



Commission for
Communications Regulation

Consultation Document

Strategy Statement (2003-2005)

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1 Foreword

The Commission for Communications Regulation welcomes the opportunity to present this strategy statement for comment. This document outlines the strategies in section 5 and invites comments in section 10.

At a time of change in the Communications sector, it is important to be clear on the reasoning and underlying assumptions which inform the need for regulatory strategy and so provide market players and consumers with as much insight into the approaches adopted by the Regulator and to offer guidance on the way in which priorities are to be adopted in coming years.

The Communications sector is a major contributor to the Irish economy and it is the Regulator's role to ensure, as far as it is within its powers, that there is sustainable competition delivering competitively priced quality products and services to end users. It is important to recognise that regulation can and has influenced markets, and we have seen improvements facilitated by regulatory measures in the Communications sector in Ireland. However, it is also important that to recognise that historical positions (the high cost of *eircom*'s access network for example) cannot change overnight by regulatory action, and the importance of investment cycles and timing to effecting sustained, major change in Communications networks.

In developing strategies for regulating the Communications sector, the Commission must balance the needs of the end-user with the long term aim of ensuring, as far as possible, that there is a sustainable industry capable of delivering innovative services, alternative technologies and ultimately effective choice to end users. The Commission is aware in framing its strategies of sustaining competition through difficult business cycles.

The liberalisation of the Telecommunications Market is recognised by the EU Commission as a major success¹ and the legislative changes expected to frame future Regulation of the Communications sector, herald a new phase in the liberalisation agenda. With these changes, the Commission faces a number of new challenges. The Commission is also facing similar challenges, to that experienced in the Telecoms sector as it prepares for full liberalisation of the Postal Sector.

The Commission believes therefore that this is a timely document and looks forward to responses from a broad cross-section of those involved in the Communications sector

Etain Doyle, Chairperson John Doherty, Commissioner Isolde Goggin, Commissioner

¹ 8th report from the EU commission on the Implementation of the Telecommunications Regulatory package, COM(2002)695,p.3

2 Introduction

The Commission for Communications Regulation [known as ComReg] was established on the 1st December 2002 under the Communications Regulation Act 2002. The Commission acquired most of the functions of the Office of Director of Telecommunications Regulation.

The Commission is designated, under S10(4) of the Communications Regulation Act 2002, as the National Regulatory Authority for the Communications market, which means that it is responsible in particular for the implementation of the EU programme of Communications liberalisation in Ireland. ComReg has a range of obligations set out in both European and Irish legislation. However the functions of the office, as detailed under S.10 of the Communications Regulation Act 2002 are:

- ✚ to ensure compliance by undertakings with obligations in relation to the supply of and access to electronic Communications services, electronic Communications networks and associated facilities and the transmission of such services on such networks
- ✚ to manage the radio frequency spectrum and the national numbering resource
- ✚ to ensure compliance by providers of postal services with obligations in relation to the provision of postal services
- ✚ to investigate complaints from undertakings and consumers regarding the supply of and access to electronic Communications services, electronic Communications networks and associated facilities and the transmission of such services on such networks
- ✚ to ensure compliance, as appropriate, by persons in relation to the placing on the market of communication equipment and the placing on the market and putting into service of radio equipment²

ComReg is the National Regulatory Authority (NRA) and plays a key role in the implementation of EU directives which are to be transposed nationally in July 2003. A full review of the legislative framework for the Commission is included in Annex IV of this document.

This Strategy Statement is prepared in accordance with S.31 of the Communications Regulation Act, which requires ComReg to adopt, within six months of the establishment date a Strategy Statement which reflects it's functions in relation to Electronic Communications, Postal Regulation and the management of the radio spectrum, and also takes into account the statutory objectives and Ministerial Directions. The statutory period of the Statement is two years, however ComReg will continue to review it's strategy in line with developments in the Communications sectors generally.

² S.10, Communication Regulation Act 2002

3 Legislative Framework & Ministerial Direction

International reform the Telecommunications industry had its origins in North America in the 1960s and 1970s. Increasingly, Governments had come to view telecommunications not only as a service to provided to its citizens, but as an economic resource which could be developed and exploited. Notwithstanding the recent difficulties in the industry this view has, if anything, been reinforced in recent years with the emergence of the internet and other Communications technologies.

The broad thrust of this international reform movement, in which the EU and therefore Ireland is fully engaged, is to bring to bear market forces on the industry to drive efficiency, stimulate innovation and provide end users with choice. The tools used have been the mandatory opening of incumbent networks to competition and allowing alternative infrastructure provision allied to a degree of social protection (for example the USO).

3.1 Legislative Framework

The laws and regulations governing the Electronic Communications sector are many and diverse with some of them dating back to the 19th Century. In recent years, the EU has been to the forefront in this area in seeking to liberalise the sector and promote competition through the introduction a range of Directives. The Irish Government in recognition of the importance of the sector and the need to update legislation to reflect changes in the dynamics of the market with increasing trend towards convergence introduced The Communications Regulation Act of 2002. This established ComReg as the national regulatory authority. The Commission under this legislation is responsible for the Regulation of the fixed and mobile telecommunication sector, Spectrum and its rights of use, Broadcasting distribution and the Postal Sectors.

The independence of ComReg is subject to the provisions of the 2002 Act, which provides for Ministerial Directions which must be taken into account by ComReg, except in respect of decisions affecting individual licensees (or holders of authorisations) and in respect of specific responsibilities assigned to NRAs under the EU Directives (e.g. designation of Significant Market Power, remedies)

The law in relation to broadcasting is contained principally in the Wireless Telegraphy Act 1926, the Broadcasting Authority Act, 1960, the Broadcasting Act, 1988, the Broadcasting Act 1990, and the Broadcasting Act 2001, and statutory instruments made under these acts.

