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From national champions to global players? Lobbying by network operators during the WTO's basic telecommunication negotiations

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Abstract

Observers generally assume that firms which engage in lobbying know what they want. Business-government relations and especially the corporate political activities of network operators during the basic telecommunication negotiations of the World Trade Organization present a slightly different picture. European monopoly providers benefited from the old international regime and initially ignored trade discussions in their sector. In the course of negotiations, however, they became part of a three-level game, which obliged them to consider national, European and multilateral objectives simultaneously. In the course of these complex negotiations, their preferences evolved. Since governments advanced independently on the liberalization project, companies adapted their policy stances from reluctance to support for the negotiations. The paper thus cautions against treatments of lobbying that consider preferences as exogenously given.

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1. Introduction¹

As one of the first service sectors, telecommunication services were liberalized under the General Agreement on Trade in Services (GATS) framework of the World Trade Organization (WTO) in 1997. Most analyses of these profound changes have so far come from economists evaluating the trade benefits of global markets (e.g. Hufbauer/Wada 1997) or other observers giving detailed accounts of the negotiation stakes and proceedings (Petrazzini 1996; Cowhey/Richards 2000). Little is known of the activities of the incumbent companies, the telecom service providers, which were most often monopolies at the beginning of the negotiations. The few authors who examine lobbying in the context of these negotiations focus on the user companies that pressed for market opening in order to benefit from cheaper services. These interests can then easily be cited as a factor explaining the move towards global market liberalization (Cowhey/Aronson 1993). But what happened to firms – often quite large and powerful – that should have been opposed to the liberalization project? Since large corporate lobbies are commonly assumed to be the pushing element behind global trade developments, it seems necessary to contrast companies supporting liberalization with companies opposing it.

A global liberalization of telecommunication service trade through the WTO, as it has happened in 1997, would seem to be against the interests of the incumbent operators. The previous international regime for telecommunications had been built to preserve their national dominance and protect their interests. When more competitive countries such as the US challenged the old system and sought to make it more flexible from within, proponents of the traditional model resisted (Cowhey 1990; Drake 2000). Until the early

¹ Earlier versions of this paper were presented at the General ECPR Conference in Marburg in 2003 and at the research colloquium on “Corporate Political Activities in an Internationalizing Economy” in Amsterdam in 2006. I would like to thank Michael Latzer, David-Levi Faur, the panel participants and two anonymous reviewers for their helpful comments.

1990s, the political economy of the international telecommunications regime favored national network providers.

Did the incumbents lose out against other powerful interests in the end? If they engaged in political activities, then this must be a case of lobbying failure? As it turns out, network operators were not as fiercely against liberalization as one would have expected. With certain reservations, they proclaim to have been in favor of global market opening. Cynics might argue that these statements are ex-post presentations of a power game that these major suppliers had simply lost. By tracing the evolution of the position of the companies and the business-government relations, this paper argues for a more complex explanation.

The interests defended by the telecom providers did not exist in a vacuum. In the course of the basic telecom negotiations of the WTO, liberalization in the European Union (EU) had considerably changed the room for maneuver of the national companies. Monopolistic behavior was slowly undermined as a possible strategy for major suppliers in the EU realm. In the US, network operators had to take into account the lobbying for liberalization of companies like AT&T and MCI. In both cases, network providers felt that liberalization was going to happen whether they liked it or not. In many countries, operators started to believe in “the growing inevitability of competition” (Thatcher 1996: 185). If they wanted to affect its content, they had to jump on the moving train. National operators started positioning themselves as competitive players at the international level. International alliances became crucial. When the European Commission linked its approval of these alliances to concessions in the multilateral trade negotiations, even hesitant European operators started supporting liberalization through the WTO. National operators in Europe were thus part of a complex three-level game (Young 2002: 50-79). As new ideas emerged and strategic settings evolved, they adjusted their preferences in interaction with their political contacts.

The case study thus shows that we cannot assume that corporate preferences on trade are always stable over the course of a policy negotiation. When political evolutions require important changes to the strategic positioning of firms, lobbying demands evolve and should be treated as endogenous to the policy process in question.

The analysis is based on 33 semi-directive interviews with politicians and business representatives in Europe and the United States as well as other observers of the telecom negotiations from 1994-1997.² Parts of the interviews will be used to clarify the actors' perspective during the learning process. The quotes are illustrations only and should be considered within the case study narrative that draws from other sources to counter one-sided accounts. The paper proceeds in following steps. A first part review theoretical assumptions on trade policy lobbying in the US and the EU. A second part lays out the context of the case study: the basic telecom negotiations of the WTO and the structure of the telecommunication sector prior to these negotiations. Concentrating on the empirical investigation, a third part then traces the evolution of interest representation of the affected companies. The theoretical implications of the case study are analyzed in a concluding section.

