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INFORMATION PAPERS

**ON SELECTED
TELECOM POLICY ISSUES**

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ISSUE 1

HIGHLIGHTS FROM THE FIFTH REPORT ON THE IMPLEMENTATION OF THE TELECOMMUNICATIONS REGULATORY PACKAGE

The full text of the FIFTH REPORT on the Implementation of the Telecommunications Regulatory Package can be found at:

<http://www.ispo.cec.be/infosoc/telecompolicy/5threport.html>

INTRODUCTION AND EXECUTIVE SUMMARY

The report examines the state of implementation of the current telecommunications regulatory framework prior to the Commission review of its operation and the introduction of proposals to adapt it to market and technological developments. The report

- assesses the extent to which the principles of the harmonisation directives¹ have been transposed into national law
- analyses the way in which the transposed national rules apply those principles in practice
- backs up this assessment with an overview of the current status of the telecommunications services markets in the Member States.

The report concludes by

- identifying the major outstanding barriers to the achievement of a single European market, and
- setting out a number of elements which will need to be taken into account in the legislative process leading to the revised regulatory framework, the Commission's vision of which is set out in the Communication on the review².

¹ Transposition of the liberalisation directives has been completed by all Member States with the exception of Portugal and Greece, which are due to liberalise fully on 1 January 2000 and 31 December 2000 respectively.

² Communication on the Review of the Regulatory Framework for Electronic Communications Services, COM(1999) 539.

The key conclusion is that, twenty-one months after the introduction of full competition, the regulatory framework now in place drives telecommunications services markets in the Member States with an accelerating growth rate, large numbers of market entrants and falling tariffs.

The national markets will be worth around EUR 161 billion in 1999³, just under 7% up on 1998; the value of mobile services will have increased on average by around 16%. There are now more than 240 operators actually providing long distance and international calls in the Member States, and more than 220 providing local calls; more than 180 operators offer national and international and 375 offer local network services⁴. Many more licences have been issued in these market segments, indicating further increases in activity in the future. The number of Internet hosts per thousand inhabitants is estimated to have grown at an average of 125% across the Union from January 1998 to July 1999⁵.

Residential tariffs over the period 1997 to 1999 are down in most Member States for international calls, on average by 40%⁶; business tariffs for similar calls are also down in most Member States, on average by 25% over the same period. Tariffs for 10-minute regional and long-distance calls have decreased by 13% and 30% respectively.

Underpinning these figures are effective licensing, interconnection, tariff, numbering and frequency regimes in the Member States, supervised by regulatory authorities on the basis of Community and WTO principles.

There remain important problems to be resolved, in terms both of failures to implement fully the Community framework and of possible limitations in the framework itself. These have in some cases resulted in considerable barriers to the creation of a single market for telecoms services in Europe. There is in addition a sense on the part of some consumers that the benefits are not always clear. The regulatory package, which evolved over a period of ten years, has also inevitably been overtaken in some areas by the rapidity of the technological and market change it was designed to promote. The task therefore is to pinpoint those aspects of the current framework which remain to be fully implemented and those on which the review of the regulatory framework needs to focus. If in its input to the Communication on the review the report concentrates to a certain extent on present weaknesses this should not obscure the successes that have been achieved.

The main messages for the review are:

- The comparatively low level of harmonisation in particular of the Community licensing and interconnection regimes represents a barrier to the single market.

³ Voice telephony, mobile, network and data services. Source: EITO (European Information Technology Observatory), 1999.

⁴ Source: National Regulatory Authorities.

⁵ Source: Internet Software Consortium.

⁶ Source: Eurodata Foundation. Ten minute calls.

- The wide divergences in the way in which Community rules are implemented at national level raise further barriers.
- The national regulatory authorities are close to national markets and perform an essential task in assisting in achieving uniform implementation of the Community framework. Their role is hampered, however, by disparities in the powers and resources with which they are equipped, the way in which regulatory tasks are shared with other bodies, and differences in the procedures in place. NRAs need to be more active in particular in securing interconnection agreements.
- The lack of a proper national implementation of the regulatory framework for cost accounting in many Member States seems to be contributing to extensive price squeezes in particular between retail and interconnection tariffs, and to excessive tariffs for leased lines.
- There is currently a lack of competition in the local access market in all Member States, although steps are being taken to issue wireless local loop licences and to use national regulation to provide alternative ways of accessing the 'last mile'. Moreover, CATV networks remain controlled by the incumbent operators in certain Member States.
- In view of concerns in the market that universal service funding schemes constitute a barrier to market entry, there is a need for a rigorous assessment of the real net costs of universal service provision. There is no evidence that voice telephony tariffs applied by the incumbents have actually been rebalanced. Rebalancing is necessary to avoid price squeezes between interconnection charges and retail rates and to promote competition in access markets (including price unbundling). Given the absence of – comparable – cost accounting systems, verification of whether or not rebalancing has actually occurred is currently difficult or impossible for the Commission.
- There are disparities in consumer protection across the Union due to differences in the way in which consumer interests are dealt with by individual Member States and differences in treatment depending on the telecommunications service in question.
- Finally, the current framework does not explicitly address issues such as special schemes for **Internet access**, or the safeguards to be applied to avoid possible distortions of competition arising from the integration of voice/data and fixed/mobile services.

European Commission
DG Information Society/A
25th April 2000

ISSUE 2

1999 REVIEW OF COMMUNICATIONS POLICY

The full text of The Communication COM(1999)539 and subsequent developments can be found at the following address:

<http://www.ispo.cec.be/infosoc/telecompolicy/review99/>

Below please find two press releases summarising the issues related to the 1999 Communications Review.

PRESS RELEASE 1: DN: IP/00/407

Commission outlines results of public consultation on 1999 Telecom Review and unveils orientation of forthcoming proposals for new regulatory framework

Brussels, 26 April 2000

Commission outlines results of public consultation on 1999 Telecom Review and unveils orientation of forthcoming proposals for new regulatory framework

The European Commission has adopted a Communication setting out the results of its public consultation on the 1999 Communications Review initiated in November 1999. The Communication also sets out the main orientations for the forthcoming Commission proposals for the new regulatory framework for electronic communications. The Communication also proposes to introduce the requirement for unbundling of the local loop into Community legislation. The legislative proposals will be issued in June this year. Today's Communication should be seen in the context of the Lisbon European Council three weeks ago where European leaders cited the shift to a digital knowledge-based economy as a motor for growth, competitiveness and employment. The present Communication is the latest sign of the European Commission's determination to give citizens and business access to a low-cost, world-class communications infrastructure. Getting the right regulatory framework for communications infrastructure is central to the Commission's overall strategy for eEurope launched at the end of last year and endorsed in Lisbon.

"Telecommunications and the Internet have become crucial for our economies and societies. A regulatory framework that allows competition and innovation to thrive will drive down telecommunication and Internet prices. This is a key element for Europe's success in the new knowledge-based economy", said Mr Erkki Liikanen, Commissioner responsible for Enterprise and the Information Society.

The key proposals are as follows:

- facilitating market entry by simplifying licensing conditions: moving to an authorisations system based on the use of general authorisations to authorise all communications networks and services; specific rights of use would be granted for spectrum and numbering resources;
- rolling back regulation by modifying the notion of Significant Market Power to base it on the concept of dominant position, calculated in a manner consistent with competition law practice.
- reinforcing the Recommendation on local loop unbundling launched today, with an obligation in the new framework for companies with significant market power to provide unbundled access to their copper local loops;
- giving national regulators greater flexibility to impose access and interconnection obligations according to national circumstances, balanced by strong co-ordination procedures at European level to safeguard the single market;
- ensuring that in a competitive environment consumers are properly protected in their dealings with suppliers, and maintaining current scope of universal service, while introducing procedures to review and update its scope as appropriate;
- introducing obligation on mobile operators to offer number portability to users;

The Communication on the 1999 Communications Review proposed that the future regulatory framework should cover all communications infrastructure and associated services. It set out the objectives and principles that would underlie the new framework. Finally it made a number of policy proposals in eight areas: licensing and authorisations; access and interconnection; management of radio spectrum; universal service; user and consumer rights; numbering, naming and addressing; specific competition issues; and institutional issues and sought the views of interested parties on them. More than 200 responses were received, from a wide range of interests, from inside and outside the EU. In addition, over 550 people attended a two-day public Hearing held by the Commission on 25 and 26 January 2000.

Next Steps

- Five proposals for directives will be issued by Commission in June 2000
- The Lisbon European Council called for Council and European Parliament to adopt these proposals "as early as possible in 2001."

The Commission launches a comprehensive review of the regulatory framework for electronic communications.

Brussels, 10 November 1999

The Commission launches a comprehensive review of the regulatory framework for electronic communications.

Today the Commission adopted a package of four Communications to launch a review of the current regulatory framework for electronic communications. This process will be the cornerstone for maintaining and improving Europe's competitive position in the Information Society. To respond to rapid technological changes in this field, Europe needs to adapt its regulatory framework. The current regulatory framework has already allowed bringing substantial competition into the markets for telecommunications services.