A more comprehensive listing of the various legislations, directives and SIs are contained at Annex IV of this document.

As much of the impetus for the liberalisation of the Communications sector has over the years come from the institutions of the EU, the State has transposed the relevant Directives adopted at EU level. The new EU Regulatory electronic Communications package is made up of five Directives and one Decision. These are the Framework Directive (2002/21/EC), the Authorisation Directive (2002/20/EC), the Universal Service Directive (2002/22EC), the Access and Interconnection Directive (2002/19/EC), the Data Protection Directive (2002/58/EC), which has been delayed, and Decision No 676/2002/EC on a regulatory framework for radio spectrum policy in the European Community.

The new EU Regulatory framework will change the way the Communications sector is regulated across the EU. National Regulatory Authorities are required under the new regulations to use competition law principles to apply ex-ante remedies to address market failure. There is also increasing emphasis on consistency in the application of sector-specific Regulation across the EU.

The main provisions relating to Regulation of the postal sector are set out in the European Communities (Postal Services) Regulations, 2002 (S.I.616 of 2002), which transposes the European Communities' Postal Directive, Directive 97/67/EC, as amended by Directive 2002/39/EC.

3.2 Ministerial Direction

The Ministerial Direction (issued by the Minister for Communications Marine & Natural Resources in accordance with S13 of the Communications Regulation Act, 2002) published in February 2003, directs ComReg to have regard to the programme for Government in carrying out its functions. Specifically, the Direction covers a wide area including Directions in relation to access to internet at flat-rate charges, Broadband, industry sustainability and the cost of Regulation. The Direction also covers Regulatory forbearance and recommends the use of Regulatory Impact Assessments in advance of regulatory decisions. The full text of the Ministerial Direction text is detailed in Annex V of this document

The strategies outlined in the following sections have been drafted to incorporate the Ministerial Direction

4 Environmental Analysis

4.1 Electronic Communications

A nation's prosperity depends on the competitiveness of key sectors in our economy. The Communications Sector is key as citizens lives are increasingly influenced by developments in communications. The sector not only encompasses voice and mobile telephony but hi-speed data products, delivered over wire or wireless, which access the internet and allow businesses and home users to access services on-line and enables the provision of e-commerce opportunities. ComReg, as Regulator, has specific objectives as a facilitator of competition in the sector and promoter of efficiency and innovation which supports competitively priced products to end-users.

4.1.1 Infrastructure Competition

In many EU countries there has been substantial investment in telecommunications/cable networks throughout the 1990s', which slowed substantially in 2000/1. In Ireland there had been significant investment in the Telecom Infrastructure, notably in the 1980s, although Ireland's full scale race for infrastructure development started from a more limited base, and was squeezed into a shorter period - from the end of the 1990s to late 2000. There had been little investment in the cable networks, which until 1999 had been majority-owned by Telecom Eireann (now eircom) , and infrastructure liberalisation took place only in mid 1997, with full liberalisation towards the end of 1998. Also Telecom Eireann had, for much of the 1990's been concentrating on debt reduction.

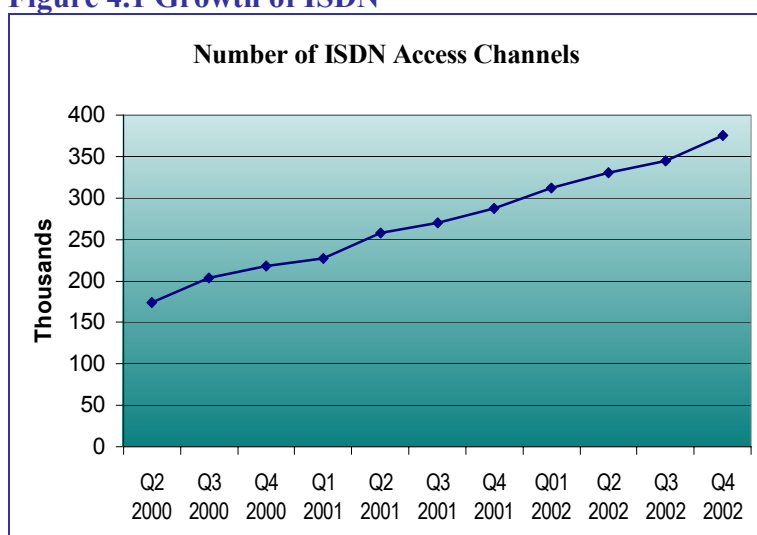
While private sector investment has slowed with the downturn in the international economy and the telecoms sector in particular, Government funding has continued, notably the development of Metropolitan Area Networks which has been undertaken to stimulate further development of the Communications infrastructure. Following liberalisation, it took some time to establish ways of dealing with planning issues, and the development of fixed infrastructure still reflects the relative speed of local authorities in responding to the issues of infrastructure roll out. Also, the mobile operators faced considerable difficulties in infrastructure roll-out, but the costs are not as high and much of the investment took place when investment funding was easier than it is now. There are three GSM networks and three new 3G networks will start in 2003. ComReg's firm policy in respect of the fulfillment of licence terms has been important in ensuring roll-out both in this sector and in digital networks for cable/MMDS Broadcasting distribution.

In examining the level of infrastructure investment, it is important to note a number of constraints on investment, particularly in a sector which is typified by high initial capital investments. The costs associated with infrastructure roll out are high, planning difficulties and the short pay back periods demanded by investors are a challenge to the sector as end users demand more capacity for their data needs. Ireland has an incumbent fixed network with some significant inefficiencies providing basic service to some 85% of households: some 50% of its lines have been upgraded for Digital Subscriber Lines (DSL). Dublin is served by several competing metropolitan rings, and Licensed operators also have some other fixed network regionally both fibre and wireless, but depend on the eircom network for almost all residential last mile services, and a very significant part of business services where they do not have own network. Internationally, Ireland is well connected, with several commercial cables as well as the Government funded Global Crossing link.