2. Theoretical Approaches to Trade Policy Lobbying

Lobbying describes the strategic attempt of a non-governmental group to influence political decision-makers on a specific issue. In both the US and the EU, the study of interest groups and the effects of private sector lobbying has given rise to a large literature,

² Carried out between October 2002 and September 2003, the interviews include the WTO Secretariat, as well as the following. In the EU: the Secretariat of the Council of the EU, DG Trade and DG Information Society, the French and German Ministries of the Economy, RegTP in Germany, the European Telecommunication Operators' Association, the European Information and Communication Technology Association, the European Service Forum, Deutsche Telekom, France Télécom, British Telecom, TeliaSonera, Telefónica and TDC (Denmark). In the US: the State Department, the Department of Commerce, the US Trade Representative, the Federal Communication Commission, the United States Coalition of Service Industries, the United States Council for International Business, the Telecommunication Industry Association, AT&T, MCI, Verizon, Cable&Wireless USA, the former Comsat, individual telecom lobbyists, and various observers of the service trade negotiations.

albeit with a somewhat different focus in each of the two cases (Baumgartner/Leech 1998; Woll 2006). Examinations of trade policy lobbying, in particular, have a longer tradition in the US (e.g. Schattschneider 1935; Bauer/Pool/Dexter 1972 (1963)). EU studies of trade policy related lobbying are rare (McCann 1995; Bièvre 2002) and most remain descriptive (Jacek 2000; Jacomet 2000). The few theoretical models that exist for the studying corporate political activities in the context of trade negotiations therefore come from the US. With the exception of several studies in management science (e.g. Yoffie/Bergenstein 1985), systematic treatments of how international trade should affect the preferences and therefore the lobbying of firms has come from the field of international political economy (IPE).

Trade preferences based on material conditions

At the core of most IPE approaches are assumptions from economic theory, most often following insights from the theory of economic regulation (Stigler 1971; Posner 1974; Buchanan/Tollison/Tullock 1980). Searching for the reason for protectionist trade decisions, most international economists blame “politics” and consequently investigate who has an interest in protectionism and how these interests get their way (e.g. Krueger 1995). In essence, firms seek to protect their investment and therefore lobby for closed markets in order to avoid price competition. Policy-makers exchange such protectionist measures for financial support or votes, making the supply and demand much like a market exchange, which means that different groups compete among each other (Becker 1983).

The assumptions of fixed preferences on which these models are based imply a very rigid system. Mitchell and Munger (1991: 522) have pointed to this fact by arguing that the Chicago School’s predictions “cannot explain deregulation save for the tautology

that the industry is now, for some reason, better off without regulation.” Yet deregulation and liberalization of trade advance rapidly. In Political Science, one reaction was to theorize the loss of power of the formally vested interests and the influence of economic ideas (Derthick/Quirk 1985; Robyn 1987; Goldstein 1988). Other research has investigated why and when the opening of markets might actually be in the interests of the industry that was affected (Milner 1988; Bailey/Goldstein/Weingast 1997; Gilligan 1997). The general conclusion of these studies is that reciprocal trade agreements pave the way for trade liberalization by tying opening up the home market to free access to foreign markets, which benefits export-oriented industries (Alt/Gilligan 1994). We should therefore expect import-competing firms to lobby for protection, while export-competing firms will lobby for reciprocal market opening.

In addition, scholars have recently pointed out the importance of scale economies for the trade preferences of large firms. Firms with increasing returns to scale will be supportive of access to new markets. For Milner and Yoffie (1989) these are typically large firms with considerable initial investments that require a growing sales volume to realize the minimum scale to break even. Barriers to trade are then costly, because they inhibit obtaining larger-than-national markets to exploit economies of scale. Similarly, firms with such technologies from small countries will be supportive of gaining access to a larger customer base than their home markets can offer (Casella 1996). Chase (2003) furthermore draws attention to the importance of production chains that extend beyond borders. In sum, these predictions are in line with the intuitive sense that export-oriented firms, multinational companies or firms that are engaged in production process that already extend across borders are more likely to be in support of liberalization in order to benefit from increasing returns to scale. Companies that depend on their home markets seek to protect their investments and lobby for protectionism.

Telecommunication services, however, falls between the categories of this dichotomy. The high capital investments create an important national market: a great part of the assets of the network operators is immobile. In the early 1990s, many firms have engaged in internationalization strategies through interconnection alliances and foreign direct investment (Crandall 1997). As a result, firms tend to pursue two goals simultaneously, they try to impede the entry of competitors to their national markets and aggressively develop opportunities abroad (Bonardi 2003). Which one of these goals will eventually determine the policy stances of network providers on multilateral liberalization is difficult to predict without examining the business-government relations they have to engage in. In theoretical terms, preferences ambiguous and should not be considered as exogenously given.

Endogenous preferences

Treating preferences as exogenous to political processes has been criticized by literature on historical institutionalism (see Steinmo/Thelen/Longstreth 1992). In particular, scholars in this tradition argue that institutions and the political interactions they create can affect the preferences of the actors. Preferences should therefore be understood as endogenous to the policy process in question (Immergut 1998). Wilts and Griffin (forthcoming) underline the importance of such an approach for the study of corporate political activities. Indeed, models based on simple assumptions about interest calculations cannot account for the radical preference change of firms in the telecommunications sector.

