch government had been convinced of the necessity of structural change in the early 1980s and had put forward some broad guidelines to trim the public monopoly and to reorganise PTT, the whole restructuring process 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 ministry ill-equipped for the restructuring of the Dutch telecommunications market.

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 networks, tele-information 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.

Another objective of the new Act was to encourage competition. In 1989 the markets for value added networks, tele-services and terminal equipment became fully liberalised. This was a clear response to the demands from consumers, big business users and the services-oriented industries. With the proposal to establish a temporary network duopoly between PTT and a prospective alternative provider (integrating the utilities, cable operators and railways companies) in 1995 before a complete opening of Dutch telecommunications (incl. voice telephony) by 1998, the government initiated a second liberalisation round. Whether these duopoly proposals, however, will effectively introduce workable competition in the long run, remains to be seen. For instance, the contender suffers from a lack of capital, technological expertise required to upgrade its network. Another uncertainty in promoting network competition in the
medium term is the feasibility of merging these domestic operators (with only limited foreign
investment allowed) into a competitive operator. The creation of this government-instigated
consortium might be suffering from bounded rationality, large decision making costs,
opportunistic behaviour and political struggles. This might encourage either the government or
the parties involved in the creation of Telecom 2 to demand for a closer linkage with a solid
international operator or eventual foreign leadership of the joint venture.

Although the government has retreated from the telecommunications domain, it is not as yet
clear how it should go about doing this and what role it sees for itself in the changing situation.
With the mere liberalisation of some market segments, the (pseudo-)privatisation of PTT and
the creation of the present institutional framework for advice, consultation and supervision, the
Netherlands is somewhere between discarding the old regime of direct public control, but
without yet really accepting the new regime based on market coordination 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. The Dutch regulatory 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
involvement in regulatory policy-making. PTT still economically and politically controlled
Dutch telecommunications. The current situation exhibits a dynamic and aggressive PTT
knowing exactly what to do in the new business environment, ambitious but unexperienced
(potential) new entrants and a rather passive government not knowing what to do in such a post-
monopoly context.
References