Leased line services appropriate to the major corporates have improved in recent years and are available in many parts of the country on a competitive basis. The OECD in their recent report on Broadband³, recognises the importance of not only competing operators but competing technologies in the development of Broadband. In Ireland, the lack of investment in the cable network has prohibited the launch of competing voice and data products by cable companies. The lack of a competitive spur to incumbent operators to roll out Broadband services is a consequence of this limited infrastructure competition. In Ireland, despite being among the first to license Fixed Wireless Technologies (FWA), the technology did not prove to be a competitor to fixed technologies. In Denmark, there was little or no interest in promoting broadband products like DSL, until the incumbent became concerned that a Fixed Wireless operator would ‘steal’ the market. It rapidly built out DSL in all its switches and provided service by agreement to Other Licensed Operators (OLOs). While the threat of FWA did not materialise, Teledenmark, the Danish fixed line incumbent, was already fully committed before this became clear. Likewise in the UK, Telewest and ntl, both cable network operators, had a significant number of cable modem subscribers when British Telecom decided last year on a new low price DSL offering for which there are now some 0.75m subscribers. These international examples are also useful illustrations of a more general point – that regulatory actions are only one influence among many more powerful ones on market development and do not of themselves determine market success.

There has been uncertainty about demand for these broadband products in Ireland and therefore a desire not to invest in infrastructure and a desire not to cannibalise revenues in particular in relation to Integrated Services Digital Network, commonly called ISDN, which expanded on a widespread basis only at the end of the 1990’s. The growth of ISDN services indicated that there is demand which at competitive prices, should translate into DSL orders. The growing demand for increased capacity and higher speed services has only been satisfied with leased lines or ISDN. The chart below shows the growth of ISDN in recent years.

Figure 4.1 Growth of ISDN



Prices are finally coming down and this should make a significant difference to demand. There are other factors to consider when examining the take up of Broadband, including the need to stimulate demand for Broadband services and the need to recognise the costs of

³ OECD. The development of broadband access in OECD countries, 2001 – ‘broadband in this context refers in particular to capacity in the DSL and cable modem range rather than major leased line circuits.

rolling out such technologies, however it can be seen that other countries in the OECD have addressed these issues and have benefited from the spur of competing operators and competing technologies.

4.1.2 Access Competition

In terms of access competition one of the key enablers of competition is the unblinding of the local loop (LLU). The EU mandated this service at the beginning of 2001, at a time when unfortunately there was already a sharp fall off in the number of access seekers in Ireland, reflecting reduced investor confidence generally. Germany had introduced LLU in 1998, and was already well underway when the market became more difficult. Ireland did not benefit from the advantage of early establishment of LLU. It has proved slow and difficult to get adequately competitive terms for DSL services from the incumbent, and there are fewer access seekers than maybe was expected.

As noted above, the roll-out and take up of Broadband has been slow in Ireland, but the forthcoming reductions in DSL pricing should accelerate the take up of Broadband services. We have not yet seen the sharp up turn in provision and demand that has taken place in the leading countries in Western Europe. It is clear that competition has been very important throughout the EU in spurring DSL competition.

4.1.3 Services

ComReg has sought to ensure that OLOs have the wholesale services they request and need – interconnect, leased lines, Carrier PreSelect, Flat rate Interconnect, etc., underpinned by service level agreements at appropriate prices. Requirements are constantly evolving and new products or reviews of existing products are constantly required. Wholesale prices have been generally determined by reference to the costs of providing these services. ComReg believes that allowable costs should be those forward looking costs that would be incurred by an efficient operator which is the approach also recommended by the European Commission. As noted above, infrastructure competition gives the prospect of more sustainable competition and innovation into the long term, and key products such as partial private circuits are being designed and implemented, as well as new FWA technologies and Mobile initiatives. For the present, however, fixed infrastructure roll-out is constrained by capital constraints and there is a greater concentration on services competition.

Profiles of typical operators in the Irish Communications sector are summarised in Annex III of this document.

4.1.4 Users

The core concept in regulation is that competitive markets best serve users through competitive price, choice and quality services. ComReg has used its Regulatory functions to promote this concept through its strategies. ComReg has determined eircom prices in markets where it is dominant at both retail and wholesale levels although the objectives and means of price setting in these areas differ. Retail prices in certain markets where eircom is dominant have been determined by means of a price cap whereby a basket of eircom products were required to be reduced each year by reference to a CPI (Consumer Price Index) – X % formula. The objectives of the price cap are the protection of users from excessive pricing by eircom and the encouragement of eircom to reduce its inherited inefficiencies.

In relation to service quality, ComReg's central Regulatory concept is to make the operators more responsible for delivering quality with public codes of conduct, complaints procedures, technical audits of network quality and enforcement of appropriate licence conditions. A further initiative is the Measuring Licensed Operator Performance (MLOP) initiative which involves the publication of detailed performance statistics on how Telecommunications operators perform against a set of defined parameters which include order, fault and complaint management. The principal benefit of such a programme to consumers is the availability of clear indicators of quality of service performance that can assist them in making an informed choice in the market.