In order to explain the transformation of the policy preferences of the dominant providers during the 1990s, the paper proposes to employ a more nuanced understanding of “interests”. Little can be argued against the assumption that firms have immediate needs

– ensuring their survival – and the desire to make the greatest possible profit. These needs and desires are commonly referred to as interests.³ Beliefs about how to obtain these goals through a certain public measure, however, are policy preferences. Milner (1997: 15) draws attention to this distinction and argues that interests are the stable foundation on which actors' preferences over policy shift: “preferences are variable, interests are not.” Another way of reminding of this difference is to distinguish between primary and secondary interests. Again, primary interests define immediate needs, while secondary interests become established once an actor has decided how to obtain his primary interest (Frieden 1999; Woll 2005).

A differentiation between the two levels of interest is helpful because it allows a more careful analysis of trade policy lobbying. Since policy preferences are determined by calculations or beliefs about how to obtain maximal utility, both institutions and cognitive frameworks are important in analyzing their formation (see also Wilts forthcoming). Institutions affect the payoffs associated with a policy option; while ideas affect the causal believe structure of how to obtain a certain outcome.

Previous studies of the WTO telecommunication negotiations have underlined the importance of the multi-level institutional structure and of new neo-liberal ideas and beliefs about the inevitability of competition (Thatcher 1999; Holmes/Young 2002; Young 2002). In line with these analyses, this article shows how the preferences of incumbent operators evolved since the late 1980s in order to explain why former monopoly providers did not lobby against but in favor of opening their home markets to international competition. Specifically, the issue of trade opening and the salience of the stakes involved were not very clear to the companies, even when the negotiations had already been going on for two years. The trade language furthermore proved to be a barrier to effective participation. Secondly, the organization of business representation, especially on

³ For an evolution of the use of this term, see Hirschman (1977).

the European side, was quite complex. Since firms had to adjust to the multi-level system of policy-making within the EU, their lobbying is much less powerful than one might expect. In fact, much of the lobbying of European firms can be understood as an investment in “political capital” (Yoffie/Bergenstein 1985) rather than an attempt to influence a particular decision.

More generally speaking, the activities of companies are embedded in the political process (Granovetter 1985). Companies are as dependent on the access to governments as governments are on the technical expertise of business representatives. Although firms are important actors in the international negotiations, it is problematic to speak of business capture (cf. Vogel 1997: 59), because policy preferences can only be understood as the result of a complex process of interactions.

3. Basic Telecom Negotiations and the European Telecom Sector

Over the last quarter century, the regulatory frameworks for telecommunications have undergone radical transformations both domestically, regionally and internationally. Studying the global WTO negotiations therefore necessitates an understanding of the general transformation of the sector in the 1980s and 1990s.

The telecommunication service sector

The significance of the transformation that has occurred since the 1980s becomes obvious, when considering that control over communication infrastructures had previously been in the hands of the state in almost all European countries. The provision of long-distance communication services was highly relevant for military purposes and as integral aspect of state power. In most countries, the provision and operation of communication systems was the task of protected state monopolies and one of the most central public

services. Even where the state was not the immediate owner of the telecommunication provider, the sector was long perceived as a “natural” monopoly.⁴ High capital intensity for telephone lines and technology seemed to restrict the possibility of introducing competition, since investment would not be profitable.

International trade in telecom services in this tradition view implied to find way of interconnecting and pricing phone calls that went from country A to country B. These exchanges tended to be regulated in predominantly bilateral terms through norms and practices established within the International Telecommunications Union (ITU), one of the oldest international organizations in the world (Drake 2000). The system was perfectly suited to the monopolistic regimes which provided telecom services and products in the majority of industrialized countries (Cowhey 1990; 1993).

However, the domestic status quo unraveled in several countries, first and foremost in the US. Following an anti-trust case brought by MCI, AT&T’s Bell System, was disinvested in 1984: it divided into seven regional holding companies, the so called “baby bells”: Ameritech, US West, Nynex, Pacific Telsis, Southwestern Bell, Bell South and Bell Atlantic. AT&T remained in charge of long distance calls, an area that was now open to new market entrants. At the same time the courts were breaking up AT&T’s long-distance monopoly, the Federal Communications Commission (FCC) was breaking up Bell Labs’ monopoly on cellular phone technology, which enabled Motorola to enter the mobile cellular phone market (Cohen 1992). In 1987, the Omnibus Trade Act established telecommunication services as a tradable good. However, the local telecom services controlled by the baby bells were only to be opened by the Federal Telecom Act endorsed in 1996 (TA96), which was signed into law by President Bill Clinton in 1999.

⁴ In spite of these commonalities, national policy responses were quite divers. For an in-depth comparative analysis of telecom regulation, see Noam (1992), Grande (1994), Vogel (1996), Schneider (2001).