Mr. Erkki Liikanen, Commissioner for the Information Society, states, "We should not rest on our laurels - more competition is still needed in particular at the local level where incumbent operators remain dominant. Only this way will we be able to grasp the full benefits of the development of the Internet in Europe". Already now, the Information Society contributes substantially to economic growth, competitiveness and job creation. For example, 1 in 4 of every new job in Europe is created in the Information Society industries.

Reviewing the current regulatory framework will allow removing market access barriers for communications services. It will also allow cutting "red tape", by eliminating, for example, practical difficulties and burdens for operators by moving away from the present wide-spread practice of cumbersome licensing procedures. Mr. Liikanen proposes to simplify the present regulatory framework by reducing the number of EU legal texts from presently 20 to 6. "It is extremely important that Europe becomes an inclusive Information Society. For that we need to guarantee access for everybody everywhere at affordable prices", says Mr. Liikanen.

The decision taken today by the Commission covers four Communications. These are the following:

Communication on a New Framework for Electronic Communications Infrastructure and Associated Services The 1999 Communications Review.

This Communication proposes a number of policy orientations for the review of the current regulatory framework for liberalisation and harmonisation of the market for electronic communications. It draws the lessons from the convergence debate, the annual reporting on the implementation of the current framework, from the report on Digital TV and finally it encompasses radio spectrum policy proposals. The Commission will consult on the proposals contained in this Communication and will propose by mid-2000 a new regulatory framework to provide for more competition, simplification, and removing market access barriers in this area.

The Fifth Report on the Implementation of the Current Framework

This periodic report, presented by Mr. Monti, Commissioner for Competition and Mr. Liikanen, examines the state of implementation of the current regulatory framework for telecommunications. It seeks to maintain the impetus in Member States for effective implementation. Its main conclusions are: the comparatively low level of harmonisation in particular of the licensing and interconnection regimes in the Community is a barrier to market entry; the wide divergences in the way in which Community rules are implemented at national level raise further barriers; there is currently a lack of competition in the local access market in the Member States, although steps are being taken to issue wireless local loop licenses and to use national regulation to provide alternative ways of accessing the "last mile".

Report on Digital Television in the EU

This Communication reports on implementation of the TV Signals Directive (95/47/EC) and also assesses the development of the market for digital television in the EU. It highlights issues affecting market conditions and the regulatory framework for digital television in the context of convergence. The Report acknowledges the positive contribution of the Directive to the development, by the industry itself, of transmission standards harmonisation. The Report stresses the need for a broader approach to infrastructure, transmission and access when reviewing the current regulatory framework for electronic communications services.

Communication on Next Steps in Radio Spectrum Policy

This Communication reports on the public consultation of the Green Paper on Radio Spectrum Policy. It responds to the increasing economic importance of radio spectrum by proposing a series of steps:

- a Community regulatory framework for radio spectrum policy;
- a policy expert group will be established on spectrum policy matters;
- the Commission will set out its policy objectives in the preparatory process for the international negotiations at the global level on frequencies.

This report will be regularly updated and can be found at the following web site:

<http://www.ispo.cec.be/infosoc/telecompolicy/en/comm-en.htm#misc>

The following paper is related:

'Commission Recommendation amending Rec 98/511/EC of 29 July 1998 on Interconnection in a liberalised telecommunications market - Part 1 : Interconnection Pricing'. This document is available at the web site:

<http://www.ispo.cec.be/infosoc/telecompolicy/en/Main-en.htm>

ISSUE 3

UNBUNDLED ACCESS TO THE LOCAL LOOP

OBJECTIVES

“Unbundled access to the local loop” means permitting any provider of telecommunications services to use the local telephone cables belonging, typically, to an incumbent operator to deliver services directly to customers, without at the same having to accept also other services¹ that incumbents usually provide together (ie bundled) with the cable.

Local telephone cables constitute the largest remaining bottleneck still controlled by incumbent operators and the European Commission has recommended² that other companies should be given access to them. The main aim of this measure is to increase the level of competition and technological innovation in the local access network, which will in turn stimulate the competitive provision of a full range of telecommunication services from simple voice telephony to broadband services.

Several Member States have already mandated unbundling, or have formally fixed dates for it. (Austria, Denmark, Finland, Germany, Italy, Netherlands, UK, see Fifth implementation Report³).

BACKGROUND

The local loop refers to the physical circuit between the customer's premises and the telecommunications operator's local switch or equivalent facility. Traditionally it takes the form of a pair of copper wires (one pair per normal telephone line), but increasingly fibre optic cables are being deployed to connect large customers, and other technologies

¹ For example: dial tone, a telephone number, incoming and outgoing voice calls, billing, a directory entry.

² On 26 April 2000, the Commission adopted a Communication COM(2000)237 and Recommendation C(2000)1059 on Unbundled Access to the Local Loop.
See web site: <http://www.ispo.cec.be/infosoc/telecompolicy/review99/Welcome.html>

³ COM (1999)537, 11 November 1999, Fifth Report on the Implementation of the Telecommunications Regulatory Package, see <http://www.ispo.cec.be/infosoc/telecompolicy/5threport.html>.

are also being rolled out in the local access network.⁴ Local loop unbundling is envisaged mainly for serving small and medium enterprises (SMEs) and residential customers.

FORMS OF ACCESS TO THE LOCAL LOOP

To overcome the limited current competition in the local access network referred to above, three means of access to the local loop are considered:

- (1) **Full unbundling of the local loop** (unbundled access to the copper pair for the competitive provision of advanced services by third parties)
- (2) **Shared use of the copper line** (unbundled access to the non-speech-band frequency spectrum of the local loop for the competitive provision of DSL systems and services by third parties)
- (3) **High speed bit stream access** (Provision of DSL services by incumbents)

These three means of access to the local loop should be seen as **complementary**.

Further technical details can be found in the Commission Communication.

THE COMPETITIVE SITUATION OF MARKETS

Providing new entrants access to the local loop will

- Increase competition and economic efficiency;
- Increase user choice between different operators in the local loop;
- When appropriate priced, allow entrants to test out the market before building their own infrastructure;
- Encourage technological innovation;
- Stimulate the competitive provision of a full range of telecommunication services from simple voice telephony to broadband services.

As a result of the liberalisation of voice telephony services as of 1.1.1998 the service offerings of new entrants have developed quickly particularly in the international calls market and, to a lesser extent, the regional calls market. In the of the local calls market however, incumbents hold still a share which, except in the UK, is well above 90%. The incumbent's copper pair is the key infrastructure for providing:

- Access voice telephony retail services, which includes call termination;
- Local call (origination) services⁵;

⁴ Wireless local loops, power line networks etc, in addition to cable TV networks.

⁵ Where carrier selection and preselection is not yet available for local call (origination) services.

- High bandwidth services to end users.

These services form three separate relevant markets.

APPLICATION OF COMPETITION RULES

In all cases competition rules apply. The dominant operator has to grant access to the local loop to competitors. Refusing to do so may imply various forms of abuses of dominant position under article 82 of the Treaty, such as refusal to deal, discrimination, limitation of production, markets, or technical development to the prejudice of consumers.

Where access is granted, fair and non discriminatory conditions of access are crucial for successfully opening the local loop on the development of a competitive market telecommunications services, in particular high speed services. This requires close monitoring of delays, prices and contractual arrangements between incumbents and new entrants.

APPLICATION OF SECTOR SPECIFIC RULES (ONP)

GENERAL

The Open Network Provision (ONP) framework concerns the harmonisation of conditions for open and efficient access to, and use of, public telecommunications networks and, where applicable, public telecommunications services. The ONP Directives set out conditions for access to, and use of, specific types of networks and/or services as special network access, high speed bit stream services and leased line transmission capacity and co-location.

‘Network access’ as used in ONP Directives means making accessible some part or parts of an existing network for use by another party, but does not involve an interference with ownership of the network element(s).

DUTIES OF NATIONAL REGULATORY AND COMPETITION AUTHORITIES

NRAs have a particular role to play when defining the set of conditions and requirements applying to the incumbents’ offers of unbundled access to the local loop. As regards prices and costs, while implementing the principle of transparency and cost-orientation regarding access to the local loops of incumbent operators, they should respect the following principles:

- costing and pricing rules should be transparent and objectively based;
 - pricing rules should ensure that the incumbent operator is able to cover its relevant costs plus a reasonable return;
-

- pricing of local loops should be compatible with the aim of fostering fair and - sustainable competition, and providing efficient investment incentives in alternative local access network infrastructure⁶;
- pricing rules should ensure that there is no market distortion, in particular margin squeezes between the prices of wholesale and retail services offered by the incumbent.

European Commission
DG Information Society/A
28th April 2000

⁶ This in principle may be provided by a pricing system based on current costs. Current costs are the costs of building an efficient modern equivalent infrastructure and providing such a service at today's prices.

ISSUE 4

THE ORGANISATION AND MANAGEMENT OF THE INTERNET

BACKGROUND

The Commission adopted a Communication to the Parliament and the Council about the organisation and management of Internet on 11 April 2000. The main goal is to report on the recent developments regarding the coordination functions for Internet (Domain Names, Addresses and Protocols) and on the progressive transfer of the US Government's responsibilities to the private entity called ICANN (Internet Corporation for Assigned Names and Numbers).