4.1.5 Innovation

It is a stated objective of ComReg to, where possible, promote innovation in the Communications sector. It is important to note that innovation is not only product innovation but process and management innovation which delivers productivity gains to enterprises⁴. ComReg recognises in developing its approach that the current economic cycle poses some constraints on investment in new networks and services and the climate is difficult not only for operators but also for those developing applications and technological innovations we hope to benefit from in coming years. ComReg has developed a strategy for the management of the radio spectrum⁵ which supports policies for innovation and for an active role for Ireland in terms of international co-operation and will continue to act as facilitator for new innovations through its forward looking programme. It is also important that Ireland plays a greater role not only in importing but also in developing technology suited to its market of widely dispersed populations, rather than concentrate on the large scale 'incumbent' type solutions. More recently, ComReg has introduced innovative per-site licences to accelerate the rollout of such wireless services. ComReg have also been active in promoting Wireless Lan technology which allows high speed internet access at fixed locations, enabling increased power limits in specific bands to increase the reliability of these services.

4.1.6 Strategic Choices

It should be recognised that ComReg operates within a very dynamic Communications sector and operates in an environment where there are a broad church of stakeholders and in many cases there are competing pressures on our strategy. The policies of the regulator should reflect the economic cycle and should take account of the level of competition in a market, typically the market shares and market concentration.

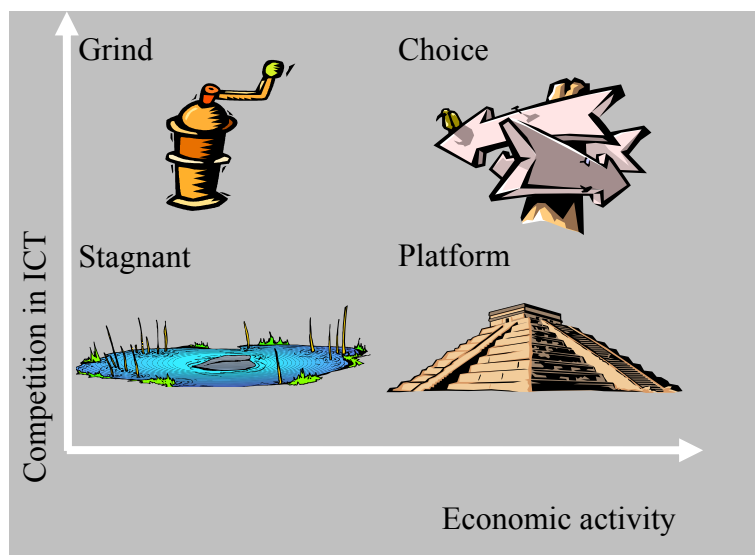
ComReg have therefore developed a matrix of possible future scenarios for Communications. Each scenario is defined by the level of economic growth in the Irish economy and level of competition evident in the Communications sector.

Figure 4.2 is an illustrative diagram of four scenarios reflecting both high and low economic activity and levels of competition.

Figure 4.2 Strategic Choices

⁴ Porter ME (2001) Competition and Antitrust: Towards a productivity-based approach to evaluating mergers and joint-ventures

⁵ Strategic Management of Radio Spectrum in Ireland (02/43) www.comreg.ie



The current state of both the sector in terms of competition levels and the economy would suggest that Ireland is ‘grinding’ but could, if economic circumstances improved, move into either a ‘choice’ scenario or a ‘platform’ scenario. The latter scenario would assume growing demand for Communications services delivered however by a industry characterised by ‘platform’ operators in each market sector i.e. Mobile, Fixed and Broadcasting distribution. There would be little incentive to innovate as incumbent operators gained market share and little incentive to compete across platforms for the same reason.

A further concern of a ‘platform’ scenario developing is the current inefficiency levels of the fixed incumbent. Under the ‘platform’ scenario there would be little incentive to be more efficient. Any level of inefficiency in a sector is passed onto the industry in some cases through higher wholesale costs and higher retail costs to end-users eg line rental costs.

The ‘choice’ scenario would see a level of competition that forced operators to compete across all platforms and innovate. It would be a scenario characterised by new entrants attracted by increased demand and profitable business plans. It is important to stress that the intensity of competition in any industry is one of the factors that dictates attractiveness of an industry for new entrants and for innovation.

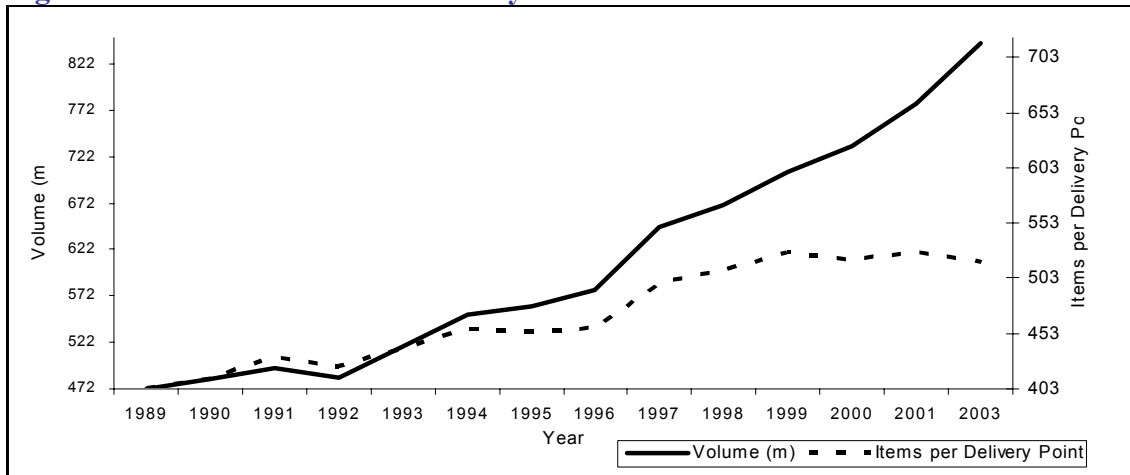
It is ComReg’s view that competition levels need to ensure there is an incentive to innovate in line with the objectives set for ComReg under the new EU Regulatory Framework.