In Europe it was the desire of the European Commission to overcome the disadvantages of fragmentation that provided the most important momentum for reform. Inspired by the experience of the US and encouraged by several Member States who also followed a more liberal approach, the Commission resorted to its competition powers under Article 90.3 EEC to force liberalization of first telecommunications equipment and later services and networks. The first major step in this process was the publication of the “Green Paper on the Development of the Common Market for Telecommunication Services and Equipment” in 1987. Several Member States attempted to challenge the Commission’s competence in this area, but by 1992, the European Court of Justice had upheld the Commission’s decisions for both equipment and services. This paved the way for liberalization proposals of telephone services in 1993 and infrastructures in 1994, in the form of both liberalization directives and harmonization of standards for interconnection, licenses and universal service. The Council’s adoption of the Green Paper on the Liberalization of Telecommunications Infrastructure and Cable Television Networks in 1996 provided the basis for full liberalization of the infrastructure by 1998.⁵

The radical transformation of European telecom policy has been the subject of many studies, but analysts still disagree about the most important factors for the development. Sandholtz (1998) and Schmidt (1998) underline the activism of the European Commission, while Thatcher (1999; 2001) shows the cooperation between the Member States and the EU Commission. Even though several Member States did not appreciate the Commission’s self-empowerment, coordination within the Council pursued the same policy objectives (Holmes/Young 2002).

⁵ The Commission later unified and simplified regulation of all types of electronic communication in 2001.

The changing international framework

Domestic and regional liberalization not only created an atmosphere of reform, they also directly put into question the utility of the traditional international system. Based on reciprocal exchanges, the international accounting rate system in particular put stress on countries that had chosen to deregulate their domestic markets. If one country lowered its charges in response to international competition, and a second country remained a monopoly, then traffic flows became distorted. The low-priced country would send more messages than it received. If the high-priced country resisted substantial reduction in the accounting rate, it could reap enormous profits and increasing surpluses over time. The pricing system therefore created an important bias against domestic deregulation. The US, for instance, experienced an annual balance-of-payments deficit on telecommunications services approaching \$3 billion by the early 1990s, which explains why almost all of the most important policy actors all of a sudden became interested in reform (Cowhey/Aronson 1993: 185-6). Through technological innovations, the liberalization of equipment markets, and changes in domestic settings, the underlying conditions that guaranteed the operations of the international telecom cartels – and the complicated pricing system supporting it – had been undermined by the late 1980s (Petrazzini 1996). The forces for change were thus considerable, and among the leading countries, there were no major disagreements about the necessity to reform the system of international telecom service trade.⁶

Simultaneous to these domestic developments in the telecommunication sector, services had become part of the trade negotiations of the Uruguay Round of the General Agreement on Trade and Tariffs (GATT). When the GATT turned into the World Trade Organization in 1995, it included a General Agreement on the Trade of Services (GATS).

⁶ Interviews with EU and US business and government representatives on 19 February, 5 June, 18 June 2003.

(see Hoekman/Kostecki 2001). Previously, services were considered fundamentally different from goods: their mode of delivery and other issues seemed to make them unfit for an international trading regime. The GATS aims to bring service exchange under the same trade regime as the exchange of goods. Yet one of the principals of liberalization under the GATT regime, the most favored national (MFN) principal, is quite radical: any signatory had to be offered non-discriminatory market access. This entailed a considerable risk of free riding, as more open markets would have to accept entrants from markets that were much slower in reducing barriers.

The prospect of MFN applying to all service markets at once was unacceptable to a large number of countries, and so the solution proposed was to negotiate sector by sector, with countries submitting lists of commitments on their liberalization projects. As it became obvious that such sector specific negotiations would not be completed within the Uruguay Round, it was agreed that sectoral negotiations would need to continue after the establishment of the WTO. For telecommunication services, the Uruguay Round had achieved only an agreement on the principle of liberalization and commitments on some elements of telecommunication services, called value-added services. Basic telecommunications, the heart of telecommunication services, remained to be negotiated.⁷

Sectoral negotiations were scheduled from May 1994 until mid-1996. By mid-1996, 48 governments had tabled offers. However, US government and industry, which felt that it was offering a very large market for little in return, declared that it did not believe these offers constituted a sufficient “critical mass” and refused to conclude the negotiations. In order to not end with a complete failure, Renato Ruggiero, Director-General of the WTO, suggested preserving the proposals in a Protocol. After re-

⁷ Basic telecommunications covers the relay of voice or data from sender to receiver. Value-added services are additions to these communication services that enhance its format or content, such as online data-processing, e-mail or voice mail. In the early 1990s, when this distinction was agreed upon, value-added services were quite secondary. The real economic stakes lay in the networks that made up basic telecommunications. For further information, see http://www.wto.org/english/tratop_e/serv_e/telecom_e/telecom_coverage_e.htm.

constituting itself into a new body with new participation rules, the Group on Basic Telecommunications (GBT), resumed talks for the third time from 1996 to 1997. The result of these negotiations, the Basic Telecommunications Agreement, was finally adopted on February 15, 1997, and entered into force on February 5, 1998. 69 countries had submitted schedules on their commitments on regulatory discipline.