The purpose was also to envision the principal policy issues arising internationally for the Internet. It is clear that the oversight of the technical architecture of Internet is a challenge for Europe and for deployment of electronic commerce. Therefore, the Commission intends to closely monitor the future developments of Internet, which is still considered by many as a "US Asset".

MAIN ISSUES

ICANN should adopt new policies this year. The Commission wants an expansion of the Domain Name Space of Internet, notably for the creation of the .EU Name and of several new generic Top Level Domain Names.

At the level of Internet infrastructure, a fair allocation of IP addresses has to be ensured world-wide, permitting the deployment of the new protocol IP Version 6. This new generation of Internet protocol will permit integration of new communications services: wireless and cellular networks, nomad computers, multiple access terminals, video and Web Television. It will also improve the privacy and quality of service for the user.

Another issue lies in the right balance to be found between private self-regulation and public policy. Thus, the role of the ICANN Governmental Advisor Committee (GAC), in which the European Union and the Member States participate, is crucial. In short, Europe needs to be more involved in the decision-making process and in the legal framework of ICANN.

It is also necessary to follow carefully the progressive transfer of responsibilities for Internet management from the United States Government to the new ICANN organisation. Commissioners Monti and Liikanen wrote to the US Secretary of Commerce in December 1999 expressing concern that, contrary to the principles set out in the White Paper of 1998, the United States could be acting alone and asserting direct governmental authority over ICANN on a permanent basis.

The competition aspects of Internet market positions have been analysed by the Commission. We have been constantly in contact with ICANN and the US Department of Commerce for the conclusion of the five inter-related agreements adopted in 1999 for registration policy and the accreditation of registrars. Accordingly, the Commission has decided to close the pending investigation with regard to the Licensing agreements between the company Network Solutions Incorporated (NSI) and competing registrars.

Those agreements notwithstanding, NSI recently reached an agreement with the Verisign Corporation to merge their activities. The Commission will closely monitor from the point of view of competition policy these new developments which might have an impact on the market positions as regards possible bundling of digital certification and domain name services.

Task of the Commission is not yet complete. It is now necessary to maintain the on-going dialogue with the United States about the transfer of their traditional functions to the new self-regulatory structures, ICANN, which should have a truly international composition. It is a prerequisite of effective implementation of the New Economy on the continent, in the light of the eEurope initiative adopted at the Lisbon Summit in March by EU leaders.

European Commission
DG Information Society/A
27th April 2000

ISSUE 5

ESTABLISHMENT OF A NEW INTERNET TOP-LEVEL DOMAIN: .EU

BACKGROUND

The Internet Domain Names System comprises registers of names by which information and transaction services on the Internet may be easily identified and accessed by end users. These names available are allocated within a limited number of Top Level Domains administered by the Internet Corporation for Assigned Names and Numbers (ICANN). They are of two kinds: generic Top Level Domains (gTLDs), at present .com, .net and .org, (the ICANN Board is currently considering authorising new gTLDs) and some 240 country-code Top Level Domains (ccTLDs), such as .FR, .DE, .UK.

.EU

The Commission is proposing to establish an additional Top Level Domain: Dot.EU. This will enable European businesses and citizens to have, if they wish, a European Internet address instead of a global one like dot.com or a national one like dot.fi.

The envisaged Dot.EU Domain will be administered effectively like a country-code Top Level Domain. The relevant ISO authority, the ISO 3166 Maintenance Agency, has reserved the code .EU for the European Union and has confirmed that use of the code for an Internet Domain would be an appropriate use. Dot.EU is expected to benefit from the legal and economic base being created within the Union and ultimate governmental authority will reside with the EU institutions, represented by the Commission. However, the operational administration of the .EU Registry is likely to be delegated to a non-profit independent organisation.

The proposal for dot.EU has been made since 1997 by the European Internet industry. However, the ongoing process to set up global organisational structures for the Internet has made it impracticable before now to start Dot.EU moving.

➤ MAIN ISSUES

The organisational structure: Should the Commission run the registry as a public service? Should it be left completely to the private sector or should there be some kind of partnership between public and commercial interests? How will it relate to national Internet registries?

How will decisions be made? Under whose responsibility? What appeal procedure will be in place?

What registry policies should apply? Should one allow the registration of, say, John.Smith.EU on a first-come, first-served principle, or should one lay down sub-domains or categories within which names can be registered.

What measures should be laid down to protect trademarks and well-known names and to discourage speculative acquisition of addresses for resale (cybersquatting)? What dispute resolution methods should be recognised?

➤ **CONSULTATIVE PROCESS**

To examine these and other practical questions, the Commission's services are working closely with European Internet industry interests in a forum known as EC-POP (European Community Panel of Participants in Internet development).⁷

In order to provide feedback and comments from users and industry actors on a wider European scale, we also published a Working Paper - COM(2000)153 - on two of its Internet sites, Europa and ISPO on 2 February 2000.

By the closing date for contributions, some six weeks later, over 90 responses had been received. These responses are published, together with a summary on the Commission's Internet site⁸.

➤ **THE RESPONSES TO THE WORKING PAPER**

The responses were overwhelmingly in favour of the establishment of a .EU Domain. There were however a number of questions and differences of opinion on the details.

The management of the .EU System: The Commission proposed that an independent non-profit organisation with broad Internet industry representation would assume the responsibility for managing the .EU system. The respondents generally agreed. (Minority diverging responses ranged from proposing management by the Commission to advocating a total lack of central management).

Registration policy under .EU: A wide divergence of opinion. The issue of cybersquatting was frequently cited. Some suggested remedies like charging a high price for domain names. Others would restrict the right to a name to those who could prove they have a right to it, such as a trademark, a registered business name or a personal name. Yet others point out that restrictions on the use of Dot.EU will only cause people to prefer .COM or its promised new siblings.

- Most respondents supposed that a system of sub-domains would be imposed as a solution to cybersquatting and to confusion between similar names. The first-come, first-served principle used in the generic Top Level Domains is proposed by some but recognised by others as inherently unfair.

⁷ See <http://www.ec-pop.org>

⁸ See <http://www.ispo.cec.be/eif/InternetPoliciesSite/DotEU/WorkDocEN.html>

- This will be one of the primary discussions with the various interested parties in deciding policy for the new Registry. It is clear that, whatever the choice made, adequate measures must be incorporated in the system to restrict trademark conflicts and similar disputes.

Geographical coverage: Responses from outside the European Union, but also some within it, asked that the geographical coverage should be extended to candidate countries, to CEPT countries etc. Others point to the valuable link to the single market and a legal system in the process of harmonisation in the EU. For this reason, the Commission proposes a restriction of coverage to the Member States, at least initially.

Added value: A considerable number of respondents asked for added value to be given to a Dot.EU domain name (compared to generic TLDs like DotCOM or certain ccTLDs).

Some specified that the name-owner's address and full details should be available for verification - this was particularly demanded by the trademark and intellectual property community. Others would like to see sub-domains reserved for certified members of professions or trades, to bring additional confidence.

Finally a number of points were made on Dispute Resolution policy. Most agree with the WIPO recommendations and praise the mechanisms set up by the Internet Corporation for Assigned Names and Numbers (ICANN) to resolve trademark disputes in the Domain Name area.

➤ **NEXT STEPS**

The demand for Dot .EU has been clearly confirmed.

The Commission intends to notify ICANN and also the United States Department of Commerce, which maintains residual authority over certain Internet functions, that it intends to deploy the .EU Domain in the same manner as the country code Top Level Domains. It will request ICANN to make the necessary arrangements for the introduction of the new Domain into the addressing and naming structures.

The Commission is also preparing a Communication to the Council and to the European Parliament reporting on this progress and seeking agreement on these steps.

It will at the same time continue discussions with the European Internet industry with a view to achieving consensus on:

- The policy body to which the Dot.EU domain will be delegated, including the role of the Commission in this body.
- The main principles on which registry policy will be based, taking into account the issues mentioned in the Working Paper and the responses.
- The method of designation of a central registry and the accreditation of registrars.

It will then address a further Communication to Council and European Parliament seeking a formal decision on the measures to institute and administer the Dot.EU Domain.

It is hoped that the essential structures will be in place by the end of 2000.

European Commission
DG Information Society/A
27th April 2000

ISSUE 6

INTERCONNECTION TARRIFS IN MEMBER STATES (1ST MARCH 2000)

This document contains the latest figures on interconnection charges available in Member States as of 1 st March 2000. The data is presented in the same format as that used in Annex II of the Commission Recommendation 98/195/EC on interconnection pricing in a liberalised telecommunications market (Part 1) that was adopted by the Commission on 8th January 1998¹ and subsequently amended to provide best current charges for 1999² and 2000³.

This document does not amend or affect the Commission Recommendation in any way.

Most of the tariffs shown have been approved by the National Regulatory Authority (NRA). The figures of a Member State marked with (*) are not approved by the NRA but represent the last offer made by the operator with obligations to interconnect.