4.2 Postal Services

During the 1990s there was a very significant increase in the number of postal items delivered to each home or business premises in Ireland and, combined with benign national wage agreements, this enabled postal prices to be reduced in real terms. The trends over the last 3-4 years have been more adverse with remuneration under national wage agreements increasing in real terms and a slackening in demand, although the decline in volumes experienced in other countries has not manifested itself.

Figure 4.3 illustrates the business volume trends, based on figures published in An Post’s annual reports. The number of items delivered per delivery point is very important as the marginal cost of delivering extra items is low, but a reduction in the number of items delivered to each point can have a significant impact on unit costs.

Figure 4.3 Trends in An Post Delivery Volumes: 1989 - 2003



4.2.1 Quality of Service

There is a legislative requirement that the Universal Service Provider should offer at least one collection and one delivery on every working day. ComReg is required to monitor the proportion of single piece priority mail delivered on the next working day after posting, and to set a target for such deliveries – 92% in 2002, 94% in 2003. An Post’s internal target prior to 2002 was 90%. The quality of service standards achieved over the last few years has fallen short of these targets. Table 4.1 shows the statistics for next day delivery of letter post as reported in An Post Annual Reports.

Table 4.1 Quality of Letter Post Service reported by An Post

<i>Year</i>	<i>Quality of Service</i>
1997	83%
1998	85%
1999	87%
2000	88%
2001	87%

The issue for both operators and Regulators is to balance the commitment in European and National legislation to maintain next day delivery as a feature of the guaranteed Universal Postal Service, or to find out if customers would prefer to see a cheaper service with extended delivery times.

4.2.2 Postal Market Liberalisation

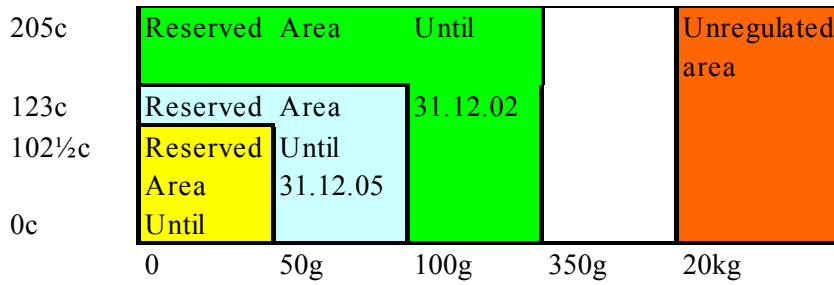
It is important to note that the “Postal Sector” includes many stakeholders other than An Post. It includes companies that offer courier and express delivery services in competition with An Post. Other companies complement the basic service provided by An Post by offering printing and other mail preparation services.

The Courier, express and other “value added” postal services are currently fully open to competition. The services offered are a mix of both direct and indirect competition to

similar offerings from An Post. Companies operating in this part of the postal sector include DHL, Fedex, Hays DX, Interlink, Securicor, TNT, UPS.

The core traditional postal services up to 100g are still currently reserved to An Post, the Universal Service Provider. In January 2006 this will be reduced to 50g with full opening of the market scheduled for January 2009. The market for outgoing cross-border mail will be fully opened from 1 January 2004. This market opening programme is shown in Figure 4.4.

Figure 4.4 Interrelationship between Universal, Reserved and Unregulated Postal Services



5 ComReg Objectives and Strategies

5.1 Objectives

The key objectives of ComReg are set out in S.12 of the Communications Regulation Act 2002. In relation to the provision of electronic Communications networks, electronic Communications services and associated facilities these would include -

- ✚ to promote competition,
- ✚ to contribute to the development of the internal market,
- ✚ to promote the interests of users within the Community,
- ✚ to ensure the efficient management and use of the radio frequency spectrum and numbers from the national numbering scheme in the State in accordance with a direction under *section 13*, and
- ✚ to promote the development of the postal sector and in particular the availability of a Universal Postal Service within, to and from the State at an affordable price for the benefit of all users.

In so far as the promotion of competition is concerned this covers a range of objectives and goals with the primary aim of ensuring that end-users can benefit from choice, competitively priced services at a high and predicable level of quality in line with Ireland's objective to becoming a leading centre for the Information Technology Age. This includes:

- ✚ ensuring that users, including disabled users, have ease of access, choice and high quality of service,
- ✚ ensuring that there is no distortion or restriction of competition irrespective of platform in the electronic Communications sector,
- ✚ encouraging and facilitating the efficient investment in infrastructure and promoting innovation, and
- ✚ encouraging the efficient use and effective management of radio frequencies and numbering resources,

In seeking to contribute to the development of the internal market, the focus will be on:

- ✚ removing remaining obstacles to the provision of electronic Communications networks, electronic Communications services and associated facilities at Community level,
- ✚ encouraging the establishment and development of trans-European networks and the interoperability of translational services and end-to-end connectivity,
- ✚ ensuring that, in similar circumstances, there is no discrimination in the treatment of undertakings providing electronic Communications networks and services and associated facilities, and

- ✚ co-operating with Electronic Communications National Regulatory Authorities in other Member States of the Community and with the European Commission in a transparent manner to ensure the development of consistent regulatory practice and the consistent application of Community law in this field

The promotion of the interests of users within the Community will include:

- ✚ ensuring that all users have access to a universal service,
- ✚ ensuring a high level of protection for consumers in their dealings with suppliers, in particular by ensuring the availability of simple and inexpensive dispute resolution procedures carried out by a body that is independent of the parties involved,
- ✚ contributing to ensuring a high level of protection of personal data and privacy in line with both National and EU Data protection laws,
- ✚ ensuring that consumers are fully informed to make the appropriate choices through the provision of clear information, in particular in the context of the transparency of tariffs and the conditions for using publicly available electronic Communications services,
- ✚ encouraging access to the Internet at reasonable cost to users and by ensuring that the obligations for functional internet access are provided for through the Universal Service Obligation,
- ✚ addressing the needs of specific social groups, in particular disabled users, and
- ✚ ensuring that the integrity, resilience and security of public Communications networks are maintained.