A key feature of the agreement was the so-called “reference paper”, signed by over 50 members, setting out the regulatory principals that would need to accompany telecom liberalization. Inspired by the 1996 US Telecommunications Act, the reference paper specifies pro-competitive safeguards against the market power abuse of the dominant provider. It requires the establishment of an independent regulatory agency and spells out conditions for interconnection, license attribution, universal service or spectrum management. The idea behind the reference paper was that agreement on liberalization meant little, if the dominant provider could charge exorbitant prices to new entrants for leasing its lines, for example, and therefore restricting competition unilaterally.⁸

The review of domestic, regional and international changes illustrates that the stakes for corporate actors spread over several levels. Turning to their political behavior, we will see the tight connection and the feedback effects between these developments: EU liberalization and domestic deregulation affected the international position of firms and vice versa. Figure 1 juxtaposes these EU, US and WTO developments in order to summarize the co-evolution of the regulatory frameworks.

⁸ Interview with a US business representative on 2 July 2003.

Figure 1: Timeline of Telecom Liberalization

| | USA | EU | GATT-WTO |
|------|------------------------|---|--|
| 1984 | Disinvestiture of AT&T | | |
| 1985 | | ECJ rules that competition applies to telecom | |
| 1986 | | | Uruguay Cycle opened |
| 1987 | Omnibus Trade Act | Common Market Green Paper | |
| 1988 | | Terminal equipment directive | |
| 1989 | | | |
| 1990 | | Open provision and service directive | |
| 1991 | | | |
| 1992 | | ECJ upholds ECC competence | |
| 1993 | | Council resolution approves liberalization intentions | Value-added telecom services negotiated |
| 1994 | | Mobile Green Paper, Bangemann Report | Uruguay Cycle concluded GBT negotiations launched |
| 1995 | | Green Paper on Infrastructure Liberalization | WTO established, GATS in effect |
| 1996 | TA96 endorsed | Council adopts infrastructure liberalization | Failure to conclude GBT negotiations |
| 1997 | | | Basic Telecom Agreement and Reference Paper |
| 1998 | | Full liberalization | |
| 1999 | TA96 signed into law | | |
| 2000 | | | |

4. The Evolution of Business Interests

By tracing the evolution of the political activities of the providers, this section aims to shed some light on the policy preferences of the affected companies.⁹ Two dimensions will be highlighted in particular: the cognitive dimension and the organizational one. Even though the analysis focuses on the former monopoly suppliers, other European and US companies are cited for the illustration of more general trends.

⁹ The interested reader may turn to Cowhey and Richards (2000) for an excellent detailed account of the actual content of the negotiations.

Understanding a new issues: the service trade agenda

The idea of “lobbying” always contains the image of a very aggressive company that knows what it wants and goes out to get it. When telecommunication companies first got involved in international trade issues, however, the fundamental stake was to understand what was going on and whether this was important enough to invest their time and effort.

Since the concept of trade had traditionally not applied to services, only few affected companies were familiar with the workings of international trade negotiations and their terminology. This was true for service companies from all sectors, even when the companies were private, competitive and very interested in expanding in foreign markets. One of the pioneers of service trade – then working for a large financial services company in the US – recalls first coming in contact with trade issues in the early 1980s, “we had trouble doing business abroad [...]. I didn’t know the terminology at the time, but basically [we were encountering] trade barriers.” Learning about these political stakes implied a whole new terminology. “I went home and got this book called “The GATT” to learn anything there was about this,” he added. “I was reading it every night and so was [my CEO] and we would meet in the morning to see who has gotten farther.”¹⁰

Even in the beginning of the 1990s, many companies were not very informed about WTO issues and international commerce in general. Yet, a lack of knowledge was striking on both sides. As a US company representative put it,

Most trade representatives had never worked on telecommunications, and most telecom people had never worked on trade. We were extremely concerned about the negotiations, especially when we realized that some of the trade people did not know what a common carrier was.¹¹

¹⁰ Interview in Washington D.C. on 8 April 2003.

¹¹ Interview, 2 July 2003.

Some aspect of the issues was new to all of the participants, both from the governments and from the companies. Among US companies that had chosen to follow the developments, there was a sense that the ambitions of the trade agenda were ill-matched with the realities of telecom services. The abandonment of bilateral agreements, and above all MFN, seemed quite threatening.

So we actually went out and took some initiative to ask what this was about. I mean, we didn't even know what the GATT was until the early 1990s. When we first read a draft version of the GATS, we felt that USTR could just trade off our entire business against another service or agriculture.¹²

As negotiations continued, companies got more used to the basic concepts of trade negotiations, but generally the procedures and terminology remained confusing. "Nobody knew how to read a schedule of commitments. We even had people think that '- none, - none, - none' meant that 'none' had market access."¹³

Naturally, companies didn't have the opportunity to ask all the questions they had, especially if they were following a trade-related meeting in Geneva with an already tight schedule.