It should also be recalled that:

- the figures provided refer to call **termination** on fixed networks at peak rates. Call set up charges are included where they exist, but other non traffic related charges are in general not included.
- the figures do not include any 'access deficit' type contributions or universal service contributions. These additional contributions will not be required in many Member States, but where they are required as part of the regulatory environment in a Member State, they must be calculated and shown separately from the interconnection charge, in accordance with the Interconnection Directive.

This document will be regularly updated (comments can be sent to onp@cec.eu.int)

¹ OJ L 73, 12.3.1998, p.42.

² Recommendation 98/511/EC of 29 July 1998 (OJ L 228, 15.8.1998, p.30)

³ Recommendation 2000/.../EC of 20 March 2000 (not yet published)

Interconnection charges per minute for ‘call termination’ to fixed networks

(1 st March 2000)

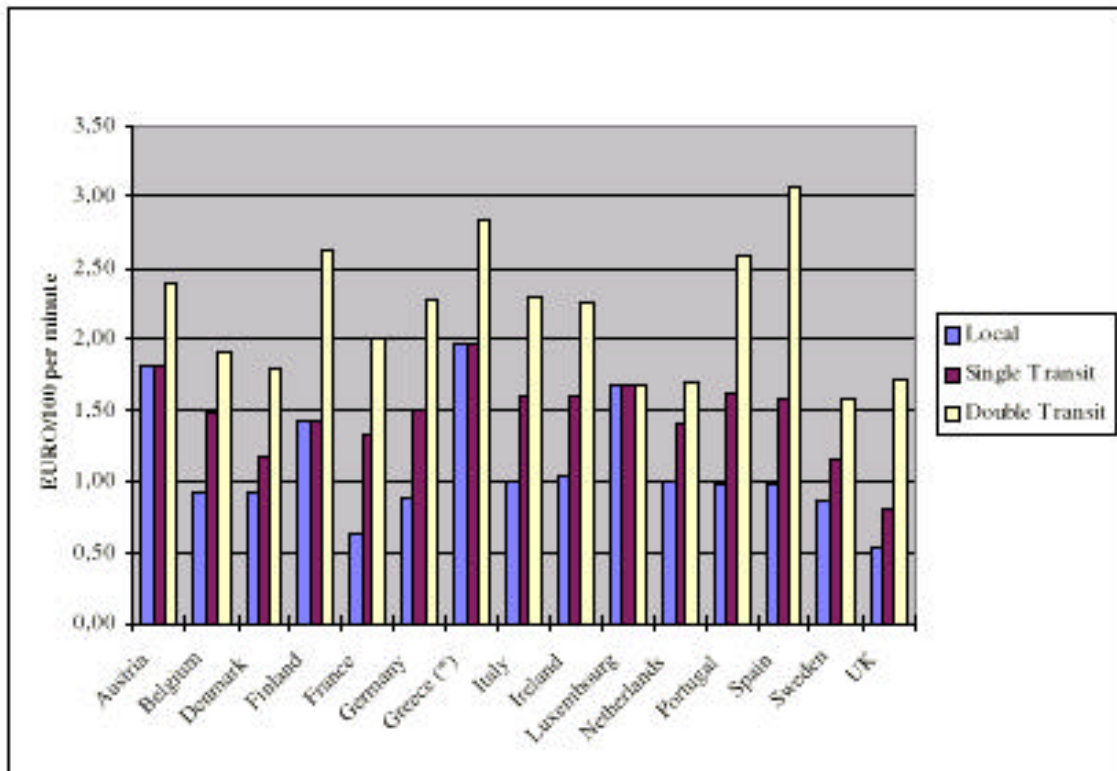


Table 1 Recommended ‘best current practice’ interconnection charges for 1999 and 2000

Level of interconnection	1999 best current practice call termination charges (€/100 per min)	2000 best current practice call termination charges (€/100 per min)
Local interconnection	0.5 – 1.0	0.5 – 0.9
Single transit interconnection	0.8 – 1.6	0.8 – 1.5
Double transit interconnection	1.5 – 2.3	1.5 – 1.8

ANNEX

Table : Interconnection cost data for Member States (1 st March 2000)

(Source: Commission and NRAs)

INTERCONNECT CHARGES PER MINUTE Based on a 3 minutes call duration Basic starting values in ¢-cents per minute prices are exclusive of VAT				Exchange rates to €	Interconnection charges in local currencies, date at which prices are effective, other supplementary information
	Local	Single transit	Double transit ⁽²⁾		
Austria	1.82 ⁽¹⁾	1.82	2.40	13.76	Prices since January 1998 (ATS): - local = not provided - region = 0.25 per min. - national = 0.33 per min.
Belgium	0.92	1.48	1.92	40.34	Prices since January 2000 (BEF): - local = 0.130 per call + 0.329 per min - region = 0.246 per call + 0.515 per min. - national = 0.319 per call + 0.667 per min.
Denmark	0.84	1.18	1.80	7.434	Prices set by NRA from 1.10.99 (DKK/100): - local exchange = 4 per call + 4.9 min. - single tandem = 6 per call + 6.8 per min - double tandem = 6 per call + 11.4 per min.
Finland	1.43 ⁽¹⁾	1.43	2.63 - 3.28 ⁽³⁾	5.945	Prices since May 1999 (FIM/100): - local = not provided - teledistrict = 16.5 per call + 3 per min. - national = teledistrict + 7.15 to 11 per min.
France	0.63	1.33	2.01	6.559	Prices since January 2000 (FF/100): - local = 0.84 per call + 3.86 per min - single transit = 3.03 call + 7.74 per min. - double tandem = 4.61 call + 11.62 per min.
Germany (Note 4)	0.88	1.49 – 1.89	2.28	1.956	Prices since January 2000 (DM/100): - City = 1.71 per min. - Regio50 = 2.92 per min. - Regio200 = 3.69 per min. - National = 4.47 per min.
Greece(*)	1.93 ⁽¹⁾	1.93	2.76	329.3	Prices for mobile operators (GRD): - metropolitan = 1.7 per call + 5.8 per min. - national = 2.4 per call + 8.3 per min.
Italy	1.00	1.60	2.29	1936	Prices for year 1999 (Lire): - local = 19.4 per min. - singolo transit = 31 per min. - doppio transit = 44.4 per min
Ireland	1.04	1.60	2.26	0.7876	Prices since 1 December 1998 (IRLP/100): - local = 0.82 per min - single transit = 1.27 per min - double transit = 1.78 per min.
Luxembourg	1.69 ⁽¹⁾	1.69	1.69	40.34	Prices since January 2000 (Luf): - any level: 0.253 per call + 0.599 per minute
Netherlands (Note 5)	1.00	1.41	1.70	2.204	Prices charged since 1.7.1998 (Fl/100): - local exchange = 1.5 per call + 1.7 per min - single transit = 2.1 per call + 2.4 per min - double transit = 2.5 per call + 2.9 per min
Portugal	0.99	1.63	2.58	200.5	Prices decided by ICP for 2000 (PTE): - local = 2 per call + 1.32 per min. - metropolitan = 2 per call + 2.60 per min. - national = 2 per call + 4.50 per min.
Spain	0.99	1.59	3.07	166.4	Prices since 1 December 1998 (Pts): - local = 1.65 per min. - single transit = 2.65 per min. - double transit = 5.11 per min.
Sweden (Note 6)	0.86 – 0.90	1.16 – 1.21	1.59 – 1.67	9.09 - 8.68	Prices since March 1999 (SEK/100): - local exchange = 4.2 per call + 6.4 per min. - single segment = 4.9 per call + 8.9 per min. - double segment = 5.6 per call + 12.6 p. min.
UK	0.54	0.82	1.71	0.641	Prices since March 1999 (£/100): - local exchange = 0.3472 per min. - single tandem = 0.5279 per min. - double tandem (>200km) = 1.098 per min.

(*) Tariffs not yet approved by the national regulatory authority

Notes

(1) In Finland, Austria, Greece and Luxembourg the lowest interconnection charge covers interconnection at a local or a tandem exchange. Thus the 'local' rate is the same as the 'single transit' rate.

(2) The 'double transit' rate includes a distance component for links of >200km.

(3) In Finland at double-transit there is a price range depending on the volume of traffic carried.

(4) The four distance-related tariff zones in Germany cannot be translated, in the ratio 1:1, into the three technical element based areas defined in the Table. In Germany, the local tariff area is identical to the so-called City Zone which always comprises several local networks, ie, including also those of large cities. Single-transit interconnections are also established in this City Zone, specially in large cities. Therefore, in Germany, City Zone interconnections are also included within the single-transit interconnection services area. As concerning the Regio-200 Zone, double-transit interconnections are also established. Hence, apart from national interconnections, Regio-200 interconnection services are also included within the double-transit interconnection services area.

(5) At present OPTA is deciding on the final tariffs for the period 1 July1998 –1 July1999, and the preliminary tariffs for the period 1 July1999 –1 July2000. Until these preliminary tariffs are determined, KPN will have to offer the tariffs as mentioned in the Table. These are the preliminary tariffs for the period 1 July1998 –1 July1999, as determined by OPTA last year.

