

**PHILIPPINES SPECIAL REPORT****Date: February 2002****Global Crossing Files for Chapter 11 Bankruptcy Protection****Hutchison and Singapore Technologies enter as "White Knights"****What are the implications for the telecoms industry in Asia?**

Global Crossing Ltd, an international telecommunications company whose market value once rose above that of General Motors Corp., filed for bankruptcy protection this week, unable to support the weight of \$12 billion in debt amid a declining world economy and intense competition in the global wholesale telecommunications market.

As it sought protection from creditors, Global Crossing announced that it had signed a letter of intent to sell a majority stake in the company to two Asian firms for \$750 million. The sale would put the company under the control of Hong Kong-based Hutchison Whampoa Ltd. and Singapore Technologies Telemedia Pte. Ltd.

The Chapter 11 filing by Global Crossing makes it the largest telecoms failure in history. What impact will this have on the regional telecommunications market in Asia? How will it affect Asia Global Crossing, Global Crossing's 58.8% subsidiary? How will Asia Global Crossing's joint venture partners in Taiwan and the Philippines fare? And does the proposed rescue deal of Global Crossing by Li Ka-shing's telecoms empire, Hutchison Whampoa, and unlikely partner, Singapore Technologies, form a "white knight" rescue or a predatory move by these two emerging Asian telecoms powerhouses?

This Special Report, compiled by MCA limited in conjunction with telecoms consultancy, Bandwidth Solutions<sup>1</sup>, aims to give an insight into these questions.

Before examining the implications of the proposed rescue deal and the likely impact on Asia Global Crossing's partners and customers in Asia, it is important to make these three points:

1. The Chapter 11 filing by Global Crossing is a "soft" bankruptcy filing and gives them a period of protection from creditors. True, their balance sheet is in a sorry state, but their filing has been made in good time to preserve their remaining cash, restructure their financial position and continue business as usual – or as "usual" as one could expect in the circumstances. The U.S. Bankruptcy Court is expected to reach a decision by August 2002.
2. Asia Global Crossing, a Global Crossing subsidiary, whose East Asia Crossing cable forms an extensive broadband network throughout South East Asia and trans-Pacific, is not directly affected by the filing. In a statement issued by Asia Global Crossing, they said, "Asia Global Crossing is not a party to the letter of intent, and it is not one of the Global Crossing affiliates that has joined Global Crossing in commencing Chapter 11 cases. Asia Global Crossing and Global Crossing are closely linked through ownership, strategy and operations. While they are not the same company, Global Crossing owns 58.8 percent of the equity in Asia Global Crossing. However, Asia Global Crossing is a separate corporation, with separate stockholders, creditors, employees, network assets and operations." Microsoft and Softbank are the other significant shareholders in Asia Global Crossing.
3. The planned rescue attempt by Hutchison Whampoa and Singapore Technologies is merely at the "Letter of Intent" stage. They have agreed to acquire a majority stake of Global

Crossing for US\$750 million, which will give them a 70-80% stake in the company. However, before the deal can go through it will have to be approved by Global Crossing's creditors and the U.S. courts must approve the proposed restructuring. Of course, other prospective bidders may step in to frustrate the deal.

This is the second major deal by Asian telecoms companies in as many months. On January 15, 2002, Reach, the 50:50 joint venture between Australia and Hong Kong's dominant telecoms carriers, Telstra and Pacific Century Cyberworks (PCCW) respectively, acquired the Asian assets of Level 3, another new entrant telecoms carrier, whose ambitions once matched those of Global Crossing and whose fortunes have been similar.

While the Reach deal with Level 3 and the Hutchison/Singapore Technologies proposed deal with Global Crossing are unconnected, PCCW is closely aligned to Hutchison (PCCW's Chairman is Richard Li, the son of Li Ka-shing). Ultimately there is a strong possibility that the Li Ka-shing empire will soon be controlling most of Asia's international broadband submarine cable assets, something that the regulators should take a look at on anti-competitive grounds.

What impact will Global Crossing's Chapter 11 filing and the proposed rescue deal by Hutchison and Singapore Technologies have on the regional telecommunications market in Asia? In the short term, the impact will be minimal. The current consolidation of the telecoms industry in Asia will continue to reduce the number of players thus putting the dominant carriers of the region in an even stronger position. Prices of wholesale submarine bandwidth will continue to fall heavily in the short term as the new cable systems come on stream but in the longer term there is a threat that reducing competition will slow the fall in prices.

The effect on Global Crossing's subsidiary, Asia Global Crossing, will be significant. While they are not immediately affected by the Chapter 11 filing, their finances are also in poor shape and it is likely that they, too, will be filing for bankruptcy protection in the next few weeks. Purchasers of submarine bandwidth are unlikely to buy capacity from Asia Global Crossing until their financial situation becomes clearer, preferring to deal with more financially stable telecoms operators such as Singapore Telecoms subsidiary, C2C, Reach, and the major US carriers, AT&T and Worldcom.

The joint venture partners of Asia Global Crossing in Taiwan and Philippines are also likely to suffer in the short term. In Taiwan, the JV partner is Microelectronics Technology Inc. who have a 40% stake in Asia Global Crossing Taiwan. In the Philippines, Digital Telecommunications Inc. (Digitel) hold a 52% stake in Digitel Global Crossing. Both of these companies have made large advance payments for capacity on East Asia Crossing, AGC's submarine cable network as well as providing their share of funding for the cable station, backhaul network and telehouse in Taiwan and Philippines.

Customers will be reluctant to purchase or lease capacity from Digitel and Microelectronics Technology while the financial clouds hover above Asia Global Crossing. They will prefer to deal with more financially secure operators such as PLDT and Globe Telecom in the Philippines and Chungwha Telecom and Reach in Taiwan.

As for the proposed rescue deal-makers, Hutchison Whampoa and Singapore Technologies Telemedia, part of the Singapore government-owned Singapore Technologies Group, they are likely to come out well from the deal – if it goes through.

Hutchison has an existing relationship with Global Crossing through its joint venture with AGC, Hutchison Global Crossing. Li Ka-shing may well be acquiring another undervalued asset cheaply. But Hutchison may also be attempting to salvage its US\$400 million convertible-bond holding in Global Crossing, which is virtually worthless as it stands today. By investing US\$375 million in the rescue bid, there is every chance Hutchison could double or triple their investment. Hutchison would also gain a strong new partner in Singapore.

Singapore Technologies Telemedia is also a joint venture partner of Asia Global Crossing in Starhub Global Crossing who are handling the Singapore landing of the East Asia Crossing broadband cable system. As with Hutchison, they may also be willing to invest \$375 million to protect their vested interests in AGC.

The bottom line is that for US\$750 million, Hutchison and Singapore Technologies will acquire the undersea cable network that cost Global Crossing more than US\$10 billion to build. That amounts to an awful lot of cheap capacity – but it is only cheap if they find customers to fill it.

There is a lot that could still go wrong between now and August when the US bankruptcy court has to give its approval to the restructuring. Another bidder may emerge and of course Hutchison and Singapore Technologies will have a lot of negotiating to do with Global Crossing's creditors who need to give their approval for the deal to go through.

Virtual-Asia.com and Bandwidth Solutions will regularly update its readers with developments on the Global Crossing deal and the impact on the telecoms industry in Taiwan and Philippines in particular.

## **FURTHER INFORMATION**

MCA Limited has prepared this background report as a general reference document. For further information please contact us at the address below.

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<sup>i</sup> Bandwidth Solutions is an Asian-based specialized telecommunications consultancy operating out of Hong Kong and Manila.

For further information please visit their website at <http://www.bandwidth-solutions.com>