In carrying out its functions, ComReg will seek to ensure that measures taken by it are proportionate, having regard both to the objectives set out in this document and the relevant policy statements, published by or on behalf of the Government or a Minister of the Government. ComReg will also have regard to international developments within the electronic Communications networks and electronic Communications services, associated facilities, postal services, the radio frequency spectrum and numbering in any decisions it takes.

ComReg will continue to ensure that in carrying out its functions and in the process of achieving the key aforementioned objectives, that it does not result in discrimination in favour of or against particular types of technology for the transmission of electronic Communications services.

The objectives listed above are consistent with the objectives stated in Article 8 of the Framework Directive which forms part of the new EU Regulatory package.

5.1.1 Postal Services

The statutory objective is to promote the development of the postal sector and in particular the availability of a Universal Postal Service within, to and from the State at an affordable price for the benefit of all users. There is no explicit objective to promote competition, although in ComReg's view the availability of competing postal services, as envisaged in European and National Legislation, is the best way of ensuring that the Universal Service provided by An Post is fully reflective of customers needs.

5.2 Mission Statement & Core Values

ComReg's mission statement takes into account National and European objectives and is as follows,

“The purpose of the Commission for Communications Regulation is to regulate with integrity, impartiality and expertise to facilitate rapid development of a competitive leading edge Telecommunications sector, that provides the best in price, choice and quality to the end user, attracts business investment and supports ongoing social and economic growth, and to work with the same focus on providing for users within the framework set for postal Regulation.”

This mission is underpinned by adherence to four core values:

Integrity
Professionalism
Impartiality
Effectiveness

5.3 Strategies

ComReg has through its work with its various stakeholders, consumers, the industry and Government, developed strategies which meet the statutory objectives as listed above. The organisational strategies have been researched and developed and yet have sufficient flexibility to meet the regulatory demands of a highly dynamic Communications sector at this time.

ComReg will continue to ensure best practise in regulatory processes and will carry out Regulatory Impact Assessments in line with best international and European practice and which will reflect developments emerging in this area from national sources such as the Department of the Taoiseach's Group on Better Regulation. ComReg will also:

- ✚ ensure that the availability and the extent of usage of regulatory tools and Communications products are benchmarked against other selected OECD countries and communicated promptly to ensure informed decision making,
- ✚ continue to enhance and develop best practice in the monitoring, processing and enforcement of disputes and or complaint handling, and
- ✚ develop further the forward-looking strategy to include enhanced interactions with industry, internal presentations from key informed sources and the publication of briefing notes on key issues for the future of the Irish ICT sector.

Specific strategies are summarised under the following headings:

- ✚ strategies related to the provision of electronic Communications networks and services and associated facilities,
- ✚ strategies related to the efficient management of the radio frequency spectrum and numbers from the national numbering scheme, and
- ✚ strategies to promote the development of the postal sector in particular the availability of a USO service

Where appropriate the strategies reflect the Ministerial Direction as detailed in Annex V of this document

5.3.1 Provision of electronic Communications networks

5.3.1.1 Promotion of Competition

ComReg will promote infrastructure based competition through active promotion, facilitation and stimulation of innovation, convergence and new access technologies. Specifically ComReg will develop and deploy strategies which will:

- ✚ reflect rapid technological changes in the electronic Communications sector including IP based platforms,
- ✚ facilitate, promote and stimulate innovation and the provision of new access technologies on spectrum,
- ✚ ensure user choice amongst both platforms and operators in the TV distribution market, including providing for future digitalisation,
- ✚ enhance competition in the mobile sector, including the prompt introduction of Mobile Number Portability and the roll out of 3G services,
- ✚ facilitate infrastructure sharing, work with government and the industry where required to ensure the early introduction of co-location facilities for regional Metropolitan Area Networks, and
- ✚ review international best practice, identify opportunities and applications and deploy strategies for the development of new co-location products and services

ComReg will promote access based competition by providing the market with prompt, transparent network interconnection costings, using best practice methodologies, for both mobile and fixed markets. ComReg will specifically:

- ✚ promote, enhance and enforce the provision of indirect access including the current Carrier PreSelect (CPS) products and processes representing a key indicator of competitive activity in the market,
- ✚ promote, enhance and enforce the provision of wholesale products and processes with the aim of promoting competition,
- ✚ develop strategies to address market or operator failure in line with the promotion of competition and the Ministerial Direction with regard to industry sustainability, and

- ✚ ensure all initial market reviews are completed promptly following the adoption of the new Regulatory Framework and will follow the consultation obligations on Significant Market Power designation to ensure consistent application of regulatory measures with other National Regulatory Authorities (NRA's) and the European Commission.

5.3.1.2 Promote the interests of consumers

ComReg will promote the interests of consumers by ensuring there is sufficient data available to the market on costing, pricing and quality of service all sectors of the market. ComReg will also promote the use of operator's code of practise as the primary mechanism to resolve consumer issues. ComReg will also ensure compliance with the Price Cap and price notifications for SMP operators and will develop strategies to promote consumer liaison, complaints policies and an information strategy for consumers including a review of the Measuring Licensing Operator Performance (MLOP) process.

ComReg will also promote the introduction of Flat Rate Internet Access as outlined in the Ministerial Direction.