(6) Price range reflects significant currency fluctuations that have taken place in Sweden since new tariffs were set in March 1999 until November 1999. The lowest figures have been considered to derive 'best current practice'.

ISSUE 7

ENLARGING THE EU REGULAR REPORT FROM THE COMMISSION ON PROGRESS TOWARDS ACCESSION

OCTOBER 13, 1999

Extract from section 3.2 for twelve countries concerning telecommunications

Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia

The full texts can be found at the following web site:

http://europa.eu.int/comm/enlargement/report_10_99/intro/index.htm

These reports are made annually. The reports for 2000 will be prepared on the basis of the situation in the Summer.

European Commission,
DG Information Society/ A5
17th April 2000

Bulgaria

Telecommunications

Starting from a high level of fixed line telephone penetration at the end of 1997 (31.8 lines per 100 inhabitants), the fixed line network has grown to about 33.6 lines per 100 inhabitants in 1998. Although digitalisation of the international (100%) and long distance (80%) networks is well advanced, investment is needed in the local loop where the level of digitalisation is low at only 8%. Although mobile telephone penetration has trebled during 1998, the level is low at 1.6 per 100 inhabitants, leaving considerable room for growth.

With the adoption of the new Telecommunications Law in 1998 introducing a liberalised regime for activities in the telecommunications sector and the Government's decision on the Telecommunications Sector Policy in October 1998, Bulgaria continues to make good progress in the sector. The new law has introduced liberalisation of all services except voice telephony and leased lines, which will be opened to competition on 1 January 2003. This is in advance of the WTO commitment of 1 January 2005.

Productivity of the main telephone company has increased only slightly in the 12 months to the end of 1998 and at 9.6 employees per 1000 lines is one of the lowest of candidate countries. This matter will need to be addressed if the company is to be competitive in the new liberalised environment.

Secondary legislation will need to be finalised in relation to interconnection, licensing, data protection, universal service arrangements and open network provision. Attention should be placed increasingly on effective implementation of legislation, preferably through a phased approach. Now that most of the issues in the policy document of 1998 have been implemented, it is suggested that the document be revised to cover the implementation aspects of the issues and tariff rebalancing.

Cyprus

Telecommunications

Cyprus has the highest penetration rate in fixed telephony (60.7 %) of all the candidate countries which is well above the average rate in the EU Member States. The penetration rate in mobile telephony of 17.5 % and the degree of digitisation of the fixed network (92.6%) are also very high.

As for the liberalisation of the markets, Cyprus has withdrawn its request for a transition period in the field of fixed voice telephony and will introduce full competition in January 2003. Concerning the implementation of the *acquis*, the Government has issued a schedule for the establishment of an independent regulatory authority, the introduction of a tariff rebalancing scheme on the basis of cost-orientation and the adoption of a new telecommunications law. In view of the possibility of a partial privatisation, the status of the public network operator, CYTA, will be changed.

Conclusion

As regards telecommunications, whereas infrastructure and services are well advanced, considerable efforts have to be made to adopt a regulatory framework in line with the *acquis*, in particular in the field of gradual market opening, interconnection and licensing.

Czech Republic

Telecommunications

Despite a generally weaker performance of the economy, the telecommunications sector continues to prove very active. Investment and productivity has grown quickly both in the privatised SPT and in the two mobile operators. The number of fixed telephone lines increased to 40 and mobiles to 10 per 100 inhabitants by the end of 1998. The issuing of licenses to new local operators has, however, largely proved a failure. Price re-balancing has progressed well although more remains to be done in advance of full liberalisation on 1st January 2001. It is important that affordability will be secured by targeting consumer support where needed.

At present, the Ministry of Transport and Communications shares regulatory functions with the Ministry of Finance, but also exercises the state's controlling property rights in all four of the national operating companies. This is incompatible with the *acquis* and seems to be making it difficult for the government to administer this increasingly competitive sector. The adoption of the new telecommunications law and relevant implementing regulations should therefore be achieved as soon as possible.

Conclusion

No progress has been made in complying with the telecommunication and postal *acquis*, in particular in relation to separating regulatory from operational functions, and more is needed in relation to price re-balancing. A determined effort is needed if the telecommunications sector is to be ready for full liberalisation from January 2001 onwards.

Estonia

Telecommunications

Privatisation as well as the modernisation of infrastructures in the telecommunications sector is quite advanced in Estonia. Privatisation of the telecommunications operator has continued through the launching in January 1999 of a large public offer of shares in the international market. Penetration rates were of 16.6 and 33.8 per 100 inhabitants for the mobile and fixed telephone sectors, by the end of 1998. The mobile telephone sector has been especially successful. At the same time, productivity in the fixed sector has grown quickly and prices are more balanced. Further progress in rebalancing is needed along with measures to maintain the affordability of the universal service through special tariffs.

Estonia's legislation on telecommunications is not yet fully in conformity with Community legislation. A new Telecommunication Act needs to be adopted, *inter alia*, to set the basis for the functioning of the independent regulator.

The Cable Transmission Act was adopted in February 1999. This law regulates the provision of telecommunication services through cable networks and the lifting of limits established on the provision of cable services. It also controls cross-holdings between telecommunications and cable networks.

Conclusion

Estonia has made some progress by further privatising the telecommunications company, although crucial legislation needed has not yet been enacted. A determined effort is needed if full liberalisation is to be achieved by January 2001. Information society continues to be a priority in Estonia.

Hungary

Telecommunications

Important progress has already been achieved in the Hungarian telecommunication sector both in terms of networks and services. Several regulatory instruments needed for alignment with the *acquis* have been adopted. The telecommunications sector has grown consistently. Installation of fixed telephones went up from five to 34 lines per 100 inhabitants during 1998 and the rate for mobile telephones from four per 100 inhabitants to 10. The extent of network digitalisation increased by 12% to 81.5%. The Hungarian Government has adopted a decision which outlines the basic principles of the information-communications infrastructure and services until 2005.

The Hungarian market has been further liberalised, in particular by allowing the commercial provision of voice telephony to closed user groups, by authorising the provision of internet services by Cable TV operators and by issuing two licenses for internet telephony to a private company. According to a Government decision of May 1999 all free mobile operators received allocations for both GSM 900 and DCS 1800 frequencies providing them with equal chances to compete in the mobile telephone market. The privatisation of the incumbent network operator, MATAV was completed.

In June 1999, new legislation was adopted prohibiting voice telephone providers from having exclusive rights to establish or acquire cable television networks in their area of concession. This aims to promote a competitive environment after the opening of the voice telephony market. Despite the fact that a new telecommunications law has not yet been adopted, secondary legislation has already been implemented.

The provisions of the *acquis* related to data protection in telecommunications has been implemented for GSM mobile networks. Tariff re-balancing is progressing rapidly as an important reduction of inter-connection and leased lines rates has been introduced. The rental fee for residential subscribers, for business lines as well as local call prices have been increased substantially. The main remaining issues are the alignment of the provisions on universal service, numbering and licensing.

Conclusion

Progress has been achieved in the opening in the telecommunication market. Efforts need to be made to complete the regulatory framework, in particular in the field of licensing.

Latvia

Telecommunications

Latvian legislation in the area of telecommunications is not yet in line with the *acquis*. Since the last Regular Report, no new legislation has been adopted.

According to a government policy plan as well as the commitments Latvia has made at the WTO, the monopoly period in the telecommunications sector will be brought back from 2013 to 2003. The current monopoly provider, Lattelekom, is 51% state owned and 49% foreign owned. A decision to privatise the remaining shares of Lattelekom was taken by the government in October 1998, and efforts continue to renegotiate the contract on which the monopoly is based.

As of now, the regulatory agency does not yet have the full powers required by the *acquis*. Some of the functions are currently being carried out by the Department of Communications in the Ministry of Transport and the Telecommunications Tariff Council.

The Latvian fixed network operator is too dependent on revenues from international traffic, and better rebalancing of prices is needed. There are already substantially cheaper tariffs available to secure affordability for the 30% of all customers who are deemed deserving. Despite this and growing modernisation of the network, the number of fixed telephone lines (30 per 100 inhabitants) at the end of 1998 was no higher than two years before. Mobile telephones grew to 7 per 100. More work is necessary to bring the interconnection system into compliance with the *acquis* as soon as possible notwithstanding the maintenance of some exclusive rights until 2003.

Concerning standardisation, the Ministry of Transport's Communications Department became a member of ETSI in November 1998, and work on adopting standards is underway.

Conclusion

Substantial efforts are needed to align telecommunications legislation with the *acquis*.

Lithuania

Telecommunications

The Lithuanian telecom market is liberalised except for the provision of fixed public telephone networks and services, which were made exclusive to Lietuvos Telekomas (Lithuanian Telecom) by the 1998 telecom law until the end of 2002. The general legal framework for implementing the *acquis* is in place, but secondary legislation is still missing. Relatively slow growth in the field of fixed telecommunications network continued up to the end of 1998 and modernisation remained one of the lowest of the region. Growth in mobile was better, reaching 7 per 100 inhabitants. Considerably more progress with the rebalancing of tariffs in the direction of cost orientation will be needed in the period before the market is opened.