We developed a sort of code to talk to one another while government representatives were in the room. We made sure we would start our phrases by saying "Just to review a little bit what has been said..." so that everybody understood what was going on.¹⁴

While these difficulties became obvious once companies had decided to follow the negotiations, others did not even consider the WTO to be a subject that necessitated close monitoring. At the time, international telephony was discussed through the negotiation of interconnection modalities in the ITU. For many providers, the WTO only entered the picture when it started examining an issue traditionally dealt with by the ITU: accounting rates. As a representative of a former European monopoly recalls,

¹² Interview, 2 July 2003.

¹³ Ibid. "None" answers the question about remaining market access restrictions.

¹⁴ Ibid.

I have to admit, I only discovered the WTO at the margin. Initially, people considered the WTO to be something quite abstract: “value-added”, “basic services” ...? In most countries, you didn’t really have a realization that there was a new reality... that you couldn’t do anything anymore without paying attention to the WTO.¹⁵

Several of the European companies did not imagine the impact the WTO negotiations would have. Even though sector-specific negotiations had been going on since 1994, and despite the fact that value-added services had even been open to competition by the end of the Uruguay Round, many companies affected by the changes were not engaged in the process. Quite often, it was the trade representative of the respective governments, who solicited their help. A US official explains this with reference to a specific sub-sector of telecom services,

If you want a meeting, you call the companies. We didn’t even know who they were, so we started casting the net and bringing them in. We basically had to start at square one and explain trade terminology to them.¹⁶

Company feedback was sometimes slow and a Commission official underlines how “remarkably uninterested” European firms were in the early stages.¹⁷ During the first round of negotiations, national operators were largely absent from the WTO talks.

Getting organized

Things changed during the second phase of negotiations, from 1996 to 1998. By the mid-1990s, “there was such an empowerment of the WTO that many companies discovered its importance.”¹⁸ Within only two to three years, the issue had become clear and salient to almost everybody. The question remained how to best participate in the process. For the former monopoly providers, one might assume the contacts were

¹⁵ Interview, 3 July 2003.

¹⁶ Interview, Washington D.C., 18 June 2003.

¹⁷ Interview, Brussels, 3 September 2003.

¹⁸ Interview with the representative of a national network provider, 3 July 2003.

especially close between the company and the negotiating government. As a US lobbyist remembers, “within Washington, for example, the person from Deutsche Telekom was for a long time an attaché at the German embassy.”¹⁹ But old traditions had changed by the time telecom services were negotiated in Geneva. British Telecom had been privatized since 1981. Even for other countries, the nature of contacts transformed rapidly in the course of EU liberalization. As an official from the WTO secretariat put it, by the mid-1990s, “Deutsche Telekom and France Telekom looked very similar to AT&T.” The EU had transformed and there was the idea “that this was a company.”²⁰ However, European operators did not have a long history of working with the European Commission and only learned to do so in the course of internal EU liberalization.

By contrast, business-government relations seemed much more developed and institutionalized in the US. While the most active US companies formed an industry group that followed the US delegation to Geneva and gave the regular feedback between 1994 and 1997, there was no industry presence on the European side that directly followed the negotiation.²¹ “Of course, the operators had their contacts in their respective member states, but they followed from somewhat of a distance,” explains a public official from an EU member state.²² Even in recent ITU meetings, business-government relations in the US appeared to be tighter.

I could see the way the Americans operated – the delegation of government representatives as well as industry: they really acted as one block. [...] In contrast, the EU is not nearly as well organized.²³

Since feedback from companies reinforces a countries negotiating position, the EU Commission started soliciting the support of companies on trade issues more generally. In particular, it created trade forums, such as the Transatlantic Business Dialogue (TABD) or

¹⁹ Interview, Washington D.C., 23 June 2003.

²⁰ Interview in Geneva, 24 October 2003.

²¹ Interview with the chair of this industry group.

²² Interview with a public official from an EU Member State, 9 December 2002.

²³ Interview with a representative of a EU network provider, 14 February 2003.

the European Service Forum (ESF), to assist them in their trade work (Balanyà et al. 1999; Cowles 2001). For the Commission, business input is crucial for trade negotiations, confirms a business representative: “Quite often, the Commission will approach us to ask us to keep them informed about market barriers encountered: ‘If you have a problem, please tell us!’.”²⁴

In the US, companies lobby without this kind of political effort: “companies put money for election, they want to follow up, they want to have discussions and they will always mobilize their CEO to go and speak with them.”²⁵ Even though CEOs of European companies do occasionally enter into contact with public officials and politicians, the heart of policy-related work is not their responsibility. In the EU, most of the public statements are done by trade associations.

Trade associations do exist in the US, but they tend to be only as active as the companies that carry them. Associations that have had an impact on service negotiations, or the telecommunication issues more specifically are the Coalition of Service Industries (CSI) or the US Council for International Business (USCIB). Beyond those associations based on broad membership, the activities of more specific associations are negligible. US companies lobby for themselves: “We actually go to Geneva; we follow meetings; we work directly with the individual ambassadors to the WTO.”²⁶ EU companies in turn cite the ESF as one of the most important ways of voicing their concerns about GATS-related issues.²⁷

With respect to telecom service trade, the most striking differences between US and EU lobbying are due to the different degree of institutional complexity in the trade policy-making process and telecommunication issues. Network operators in Europe organized transnationally by forming the European Telecommunications Operators

²⁴ Interview in Brussels, 14 February 2003.