5.3.1.3 Contributing to the development of the internal market

ComReg will continue to actively participate in the Independent Regulators Group and the new advisory groups established under the new Regulatory Framework. ComReg will continue to actively co-operate with other NRAs, the Competition Authority and the European Commission to contribute towards the enhancement of the European Internal Market.

ComReg has ensured these strategies are aligned with the Ministerial Direction on consistency between member states.

5.3.2 Efficient management of the radio frequency spectrum and numbers from the national numbering scheme

ComReg will ensure implementation of best practice in spectrum strategy and compliance with spectrum usage and obligations and ensure best in class/innovative development of existing numbering frameworks to provide for new services and better serve existing ones.

5.3.3 Development of the postal sector in particular the availability of a USO service

ComReg will use its powers and functions to ensure the continued development of deregulation in the Postal sector, including USO obligations, quality of service monitoring and compliance on costing and pricing workstreams taking into account the provisions of the Ministerial Direction.

ComReg will put in place procedures to ensure that the reservation of particular postal services to An Post is respected, while facilitating the provision of innovative and competing services where permitted by legislation. Also ComReg will ensure that simple authorisation procedures for large scale providers of postal services are implemented by 1 January 2004 as provided for by legislation.

The strategies above are in line with the Ministerial Direction on postal services and USO obligations.

6 Centre of Excellence

6.1 Employer of choice

ComReg recognises that human resource development is a key element in our success and appreciates that excellent performance will only be achieved through continuing commitment and investment in our people. ComReg will ensure the continued development of a knowledge-sharing culture, which provides the platform for mature prioritisation and decision-making, and the ongoing investment in a highly motivated team which has clarity of purpose, with clearly defined goals and objectives, and a focus on timely delivery.

While we have always been committed to developing and implementing innovative Human Resources (HR) strategies and policies, we were particularly pleased to receive two major HR Awards in 2002 – the Excellence Through People Award and the Irish Institute and Training and Development (IITD) Award. These Awards provided us with the opportunity to benchmark our HR function with other organisations and to obtain independent recognition of best practice HR standards. ComReg aims to maintain these high standards and ensure that we are perceived as an employer of choice.

ComReg further considers that team-working and interdependability must be continuously reinforced as part of our culture, through our focused program of staff development and the integration of all performance management initiatives

6.2 Performance Management

ComReg aims to create a high performance, team-based culture where there is a realisation that performance makes a difference, both professionally and personally. While the primary objective of ComReg's performance management process is to maintain and improve effectiveness, the process is also used to clarify staff expectations; provide feedback to staff on performance against goals; facilitate vertical communication between managers and staff; inform decisions on remuneration levels; identify staff development requirements and inform selection decisions.

There are three elements in ComReg's performance management process - performance planning (goal setting and contracting for leadership style), day-to-day coaching (goal implementation using the agreed leadership style) and performance evaluation (evaluating the staff member's goal accomplishment and use of the appropriate leadership style). ComReg's human resources philosophy is that our effective performance management process makes a significant contribution to achieving our business objectives and desired culture.

The performance management system is underpinned by our important project management toolkit which facilitates the planning and implementation of all our projects. In addition, our comprehensive development programme supports staff in the performance management and project management processes.

7 The Cost of Regulation

In November 2002 ODTR published a high level comparison of its staffing levels against a number of other European NRA's. The comparison illustrated that when account is taken of the entire range of functions delegated to ODTR/ComReg a like for like comparison must in the case of several countries include a number of Regulatory agencies. For example, in the UK, Regulation of the Telecoms industry is carried out by the Office of Telecommunications (OfTel); radio spectrum management, licensing and enforcement is carried out by the Radiocommunications Agency (RA); the UK postal industry is regulated by Postcomm (which has been charged with introducing competition into the market) while the function of Postwatch is to protect, promote and develop the interests of all customers of postal services in the U.K. Additionally, some ODTR functions in relation to broadcasting are performed in the UK by the Independent Television Commission (ITC).

Table 7.1 Cost of Regulation

Headcount							
Function	Irl	UK	Denmark	N/Lands	Finland	Belgium	N/way
Tele/ Post / Spectrum	117	238 (a)	160	118 (b)	220	193	180
Post Only		29 (c)					
Spectrum Only		573 (d)		325			
Total	117	840	160	443	220	193	180
Total Cost							
Function	Irl	UK	Denmark	N/Lands	Finland	Belgium	N/way
Tel / Post/Spectrum		14 (a)	30	14 (b)	25	28	23
Post Only		9 (c)					
Spectrum Only		107 (d)		28			
Total	18	130	30	42	25	28	23

Telecommunications only^b Telecommunications and Post only^c Postcomm^d RA

ComReg believes that the table provides strong evidence that the office provides good value to the industry in Ireland. However it is not complacent and fully recognises the need to keep costs to the minimum necessary to exercise its statutory responsibilities.

8 External Interactions

ComReg will continue to identify key priorities and relevant areas for public consultation. In the critical area of the transposition of the new Regulatory Directives, ComReg will work closely with the Department of Communications Marine & Natural Resources to facilitate their timely introduction. ComReg will also continue to work effectively through both the Independent Regulators group and the European Regulators Group to ensure that the effective communication of issues internally and prompt communication of ComReg position to other European NRA's.

ComReg will continue its informed and effective participation in international organisations including developing positions on radio spectrum issues for the World Radiocommunication Conference 2003 (WRC 03) and the planning of digital broadcasting at the Regional Radiocommunication Conferences (RRC) in 2004 and 2005 or 2006 [the date for the second RRC has yet to be decided). ComReg will maintain a strategy of active engagement with international institutions, including CEPT, EU and national institutions to ensure the effective and timely communication of ComReg's strategy

ComReg will continue to work closely with the Competition Authority in line with the agreement signed under the auspices of the Competition Act. ComReg will continue to provide input into the debate on Better Regulation as a member of the Department of the Taoiseach's Group on Better Regulation. As part of this process ComReg will review its practices on the formulation of Regulatory Impact Assessments in line with developments from this group.

