

E-Pressure through Internet against Monopoly

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INTRODUCTION

In November 1998, a Czech e-pressure group, Internet proti Monopolu ("Internet Against Monopoly," or IPM), was founded in order to protest planned price increases by the monopolistic domestic telecom operator, SPT Telecom, on fixed-line telephony services. The increase would principally affect local fixed-line calls and, disproportionately, the increasing number of Internet users, whose access calls to Internet service providers (ISPs) are lengthier than voice calls. SPT proposed not only to raise the price for one local-call pulse, but also to shorten it. After four weeks of petitions, boycotts, demonstrations, and negotiations, the group pushed the telecom to ease the data-call pricing structure. The Czech Internet community—computer users, Web operators, and ISPs—thus got organized, which also persuaded the Czech government to modify its telecommunications policy, positively affecting the subsequent proliferation of the Internet.

IPM, on its part, was unique in a number of respects:

1. **Origin:** The founders came from e-media and e-business
2. **Flexibility:** The e-movement was able to organize major protests just two weeks after establishing itself
3. **General Support:** An e-petition was quickly signed by 100,000 e-citizens
4. **Broad-Based Boycott:** A one-day boycott of the monopoly telecom's services by ISPs affected 60% of Czech Internet traffic and was supported by 50% of Internet users
5. **Online Organization:** Public demonstrations were organized and propagated exclusively in cyberspace
6. **Precedent:** Although IPM was the very first e-pressure group in the Czech Republic, it was a significant success

From a technical and economic point of view, the slightly better price package ultimately offered to Internet users may look like a minor victory in a minor war. We should consider, however, the unlikely circumstances under which it was achieved. Czech e-communities in 1998 had a weak political/civic orientation, and predominantly

concerned technologies, games, and education. Moreover, e-communities in general have several disadvantages compared with traditional communities, such as anonymity, lack of incentives toward collective action, and inexperience.

In central and eastern Europe in particular, social capital is rather depleted. Decades of communist governments had largely destroyed any sense of "civic society," and thus genuine collective action. Furthermore, people quickly turned to strictly individualistic values given sudden (post-1989) free-market conditions, and rarely engaged in group activities. Civil activism was almost unheard of in post-communist Czechoslovakia and in the Czech Republic. Besides trade unionists and farmers, few others took to the streets in the 1990s. There was, in fact, only one major labor action (by state railway employees in 1995) in this decade of relatively low unemployment in the domestic economy. Moreover, the Czech e-population in 1998 was still small, and regulated prices were raised in other industrial sector as well (gas, electricity, water utilities, rental housing), so telecommunications was not a special case.

BACKGROUND

Monopolistic Incumbent

To derive the proper implications from the protests, let us examine the facts. In 1994, the TelSource consortium (51% owned by the Dutch telecommunication market leader, KPN) entered the state-owned SPT Telecom as a strategic partner, buying a 27% share from the Czech government. In the contract, the terms of which were kept confidential for five years, the Czech government promised the consortium managerial control and a virtual monopoly until January 2001; in exchange, TelSource was obliged to modernize the operator's telecommunications infrastructure. The consortium held ambitious plans of expansion into central and eastern Europe, but after KPN suffered economic losses at home, the plan to build a regional powerhouse was abandoned.

On the consumer side, SPT set the price for dial-up and other phone connections to the Internet at a price equal to that of a local call, plus an additional charge for Internet

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access. The only, yet partial, alternative to this near monopolist offer was to buy connection to Aliatel's local loops. However, it was very costly for small and medium Internet traffic (approx. 650 euro per month), and was available in only thirteen cities.

On October 29, 1998, SPT Telecom announced a "price re-balancing on the basis of long-term price adjustment schemes" (the so-called Price 99 tariff). The re-balancing meant less costly international calls but more expensive local ones. The company justified the rebalancing by citing EU recommendations in the pre-accession period, and referred to the 2001 liberalization of the Czech telecoms market that would anyway result in price adjustments. Price rebalancing called for an average 25% increase in local-call prices, and an average 25% decrease in the prices of international calls. Overall, the change was supposed to constitute a 3.9% overall increase, or below the annual inflation rate.