²⁵ Ibid.

²⁶ Ibid.

²⁷ Pointed out by all EU companies interviewed.

Association (ETNO) in 1992, directly in response to the liberalization efforts of the Commission. Concerning the GBT negotiations, one needs to understand that telecommunication services at the time were a domain of shared competences between the EU level and the Member States. However, as a representative of a Member State recalls,

We didn't know very well what was within Community competence and what was within the competence of the Member States. When the meetings were well prepared, there was no problem. But the objective wasn't clear or when the Commission went beyond its mandate, it became much more complicated. In the same meeting, you would have first the EU and then the Member States speak up, and they didn't say the same thing.²⁸

As sector negotiations in financial services, telecommunications, and transport continued throughout the 1995-7 period, the European Council and the Commission had agreed upon a code of conduct, assuring that the Commission be the sole negotiator for the EU (Woolcock 2000). Nonetheless, the EU Delegation was quite large throughout the negotiations. Apart from 5-6 people of the Commission, there were at least 2 representatives of each Member States: the delegation quickly had about 40 people.²⁹

Aware of the complex distribution of capacities, European companies chose to pursue a multi-level approach. Deutsche Telekom, for example, is a direct member of ETNO, but also an indirect member of the EU employers' association UNICE through the national employers' association BDI or of EICTA through BITKOM. Concerning GATS-related issues, they work through the ESF, but their government affairs branch offices in Bonn and Brussels allows them to keep in direct contact. About the same strategy applies for other European network providers.

Within only a few years, European operators had to recognize and master not only the difficult new issue of service trade, they also had to organize their interest representation along the lines of a multi-level system of competence division. Since all

²⁸ Interview, 9 December 2002.

²⁹ Ibid.

political activities always necessitate resources, this multi-level approach was costly and cumbersome. Moreover, it added a supranational level of interest aggregation through ETNO that American operators did not have to go through.

Evolving stakes and policy preferences

The context of political activities of European companies was transforming radically in these couple of years. It is true that businesses adjusted to the new reality of European liberalization and learned to play the multilevel game of interest representation, but governments likewise defined and redefined their preferences as the negotiations continued.

The failure to conclude the negotiations according to schedule in mid-1996 testifies to the hesitations and the tensions between several policy objectives. Unsatisfied by the offers from other countries, the US government refused to conclude the agreement. As a European company representative put it, the failure was a “paradox”. The United States, which had pushed so much for an agreement, “all of a sudden didn’t seem to want it anymore.”³⁰ A European Commission representative explains,

It is true that the US was pushing for telecom liberalization, but only for long-distance. They didn’t want to open up their local markets. By 1996, we had liberalized further than the US, which only then introduced their Telecom Act.³¹

The US perspective is more nuanced. They underline how much is at stake in a multilateral agreement based on MFN. This lack of reciprocity leaves a large potential for free riders, so an essential component of the US’s position throughout the negotiations was to achieve a critical mass of countries making serious commitments.³² Yet the US was

³⁰ Interview with a EU business representative, 3 July 2003.

³¹ Interview with an EU Commission official, 19 February 2002.

³² Interviews in Washington D.C., 5 June, 18 June, 27 June, 2 July 2003.

much more nervous about this outcome than other countries, because they could have achieved an equally satisfying result for international trade through other means.

The US wasn't ready to conclude [in 1996]. Throughout the negotiations the US had a profound feeling of discomfort. On the one hand, they wanted an agreement. They were very strong on the telecom market, they were exporters. On the other hand, they were equipped with a large arsenal of unilateral policy tools. So the question was: why renounce a unilateralism that was working well?³³

This question temporarily even opposed different branches of the US government. Yet the fact that the US had insisted on the GATS as a whole made it difficult to completely abandon the telecom negotiations, which was the second most important service sector after financial negotiations.

For the EU Commission, the negotiation of telecom service trade tied together several stakes. After the ambitious intra-European liberalization projects, a central stake was to align international policy with European objectives. Throughout the 1990s, one can therefore find a temporal concordance between intra-EU timetables and international deadlines, which was one of the primary objectives of the Commission (Holmes/Young 2002). Negotiating the modalities of international telephony at the WTO rather than the ITU furthermore increased the field of competencies of the EU. At the WTO, it is the European Commission who negotiates for the Member States. At the ITU, it is the Member States; the Commission only had access as an observer. The European Commission was therefore interested in the conclusion of a successful agreement and as central to the evolution of the international negotiations as it had been to the intra-European telecom liberalization. A member states representative remembers that during the GBT round, "the Commission had the annoying tendency to negotiate more with the Member States than with the rest of the world."³⁴ One US officials confirms,

³³ Interview with a public official from an EU member state, 9 December 2002.

³⁴ Ibid.