Although legislation provides for an independent regulatory authority, regulatory functions are, at present, with the Ministry of Transport and Communication. Setting up of an independent body should be a top priority.

Lithuania needs to clarify which infrastructure data transmission service providers are permitted to operate and whether they are entitled to interconnection agreements with Lietuvos Telekomas.

Conclusion

Continued efforts are needed to implement the telecommunications legislation.

Malta

Telecommunications

The telecommunications sector is well developed with a completely digitalised network and a penetration rate of 50.4 lines per 100 inhabitants in fixed lines, which compares to the EU average of 52.6. However, Malta has yet to start with the adoption of a regulatory framework in line with the *acquis* before the introduction of competition in the fixed voice telephony service, by January 2003 at the latest and the gradual opening of the markets for other services before that date. The authorities have already informed the licensed telecommunications operators about the intention to bring forward the date for

the liberalisation of the market for voice telephony which is scheduled for 2010 by the telecommunications law of 1997.

As for privatisation, the government sold 40% of the equity of Maltacom in an international public offering in June 1998, retaining 60% of the shares.

Conclusion

As regards telecommunications, Malta has considerable work to do in order to conform to the *acquis communautaire*.

Poland

Telecommunications

Poland has achieved a reasonable level of alignment with the *acquis* but implementation has not been of a comparable level. Over the last year Poland has come closer to the *acquis* through the more rigorous implementation of already existing laws.

Despite significant growth in 1998, Poland's telecommunications sector grew more slowly than the economy generally. It now has the second highest GDP per capita of the CEEC candidate countries but has the second lowest density of telephone lines, i.e. 23 per 100 inhabitants. The growth in fixed lines, in modernisation and in mobiles (5 per 100 at the end of 1998) has been rapid but the scope for still more rapid investment is clear. Moreover, the fixed network price structure is too dependent upon excessive revenues from international services. Further progress in price rebalancing is becoming urgent along with measures to maintain the affordability of universal service through special tariffs.

Significant legislative progress has been achieved in the telecommunications sector in the last year. The adoption under the existing law of the new Interconnection Ordinance not only brings Poland more closely into line with the *acquis* but should also promote both competition and increased investment in the sector. It also provides for economic incentives to increase coverage in rural areas. Further legislative progress is however required to ensure that the regulatory regime is brought fully into line with the *acquis* most notably with regard to the establishment of an effective Telecommunications Regulatory Authority and the removal of the incumbent's statutory exemption from licensing.

The Government has adopted a more vigorous policy for the telecommunications sector favouring privatisation and wider liberalisation including of long distance services. Since the last Report, the privatisation process for the state-owned incumbent operator TPSA, was launched in late 1998 with the sale of 15% of the shares. Following the success of this process, the government announced early in 1999 that it was seeking a strategic

investor for the next 25 - 30%. As a further 15% are being distributed to employees, the state will give up its controlling interest in the company.

Attention is required to ensure that public procurement procedures regarding telecommunications equipment do not discriminate or lead to privileged access to markets with negative consequences for competitiveness.

Conclusion

Poland has achieved reasonable progress in the field of telecommunications, and privatisation, a 1998 Accession partnership short term priority, is underway. The development of the Polish telecommunications sector will have an important impact on deepening competitiveness and concentrated efforts including further liberalisation and investment are required to achieve progress in the short term.

Romania

Telecommunications

The growth in fixed lines has been slow (3 lines per 100 inhabitants) bringing the penetration rate up to 17,4 %. This is the lowest among the candidate countries. However, the growth in mobile telephony was better, reaching 4 per 100 inhabitants. The licence for a third digital mobile network issued in December 1998 will contribute to the growth in this market. The increase in infrastructure digitalisation was only 4 % bringing the level up to 39 % of the network.

Telephone line rental and connection charges are still very low, although subscription charges for residential subscribers increased by 50 % in real terms since last year. The subscription fee for business subscribers would have to increase by almost three times in order to cover costs. The partial privatisation of Romtelecom by the sale of 35 % of its capital will provide additional funds for the extension and modernisation of the network..

The progress in adopting the *acquis* is slow. In the autumn of 1998 decrees on interconnection and licensing of radio communication networks and of corporate networks were issued. In December 1998 a decree on tariff rebalancing followed. An important regulatory instrument issued since the last report was the licence for Romtelecom..

A major problem is the delay in the establishment of an independent regulatory authority. The National Agency for Communications and Informatics created in November 1998 has not yet achieved sufficient progress in completing the regulatory framework and in ensuring the tariff rebalancing, on the basis of cost orientation as required by the *acquis*.

Conclusion

Progress in adopting the *acquis* in telecommunications is slow and the delay in the establishment of an independent regulatory authority is a problem. Practical steps are now being taken to implement the information society.

Slovakia

Telecommunications

Slovakia had already achieved a certain degree of liberalisation of the telecommunications sector. Efforts now have to be devoted to complete liberalisation, and to ensure fair competition and proper functioning of the market. There has been no legislative progress nor further liberalisation of the sector since November 1998. The subsequent slow rate of commercialisation of the sector can be seen in the relatively low growth in the number of lines (nearly 30 per 100 inhabitants at the end of 1998), in the length of the waiting list, in the relatively low productivity of the public operator (Slovak Telecom) and in the scope that remains for price re-balancing. The mobile sector, however, has grown quickly to reach 9 per 100. Slovakia has not found a strategic partner for its public operator even though this was foreseen for 1998. Nonetheless, in December 1998 Slovak Telecom was converted into a 100% state-owned joint-stock company in preparation for its future privatisation, which is expected to be achieved by selling a large minority stake to a foreign strategic partner through a tender. The amendment to the law on large scale privatisation passed in September opens the way for the privatisation of the company. The remaining State share will be fixed by a cabinet decision. A foreign consortium has been selected through a tender procedure to advise on the transaction, which should be completed in the first quarter of 2000. The Government has not yet been able to progress in its previously announced intention to license a third mobile operating company. The public telecommunications operator announced revisions in prices as from 1 July that continued the process of price re-balancing. A liberalised market in telecommunications services requires access to capital and an effective regulatory regime to safeguard competition, to secure re-balancing and to prevent distortion of the market by dominant suppliers. Progress in this respect is becoming urgent and a properly separated regulatory function should be established quickly so the coming privatisation can go forward on a sound basis and that other players in the Slovak market can make plans. Slovakia has signed the WTO agreement on basic telecommunications services, keeping the Slovak Telecom monopoly on voice telephony until 2003.

Conclusion

Slovakia has not made progress in telecommunication fields (apart from some preparatory steps for privatisation of the public operator). Further alignment and market liberalisation are necessary.

Slovenia

Telecommunications

Starting from a low level of alignment Slovenia has made some further steps towards implementation of the *acquis*. Secondary legislation has been adopted on the use of radio frequency spectrum for satellite personal communication services, on the provision of Iridium services, on citizen band services, on the provision of public voice telephony and telex services, and on the allocation of radio frequency bands. However, progress in liberalisation of the markets for services and alternative infrastructures is still insufficient as the decree on public telecommunications services extending the exclusive rights of the public network operator to the infrastructure for data communications and multi-media applications is still in force. This means that alternative infrastructures e.g., CATV, rail roads or electricity networks cannot be used for these services, and CATV operators providing Internet services still have to use the network of Telekom Slovenije for long distance and international access. In view of this problem, as well as non transparent pricing practices for leased lines, the Competition Protection Office has initiated two investigations into Telekom Slovenije's alleged abuse of dominant position.

In the field of data protection, the requirements of the EC regulation concerning directory data and calling line identification have been implemented. First measures towards tariff rebalancing have been taken, but the international tariffs are still among the highest in the CEECs and the connection charges to the public network are about three times above the regional level.

In the context of the further privatisation of the public operator Telekom Slovenije, the 1998 Government decision to reduce the State's ownership from 73.9% to 66.5% of the capital by transferring the shares to Authorised Investment Companies for Privatisation Vouchers, has not yet been implemented.

Slovenia has reached a high level of infrastructure development in the telecommunications sector, which continues to develop very well. However, it is essential that Slovenia accelerates the liberalisation process and the pace of legislative alignment, and continues to implement a programme designed to help in the establishment of an independent regulatory authority. The strengthening of resources of the Ministry of Transport and Communications remains an urgent priority.

Conclusion

Slovenia has a well developed telecommunications sector. However, it should make further efforts to complete alignment to the *acquis* by early adoption of a new telecommunications law and to introduce gradual liberalisation of all telecommunications services other than voice telephony before 1/1/2001.

ISSUE 8

WTO ISSUES FOR TELECOMMUNICATIONS AND E-COMMERCE

SUMMARY OF TELECOMMUNICATIONS ISSUES

In accordance with commitments made at Marrakech in 1994, new negotiations on all services sectors formally started on 1 January 2000. Telecommunications played a leading role in past negotiations on services, and, as a fundamental input to the overall economy and to international trade, will continue to do so.