In the fall of 1998, four other events took place that, taken together, lead to civic action against the operator. First, days before announcing higher prices, SPT Telecom revised its full-year 1998 profits upward. Profits were projected to increase by 16%, to CZK 33.5 billion (approximately EUR 1 billion), and the profit-to-revenues ratio was supposed to be about 50%.

Second, on November 3, the Czech Telecommunications Office, the sector regulator, banned a long-distance service based on Internet telephony introduced earlier in the year by Radiomobil, a domestic mobile operator. SPT Telecom, as part of the terms of its monopoly on international calls, was prohibited from engaging in Internet call services, and the regulator thus opted for a market-wide ban instead of lifting the regulation imposed on SPT.

Third, SPT Telecom investments were planned to shrink, as CEO Urs Kamber announced in the Czech *MF Dnes* newspaper on October 31 (see Table 1). By the way, this delayed the introduction of the opt-out option (possibility to leave for another operator) in 2001.

Last, but not least, TelSource bought an additional 6.5% stake in SPT Telecom (spending some CZK 8 billion) on the stock exchange in building up a one-third blocking minority (33.4%). KPN CEO Marten Pieters claimed the blocking minority would be used "mainly for decisions about the capital structure in SPT." While this act did not

Table 1. SPT Telecom investments and total expenditures

| Year | Investment (in CZK bil.) | Investment to expenditures (in %) |
|------|--------------------------|-----------------------------------|
| 1996 | 30.13 | 93 |
| 1997 | 35.25 | 88 |
| 1998 | 33.23 | 72 |
| 1999 | 18.12 | 35 |
| 2000 | 16.93 | 30 |

Table 2. Internet 99 vs. previous tariffs (CZK/seconds)

| Time | Price 98 | Price 99 | Internet 99 +2.60 per data call |
|-------------|----------|----------|------------------------------------|
| 07:00–17:00 | 2.40/180 | 2.60/120 | 2.60/170 |
| 17:00–19:00 | 2.40/180 | 2.60/120 | 2.60/377 |
| 19:00–21:00 | 2.40/360 | 2.60/240 | 2.60/377 |
| 21:00–07:00 | 2.40/360 | 2.60/240 | 2.60/731 |

violate the contract between the state and TelSource, which prohibited a more than 34% TelSource ownership, it did signal TelSource's thirst for more control of the company.

Re-Balancing in Detail

The October 29 press release described an on average a 3% increase with Price 99 tariff, but the estimate was far below the value of the effective increase for dial-up Internet users. Rates would be raised for these users by 62.5%, market analysts said (see Table 2).

Another official estimate (25% increase), as announced by TelSource CEO Bessel Kok, was calculated based on an average local call of two minutes. In peak time (07:00–19:00), calls of under two minutes would rise by 8.3%, whereas calls exceeding two minutes would rise by 116%, so the estimate contained a built-in assumption that people would keep call times to under two minutes. This entirely avoided the issue that, on the Internet, the average connection time is significantly longer than two minutes.

INTERNET RESISTANCE

Birth of IPM

In the figure previously mentioned, 62.5%, was perceived by Internet professionals as exploitative and discriminatory. Three prominent Czech e-entrepreneurs—Ondrej Neff (owner of a popular e-daily), Patrik Zandl (editor in chief of the most popular technology site), and Ivo Lukacovic (owner of the leading search engine)—founded the IPM e-movement the very day the re-balancing was announced. The triumvirate was not a radical grouping, but a highly representative and credible sample of the Czech Internet community.

IPM immediately launched a Web site, www.bojkot.cz ("boycott.cz"), and posted an e-petition. Surprisingly,

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