We were constantly observing that. Before every meeting, the EU delegation met in the morning in order to try a hammer out a position. If they weren't successful, the meeting we had with them afterwards would be like treading water.³⁵

The policy preferences of the affected companies were equally divided. Of course, the radical changes seemed threatening to most network suppliers, who risked losing parts of their profitable home markets. Yet, as the EU framework for telecom liberalization moved forward, businesses started looking at the new opportunities that they might get out of a new international framework.³⁶ With reference to the early years of the organization, a representative of ETNO recalls,

At the beginning, ETNO was more protective in its approach. Then, realizing that there is no point in resisting something that is arriving, you might just as well play the game as a new entrant as well.³⁷

Companies also felt that the EU liberalization process had reshuffled the conditions of their international activities.

For Europe, who had undertaken the Community liberalization with a fixed deadline, a principal objective was to achieve a global equilibrium, so that they wouldn't be the only ones who had opened their markets.³⁸

Since the option of a protected monopoly position was no longer available, market opening became appealing because it promised new business opportunities abroad.

The search for new opportunities has to be understood in the context of a general boom in telecommunications at the time. The mid-1990s were the time of the "internet bubble" of great expansion throughout the sector. "Every company wanted to become a European or a global leader in a certain number of segments," underlines a business representative.³⁹ Internationalization became crucial for many European operators. After France Télécom and Spain's Telefonica, several European operators started investing

³⁵ Interview on 18 June 2003.

³⁶ Interview with a representative of Deutsche Telekom.

³⁷ Interview in Brussels, 14 February 2003.

³⁸ Interview with a European business representative, 3 July 2003.

³⁹ Ibid.

abroad in the mid-1990s. Moreover British Telecom, Deutsche Telekom, PTT Telecom, France Telecom, Telefonica and Telia all entered alliances that allowed them to propose global business services increasingly demanded by large telecommunication users.

As Young (2002: 55) underlines, alliances were significant to the multilateral talks, because they required approval by the competition authorities in each country. Both the Federal Communications Commission and the European Commission required domestic markets to be liberalized in order to grant their approval. With the political determination of the European Commission, the ambiguous policy stance of pursuing a protected home market but investing in foreign markets became more and more difficult. As a result, the internationalization objectives of European operators translated into political support for the GBT talks. A representative summarizes:

All national operators supported EU negotiating position. They were confident in their own markets and they wanted to expand. That happened during the time of the internet bubble. New markets were potential jackpots. All analysts were advising to go into it. Billions have been invested in nothing. [...].⁴⁰

The question of the mid-1990s was not the “if”, but the “how” of liberalization, both in Europe and in the US. For US companies, more than for European ones, the major concern was that they would not get from other countries what they felt they were offering. But “by the time an agreement was reached in 1997, industry was quite positive about the results of these negotiations.”⁴¹ Within a very short period of time, companies in both the US and the EU had embraced a very ambitious liberalization project that opened up their markets to international competition.

⁴⁰ Interview with a business representative in Brussels, 13 November 2003.

⁴¹ Interview with a US government representative 27 June 2003. See also Sherman (1998).

5. Conclusion

The micro analysis of the process of trade lobbying shows that several of the assumptions of the traditional literature of trade policy-making does not apply well to the case study. Assuming that companies act on clearly defined interests in order to pressure governments for regulatory measures oversimplifies policy-making dynamics. The telecom case study highlights two particular dimensions of business interest representation: a cognitive and an organizational one. The cognitive work of the businesses affected by a policy is to understand a policy issue and grasp its importance. Information exchange and evaluation therefore constitutes a central part in the work of business representatives. Businesses not only had to learn and understand a whole new language before being able to participate in the process, they also had to evaluate if the abstract negotiations of the WTO would have an impact on their business operations at all.

The organizational challenges of a complex web of capacity distribution and reciprocal interactions between countries furthermore weight on the interest representation of the affected companies. Especially in the EU, companies have to adjust to a multi-level system of policy making. The multiplicity of channels used in the context of trade policy shows that the link between companies and government officials is not simply one of unilateral influence. Especially in the EU, political actors within the Commission actively solicited companies to support their negotiation objectives against unwilling member states. Moreover, the Commission employed its jurisdiction over alliances in order to affect the companies' preferences on global trade talks.

The institutional setting and the beliefs in the inevitability of competition thus contribute to explaining the policy stances of European network operators. Without an understanding of this context, it would have been very difficult to predict policy preferences as they evolved endogenously.

To be sure, telecommunication services are a special case. Service trade does not always have clear export or import markets and companies are not competitive players as we know them from theory. The case study does not aim to contradict classical predictions for the lobbying around the trade of goods. Rather it should be understood as a marginal case that reveals the basic assumptions of traditional lobbying assumptions. Perfect competition and knowledge about the consequences of liberalization was limited in the telecommunication example. In deregulated industries where firms have to confront new trade issues under a great degree of uncertainty, lobbying behavior will evolve over the course of business-government interactions. In this context, political strategies can contribute significantly to the final policy demands voiced by corporate actors.

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