Technological progress is affecting market developments in this sector at a speed which has never before been experienced in any sector of the economy. The convergence of the telecommunications, IT, and media sectors into a “communications” sector and the advent of the Internet will come to the fore in the next few years. Internet development is changing the very nature of this market and creating new issues for regulators and for trade policy.

A thriving, global industry with an annual turnover of some 1.5 trillion is at the heart of the new, on-line economy. At the end of the forthcoming negotiating cycle this converging sector will be very different from today’s and a forward looking agreement on trade principles for telecommunications services is therefore indispensable.

In less than 15 years, developing countries have added more telephone lines than the world’s industrialised countries (excluding the USA) installed during the first 100 years after the telephone’s invention (circa 1876). Thus, although the situation is very varied from country to country, development as a whole is strong.

Given this situation and the current level of liberalisation in its own market, the EC has mainly offensive negotiating interests in telecommunication services. We need to obtain for our service providers comparable access in third country markets to that already obtained in the European market by third country service providers. To that end, our key objectives in the telecommunications sectors should be the following:

- Obtain more and better commitments from all other WTO Members.
- Further market opening should be coupled with regulatory disciplines, because real market access is only effective if it is secured by a transparent and predictable regulatory environment.
- These GATS disciplines should also be adapted where necessary to technological innovation, in particular to take into account the convergence of the telecommunications, media and IT sectors.
- The participation of developing countries in world trade in telecommunication services should be strongly encouraged.
- The implementation of existing commitments should continue to be monitored in parallel with the new round of services negotiations.

To achieve these ambitious objectives, the current EC schedule of commitments is an excellent basis for starting the GATS 2000 round of negotiations.

EU CANDIDATE COUNTRIES (SEE ALSO DETAILED ANNEX)

All the currently foreseen EU candidate countries are now WTO Members with the exception of Lithuania, which is in the process of accession. Co-ordination with candidate countries will be important since, on accession, their WTO schedules will have to be incorporated into the EU schedules. With minor exceptions, none of the candidate countries has asked for any kind of transitional provision or derogation from the telecommunications chapter of the *acquis* after they join the EU.

Some candidate countries may have particular offensive interests vis-à-vis third countries and it should be possible for these to be taken into account by EU negotiators. In this case, the governments concerned would be wise to brief the Commission as to their aims.

EMERGING AND LEAST DEVELOPED COUNTRIES

Most developing countries have avoided far-reaching commitments in the past negotiations. However, modern communications are becoming more important to investors in their industry generally and the potential size of the developing country markets make them clearly attractive to EU companies. We should therefore be ambitious in our level of requests to developing countries with the objective of obtaining full access to these markets. At the same time, some transitional flexibility should be allowed and technical assistance should be provided.

MEDITERRANEAN, MIDDLE EASTERN COUNTRIES

Of the Mediterranean and Middle Eastern countries (a number of which are not WTO Members) only Cyprus, Israel, Morocco and Tunisia made telecom commitments. Oman, Jordan, Saudi Arabia and Algeria are engaged in the process of accession.

FORMER USSR REPUBLICS AND MONGOLIA

Of the non-Baltic former republics of the Soviet union, only Kyrgyzia has made a commitment on telecom involving supply by two or more suppliers. More than ten of these countries are in the process of acceding to the WTO.

SUMMARY OF ELECTRONIC COMMERCE ISSUES

INTRODUCTION

Electronic commerce is an issue of growing importance for international trade because of the global nature of its infrastructure. At the beginning, its development was focused within WTO members' economies but it is increasingly benefiting trade between WTO members generally. Indeed, people now order books and compact discs to be delivered from abroad to their home in all WTO members' territories and they access email services and information services or download software from all members' territories. Increasingly, corporations are setting up electronic marketplaces for (often international) procurement of inputs to their production.

This paper tries to set out the overall picture of e-commerce in the WTO in the coming months.

THE WTO SCENE ON E-COMMERCE

Realising the potential of electronic commerce for trade, Ministers adopted the Declaration on Global Electronic Commerce at the second session of the Ministerial Conference in May 1998. The Declaration "urged the General Council to establish a comprehensive work programme to examine all trade-related issues relating to global electronic commerce" and asked for results to be presented to the third session of the Ministerial conference.

The Work Programme was launched in September 1998 with a precise agenda for each of the bodies involved to work upon. The work was carried out in the GATS, GATT, and TRIPS councils and the CTD⁹. These bodies reported on the progress of their work by the autumn of 1999, but the General Council did not react to their reports, and the Ministerial Conference in Seattle could not reach any conclusion on this issue because of the failure of the session itself.

The Work Programme provided an opportunity to raise the awareness of all WTO members about trade related e-commerce issues. The work was slowed by the lack of involvement of many developing countries and of the United States. Developing countries did not view e-commerce as a matter for them and some of them played with the idea of using it as a bargaining chip on the eve of new negotiations. Additionally, the United States argued that only one issue was essential, that is the moratorium on customs duties on electronic deliveries agreed upon on a temporary basis at the second Ministerial.

However, thanks to the active involvement of the EC and its Member States (culminating in a proposed list of principles) and the efforts of a number of other members, the understanding has progressed on a number of issues (particularly in the GATS council where consensus was almost achieved on a number of issues, and in the CTD where a seminar started to show to developing countries how e-commerce could benefit them).

Additionally, developments outside WTO have gradually raised the understanding and the practice of e-commerce by everyone : the growing and sometimes already paramount importance of information technology in day-to-day business, including in some

⁹ Committee on Trade and development.

developing countries, the publicity made about the fast growth of a number of e-commerce related firms and the enthusiasm generated by these new technologies and new ways of conducting business, the multiplicity of business-led (Global Business Dialogue, Alliance for Global Business, TABD...), or public organisations-led (OECD, World Bank InfoDev Programme, ...) conferences or recommendations on e-commerce issues in general, and last but not least the eagerness of many in all countries to be connected to that global community. Everyone has been learning, including the industry which has gradually moved from a “no-regulation” approach to a more cautious approach accepting that appropriate regulations can give legal certainty and/or ensure consumer confidence on liability, protection of personal data, encryption, and other key issues.

As a result of all these processes, today, WTO members seem more eager to address the trade issues raised by electronic commerce. Indeed, during the informal General Council of February 29, all members showed a willingness to resume actively the Work Programme. In particular developing countries seem eager to make progress, and the US have given up their focus on the moratorium and seem prepared to address outstanding issues in relation with the negotiations on services. Additionally, the start of negotiations on services gives an incentive for all to think about their export interests and to wonder whether these cannot thrive upon e-commerce.

ANNEX

EU CANDIDATE COUNTRIES¹⁰

Nine Central and East European Countries (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Poland and Romania, Slovakia and Slovenia) made commitments on telecom, although that of Slovenia does not allow for access by more than two suppliers. Lithuania is in the process of accession. Implementation by some the countries which did make commitments is currently regarded by industry as not yet meeting the requirements of the Reference Paper.

Nevertheless, all the candidates have embraced a programme of institutional reform as well as infrastructure modernisation as part of the EU pre-accession process and progress made has been considerable. Regulatory policy in the candidate countries is guided by the GATS framework as well as by the EU telecommunications *acquis*. Although commitments will be phased-in over a one- to four-year period, Latvia, Slovakia, Romania, Poland, Hungary, Czech Republic and Bulgaria commit to liberalisation in local, long distance and international services for public and non-public uses on a facilities- and resale-basis. Latvia, Bulgaria, Czech Republic, Romania and Slovakia place no limitations on foreign ownership in their commitments and Hungary and Poland set a 49% threshold. These countries further commit to the Reference Paper on regulatory principles.

Infrastructure investments are conspicuous in most candidate countries. Teledensity¹¹ tends to be above that of most developing countries averaging 30.5, a low of 17.4 in Romania and a high of 38.1 in Slovenia. Increases in the number of main lines since 1993 range from 4.0 percent in Latvia to 17.4 percent in the Czech Republic, with digitalisation at 62.2% in Poland, 83% in Slovenia and 38.3% in Latvia. Ministries estimate an average of 6.4 years to reach teledensity of 50, but again present achievement and growth rates vary widely between countries. The number of mobile telephones is also increasing, standing at an average of 9.16 per one hundred, and accounting for 18 percent of lines.¹²

In addition to their WTO commitments, ten candidate countries have ratified an Association Agreement with the European Union and the agreements of Latvia and Estonia are accompanied by a joint declaration on telecommunications. While these agreements are in various stages of implementation and new telecommunications laws are pending, doubts remain as to whether all associated countries comply with their commitments to uphold the principles of Article 90 (old style) of the EC Treaty by a specific date.¹³

¹⁰ Defined, for the purposes of this paper as Estonia, Latvia, Lithuania, Slovenia, Slovakia, Romania, Bulgaria, Czech Republic, Poland, Hungary.

¹¹ Defined, for the purposes of this paper as mainlines per 100 inhabitants.

¹² All figures based on data collected by the European Commission from public sources.

¹³ Although the joint declarations exempt Estonia and Latvia from the Article 90 commitments, the prerequisites for this exemptions are perhaps not being met.

