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Competing against yourself: State duopoly in the Luxembourg telecommunications industry

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ABSTRACT

The Luxembourgish telecommunications market, not too dissimilar to many other advanced industrial countries around the world, is undergoing a process of market liberalisation. However, there are some particular features of Luxembourg's 'informed follower' mode of market liberalisation, which are sociospatially distinct and therefore warrant investigation. In particular, the government of Luxembourg has sought to proactively intervene in the direct provision of telecommunications services, in the form of two competing but 100% state-owned operators, whilst simultaneously supporting market liberalisation. An understanding of the role of the state in this process is clarified through the conceptual lens of the state as *policy-make*r, *regulator* and *operator*. Through examining the multiple roles performed by the Luxembourgish state in the wider context of the EU telecommunications reform packages, the paper reveals the competitive tension that exists between each of the different arms of the state, that is, between POST and Luxconnect. The paper critically appraises the intertwining decisions, factors and considerations that led to this state-controlled duopoly and analyses the outcomes to date of attempts to liberalise the telecommunications market as well. This analysis of the geographical and historical complexity of the Luxembourgish telecommunications sector helps to reveal the powerful role of the state in market liberalisation.

1. Introduction

The European Union (EU), with its Green Paper on telecommunications (European Commission, 1987), launched a process of market liberalisation with the ultimate aim of creating a single European telecommunications market. As a consequence, the Luxembourgish telecommunications market has undergone in recent times a process of liberalisation. However, this has been achieved in a particular way. The government of Luxembourg has sought to proactively intervene in the direct provision of telecommunications services, whilst simultaneously supporting the market liberalisation process is encapsulated by broader neoliberal tendencies, with neoliberalism being a complex, dynamic and mutable constellation of economic policies, political objectives and ideologies that have become widespread since the days of Reagan and Thatcher (Williamson, 2002).

While many aspects of market liberalisation occurring in Luxembourg are similar to those in other advanced industrial countries around the world and in particular in the EU, there are others that appear to be highly distinctive; reflective of

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Luxembourg's unique history, geography, politics and culture. Indeed, such socio-spatial distinctiveness points towards the merits of conducting a country specific case study (Eisenhardt & Eisenhardt, 1989; Yin, 2009). In many EU countries state owned telecommunication operations have since been partially or fully privatised, although there remain several instances, for example, in France and Germany where a financial interest has been retained by the state (OECD, 2013) The situation in Luxembourg is unique: it is the only EU country in which the incumbent telecommunications operator remains wholly state owned (OECD, 2013). In addition, the state has created a second telecommunications operator that provides high-speed fibre connectivity to international Internet peering hubs and datacentres. In other words, the government has simultaneously sought to liberalise the country's fixed business-to-business telecommunications market while developing a wholly state owned incumbent. It is a particular type of state-oriented neoliberal strategy, which hitherto has been neglected within the literature. Therefore, the case of the Luxembourgish telecommunications market is worthy of investigation.

An understanding of the role of the state in this process is clarified through the conceptual lens of the state as a *regulator*, *policy-maker* and *operator*. This is achieved by way of comparative analysis of POST, the incumbent operator established in 1842, and Luxconnect, created in 2006. Examining the different roles performed by the Luxembourgish state in the wider context of the EU telecommunications reform packages, the paper reveals the competitive tension between each of these arms of the state. The comparative analysis is informed by a review of the literature concerning the liberalisation and privatisation of utilities and infrastructure sectors and the changing roles of the state, together with material specific to Luxembourg. This includes a range of secondary sources such as the annual reviews published by the national regulatory authority (NRA), European Commission implementation reports, OECD documentation, and the annual reports and websites of the different operators in the Luxembourg market as well as qualitatively-rich information from the archives of several Luxembourgish newspapers and journals.

The paper is organised into five main sections. In the following section, relevant literature the changing role of the state in infrastructure industries, liberalisation of different utility sectors and models to build next generation networks (NGN) is recounted. Section 3 then provides a brief overview of the importance of ICT for Luxembourg's economy. In Section 4 attention switches to describing the role of the state as a regulator and policy maker but also as a 100% owner of two competing telecommunications operators. The key issues identified are discussed in Section 5, and conclusions drawn in the final section.

2. Market liberalisation in the telecommunications sector

There is a wide range of literature available about market liberalisation and neoliberal tendencies relevant to distinct roles of state actors in infrastructure industries, such as, telecommunications. The following section presents, by way of a critical review, some of the most relevant research findings and discussions related to the liberalisation of telecommunications and the role of the state.

Starting in the late 1970s governments began to liberalise a number of infrastructure sectors and 'open up' state monopolies to private enterprise. Schneider, Fink, and Tenbücken (2005), for example, provide an international comparative analysis of such privatisation activities in infrastructure industries during the last three decades of the 20th century. Their findings revealed that 26 of the countries under study had at least partially privatised their infrastructures. Similarly, Bortolotti, D'Souza, Fantini, and Megginson (2002) analyse how countries have divested themselves, either entirely or partially, from their national telecommunications operators. They found that performance of telecommunications companies improved significantly after privatisation, but attributed this to improvements directly linked to regulatory changes. Lestage, Flacher, Kim, and Kim (2013) discuss whether competition affects state-owned companies in distinct ways than commercial operators. They have concluded that state investments in infrastructures tend to increase with competition whilst private investments tend to decline. Alonso, Clifton, Díaz-Fuentes, Fernández-Gutiérrez, and Revuelta (2013) have analysed whether privatisation led to performance improvements compared to state ownership in an international context but they could not find a significant difference. Pina, Torres, and Bachiller (2014) looked into whether and how service quality in telecommunications is affected by private or public ownership, concluding also that there is no apparent link between ownership and quality.

Focussing on telecommunications, Bauer (2005, 2009, 2010) discusses the changing roles of the state in telecommunications, the potential conflicts that could arise when the state is wholly or partially owner, whilst simultaneously trying to 'open-up' the sector to market competition. Bauer (2009) demonstrates how countries attempt to develop their respective markets through individual policies and direct investments and how this engenders sociospatially distinct telecommunications markets across Europe in terms of the numbers of competitors, the degree to which fixed and mobile markets are competitive, the presence of inter-platform competition and so forth. The findings from the above studies provide inconclusive evidence regarding the effects of the privatisation of telecommunications and they also highlight divergence across different national contexts. In terms of the latter, this augments the need for analysis that focuses on the unique processes of Luxembourg's liberalisation of the telecommunications sector.

With its Green Paper on telecommunications (European Commission, 1987), the EU launched in 1987 a particular process of market liberalisation of telecommunications in Europe with the ultimate aim of creating a single market. This involved market liberalisation of monopolies, the privatisation of state owned companies and the creation of the national regulatory authorities. As this has been extensively discussed, see, for example, Melody (1997b), the literature that follows focuses on a range of issues that can help to illuminate and analyse the situation in Luxembourg.