

3G red herring in consolidation

3G, the much-vaunted third-generation high-speed cellular service, may be turning out a damp squib. And most international telcos seem to have lost their appetite for it.

News reports out of Japan, where NTT DoCoMo is the only telco to have rolled out the service in the world so far, are hardly encouraging. The reasons are many. Among them are lack of handsets and lack of content, which translate into little revenue. Definitely much less than the one trillion yen DoCoMo forked out to roll out its 3G infrastructure.

Taking the cue, it would seem that the Malaysian telco sector is right to drag its feet on the service, but some in the sector seemed keen to reap benefits nonetheless.

No less than Energy, Communications and Multimedia Minister Datuk Amar Leo Moggie was prompted to lay to rest a lot of speculation about 3G and its supposed role in industry consolidation.

Dow Jones reported the minister as saying in mid-January: "Some people have commented that the government is issuing three sets of spectrum... to encourage consolidation. We're happy with that reading but we are not forcing who should work with whom.

"3G is no longer such a big issue. The experience in Europe has meant the initial euphoria is no longer there... the industry is more realistic now."

Moggie reiterated that the target date for roll out of 3G in Malaysia remains the end of next year.

Taking his cue from the minister's comments, a telco analyst from a local research house has boldly declared 3G as a force for industry consolidation to be a "red herring".

If that's so, then what would it be?

For the industry does need consolidation. Dow Jones reported Prime Minister Datuk Seri Dr Mahathir Mohamad as saying, "The government wants to see the industry consolidate because there are far too many licences" at the same time that he confirmed Telekom Malaysia Bhd's interest in Technology Resources Industries Bhd (TRI).

Could this mean that industry consolidation this year would be mainly government-driven after all?

Some analysts think so. More specifically, consolidation could be at shareholder level. That would also add a fillip to the market.

After all, the government, via various agencies, hold controlling stakes in Telekom and the other integrated telco Time dotCom Bhd (TDC).

Indeed Khazanah Nasional Bhd's stake in TDC will have to be sold later this year as per the original sales and purchase agreement with TDC's other major shareholder Time Engineering Bhd (TEB).

So much so that some quarters have begun to think that Khazanah offering to take over TEB's Bonds (see story on Page 8) is linked to TDC and industry consolidation.

If Telekom were to succeed in gaining control of TRI (see main story) then the government will indeed be ensconced firmly in the driving seat of the telco sector.

Then what role would technology, which is important in the sector, play?

Most likely via large network facilities providers.

One influential school of thought goes like this: "The intention of the government, through the 3G exercise is to build the network facilities business. But the concentration of network facilities can occur without reducing the number of companies offering applications services, such as voice, data and multimedia services.

"Current telcos that are better at marketing and sales may wish to focus on product innovation, marketing and sales by divesting their investments in network facilities, thus reducing their capital commitments.

"Other telcos which are better at managing network facilities may wish to focus on the provision of network facilities as their core business by moving upstream to become wholesale network facilities providers."

The scenario may not sit comfortably with some sections of the sector, financial industry and analysts, because it is very radical — a complete departure from telcos in the traditional sense as they know it.

But it is part of the industry evolution that is being driven by convergence. And it is happening. — *By Jacqueline Ho*