Most problems relate to the extension or scope of the extension of monopoly rights, the lack of or questionable status of the independent regulator, the transparency of licensing mechanisms, the prevention of anti-competitive pricing policies and the existence of effective enforcement of competition decisions.

The telecommunications market itself tends to be dominated by an incumbent, partly state-owned provider. As mentioned above, these providers have been granted monopoly rights in some sectors or sub-sectors for a given period of time. In most cases governments see these monopoly rights as necessary to ease the move to a full market economy and the need for investment in unprofitable areas. Investment and growth in telecommunications have indeed been significant, yet are often contingent on economic growth and investment climate and therefore lack consistency. Mobile markets are more fully liberalised than fixed-line markets, with at least two and in most cases three service providers in each country.

In many areas of infrastructure modernisation and regulation the candidate countries have made impressive progress. Of the many GATS telecom commitments, those of the EU candidates stand out as ambitious and consistent. Nevertheless, the true test of any such commitments will be in their implementation. Further, although infrastructure improvements are a positive development, many of the less developed candidate countries will require considerable investment to approach the level of development in EU member states.



Phare Multi-country
Programme
Telecommunication Tariffs:
Project ZZ 97.28-01-01

Summary

➤ 2 May 2000



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1 Project Objective

The project objective was to assist the participating Phare countries with rebalancing telecommunications (PSTN) tariffs so that they meet the EU requirement that tariffs are cost-oriented.

The costs of different PSTN services in the participating countries are not generally known. The Phare project "Cost Allocation Tools for Telephony Services" undertaken in the 1995 MPTP has produced a tool to assist telecommunications operators in participating countries to calculate PSTN service costs on the basis that overheads are fully allocated. . Some operators, e.g. Slovak Telecom, have also undertaken their own costing studies.

Competition in the telecommunications markets of the Phare countries should ultimately force PSTN prices to a level close to Long Run Incremental Costs. However operators in the Phare countries have generally not embarked on the process of calculating LRIC costs.

Instead, this project has taken the current average level of PSTN tariffs in the EU as an indicator of the level of costs - even though rebalancing has not been completed in every EU Member State. The comparisons between the Phare countries and the EU have been calculated in terms of both exchange rates and purchasing power parities (PPPs).

2 Conclusions

The participating countries have made varying amounts of progress towards the EU average PSTN tariff level. But the EU average tariff level may itself change as rebalancing proceeds further, or if costs change for other reasons such as changing volumes of traffic or the introduction of new technologies.



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Nevertheless, in general:

- The price of international calls is too high in the Phare countries, whether calculated at exchange rates or PPPs.
- The monthly rental for residential customers is too low in the Phare countries, whether calculated at exchange rates or PPPs.
- The comparison between Phare and the EU in relation to local calls, long distance calls and business rentals is less clear cut.

The contractor, PricewaterhouseCoopers (PwC), has gathered tariff data from the participating countries and held a kick-off meeting and three workshops with participants. The project is based on the data and opinions supplied by the participants.

PwC has devised a “tariff challenge index” which is designed to indicate approximately the extent of the tariff rebalancing challenge still facing each Phare country. This index is based on a weighted sum of the gap between key tariff items in the Phare country and the EU average price, as follows:

- the price of a 4-minute local call;
- the price of a 4-minute call for the longest distance nationally;
- the price of a call to the US;
- the monthly rental.

In addition, structural aspects of the tariffs have been given a weighting in the calculation:

- whether “free” units or time are bundled with the rental in the only available tariff;
- whether there are as many off-peak bands for international calls as for national;
- whether directory enquiries are charged at least 0.1 per call or per minute.

The weighted sum is then divided by the time remaining to the end of the monopoly period. Given the same tariff gap, countries with a short time remaining until the end of the monopoly will have a higher tariff challenge index. The results of this calculation are shown in the table for three different weightings (an index of 0 would indicate no need for rebalancing). Results are



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shown separately for calculations at exchange rates, and in terms of purchasing power parities (PPPs).

➤ *Tariff challenge index, January/February 2000*

	Weighting	at exchange rates			at PPPs		
		A	B	C	A	B	C
Business							
Albania	2.3	1.6	1.1	5.0	2.8	2.3	
Bulgaria	1.4	1.2	0.7	3.6	2.1	1.6	
Czech Republic	2.5	2.5	0.8	5.4	3.6	1.9	
Estonia	2.2	1.7	1.7	2.9	1.6	1.6	
Hungary	0.4	0.4	0.2	1.2	0.9	0.5	
Latvia	0.3	0.2	0.2	1.0	0.5	0.5	
Lithuania	1.6	1.4	0.5	2.2	1.5	0.7	
FYR of Macedonia	1.1	1.0	0.5	1.6	1.2	0.7	
Poland	1.2	1.1	0.4	2.2	1.6	0.9	
Romania	1.4	1.1	0.6	3.7	2.1	1.6	
Slovak Republic	0.7	0.7	0.5	1.7	1.0	0.9	
Slovenia	2.0	0.7	1.9	1.7	0.6	1.5	
PHARE average	1.4	1.1	0.8	2.7	1.6	1.2	
Residential							
Albania	1.7	1.4	0.9	3.3	2.1	1.6	
Bulgaria	1.5	1.3	0.8	3.8	2.3	1.7	
Czech Republic	3.3	3.1	1.5	5.3	3.4	1.8	
Estonia	2.6	2.2	2.2	2.6	1.7	1.7	
Hungary	0.7	0.7	0.5	0.7	0.6	0.3	
Latvia	0.5	0.4	0.4	0.7	0.4	0.4	
Lithuania	1.5	1.4	0.6	2.2	1.6	0.8	
FYR of Macedonia	1.2	1.1	0.6	1.8	1.3	0.8	
Poland	1.2	1.2	0.5	2.0	1.5	0.7	
Romania	1.7	1.7	1.2	2.8	1.7	1.2	
Slovak Republic	0.9	0.8	0.7	0.9	0.6	0.5	
Slovenia	2.1	0.8	2.1	1.8	0.6	1.7	
PHARE average	1.6	1.4	1.0	2.3	1.5	1.1	

While the absolute level of the index figures is not particularly significant, and is sensitive to changes in the weights used, nevertheless the table clearly shows that rebalancing has some way to go in the Phare countries. (The same is true of some EU Member States as well).

At the project meetings, conclusions from analysing the data have been presented and discussed. PwC recommended that tariffs should conform to certain structural principles, notably:



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- If the only tariff available has an allowance of “free” units or “free” time included with the periodic rental, this is an undesirable bundling of services which should legally be distinct.
- Untimed local calls are incompatible with cost-oriented tariffs, but may be permitted on old analogue exchanges which are soon due to be replaced by modern equipment allowing for time-based charges.
- All types of telephone call should have at least one off-peak band, at least while the price of international calls is at the present high level.
- International calls should have as many off-peak bands as long distance national calls.
- Directory enquiries (ringing to ask the telecommunications company for another customer’s telephone number) is a service which costs money to run. Because customers do not use the service equally, it is an unfair cross-subsidy from non-users and light users to heavy users if the service is provided below cost.
- All users should have a choice of tariff, so that high users and low users can choose the tariff which is more suitable for them.
- If concessionary schemes are introduced or continued despite users having a choice of tariff, they should be designed so as not to cover more than, say, 1-2% (maximum 3%) of residential customers.
- Where an operator has a waiting list for new installations, the value of the installation fee should be maintained in real terms, until the waiting list has been eliminated. It may in some cases be justified to increase the installation fee above the cost level for a short period, in order to control the size of the waiting list, especially if other prices such as rentals are held below cost.
- Customer deposits with the telecommunications operators, to provide a security against defaulting on a bill, should be limited to the size of the customer’s average bill (or the average bill for other customers, in the case of a new customer).
- It should be permitted to charge new users on a cost-oriented tariff immediately, without giving them the option of having the unbalanced tariffs applying to other users, provided those on the waiting list for service are adequately warned that the prices they will face when they are connected will differ from those faced by existing users.
- Volume discounts are acceptable in principle.



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- Persistent failure by the telecommunications operator to achieve quality of service targets agreed with the regulator would entitle the regulator to allow a lower increase in prices (although a better mechanism is for the operator directly to compensate the users who have suffered from the quality failures, or to give them a standard rebate on their rental or call charges).

In considering tariff changes, it is crucially important to bear in mind the requirement of maintaining the affordability of telephone service. This issue arises most acutely with residential rentals, almost all of which in the Phare countries are below the EU average level (however measured), and which constitute a significant proportion of consumer spending on telephony, especially for lower and perhaps poorer users.

PwC has also produced:

- a review of the laws on tariff rebalancing in each participating country;
- a review of the progress made towards rebalancing in each country, together with outline recommendations for further tariff changes;
- a spreadsheet model and associated documentation to enable the effects of proposed tariff changes to be assessed;
- an examination of the issues raised by the need to ensure that tariffs are affordable, together with recommendations on the criteria to use when designing concessionary tariffs for disadvantaged groups such as the disabled or war veterans;
- a comparison of directory enquiry charges;
- a review of the advantages and drawbacks of special tariffs for border regions.



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