9 Service Delivery

The delivery of prompt and transparent services and decisions making to our stakeholders is a key underlying tenet of ComReg's approach. ComReg will continue in the context of the fast moving and dynamic Electronic Communications Sector to seek to develop and enhance its processes to ensure that it is fully informed and able to take such decisions as are necessary in a reasonable, proportionate and timely way

Consultation will always take place prior to the implementation of relevant measures on the basis of a published consultation document. Prior to a formal consultation, preliminary discussions may take place with affected entities and representative groups or associations. Such discussions are not intended to be substitutes for wider consultation but may be used by ComReg to inform the process of drawing up a draft measure. In addition ComReg may invite submissions on the basis of a general discussion document and not on specific draft measures. This again would precede a consultation on specific draft measures.

All current consultations are accessible on ComReg's website. E-mail notifications will also be sent to parties who register with ComReg to be notified of new publications. Hard copies of all consultation documents will also be available on request. A Notice will be placed in *Iris Oifigiul* announcing the availability of the document and the closing date for submissions. Where appropriate, notice will also be placed in at least one national newspaper. Most consultation papers will be accompanied by a press release and media coverage which, while outside the control of ComReg, may also alert potential respondents to the consultation. ComReg will also assess, where appropriate, the need for Regulatory Impact Assessments, as detailed in the Ministerial Direction, are followed in deciding on issues for consultation.

10 Submitting Comments

The strategies presented in this document are outline strategies which will be developed and published in a final strategy statement following consultation. ComReg would welcome comments on the questions posed below and comments of any kind on any aspect of the document.

1. Do you agree with the Environmental Analysis outlined in section 4 for both the electronic Communications and postal sectors? If not, please outline your views.
2. Do you agree with the strategies as outlined in section 5.3? If not, please outline your views on ComReg strategies?
3. Please outline any further issues you consider we should take into account in respect of strategy?

Comments may be sent, to arrive no later than 2nd May 2003 to

Ms Ruth Kenny,

ComReg,

FREEPOST,

Abbey Court,

Irish Life Centre,

Lower Abbey Street,

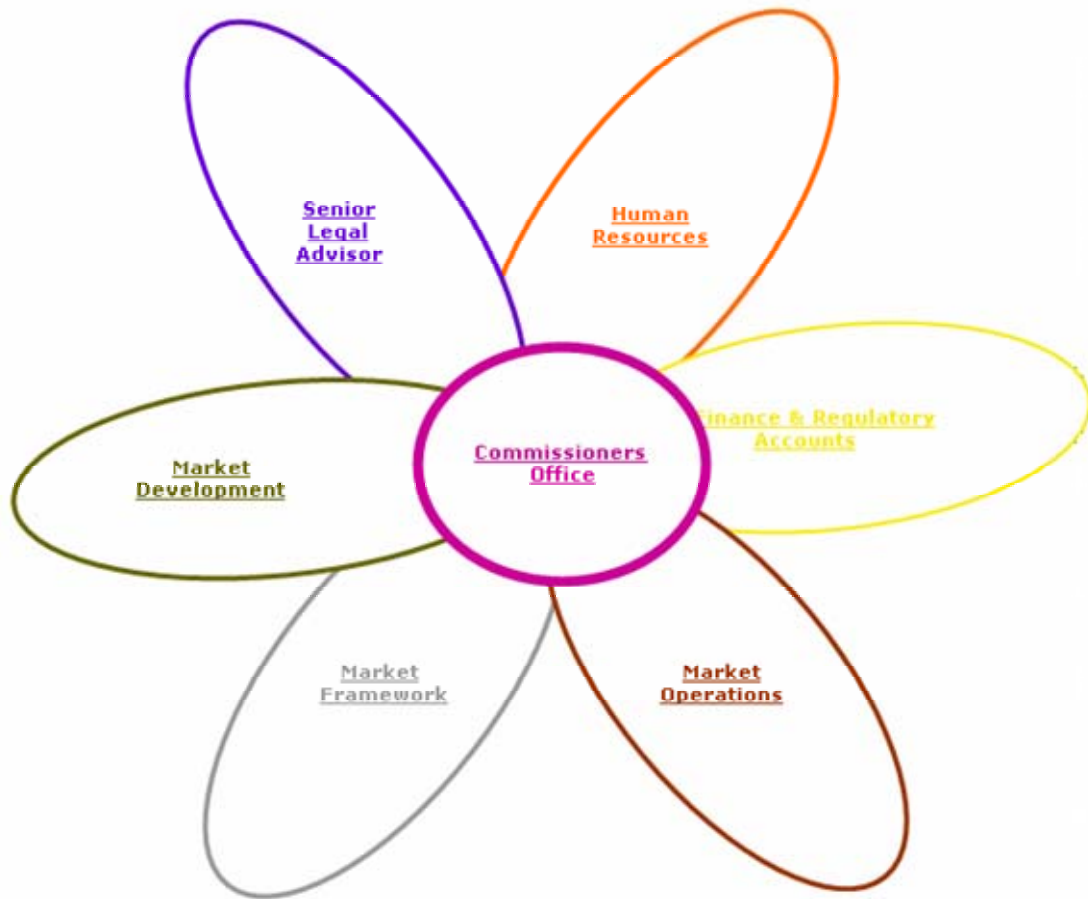
Dublin 2

e-mail: ruth.kenny@comreg.ie

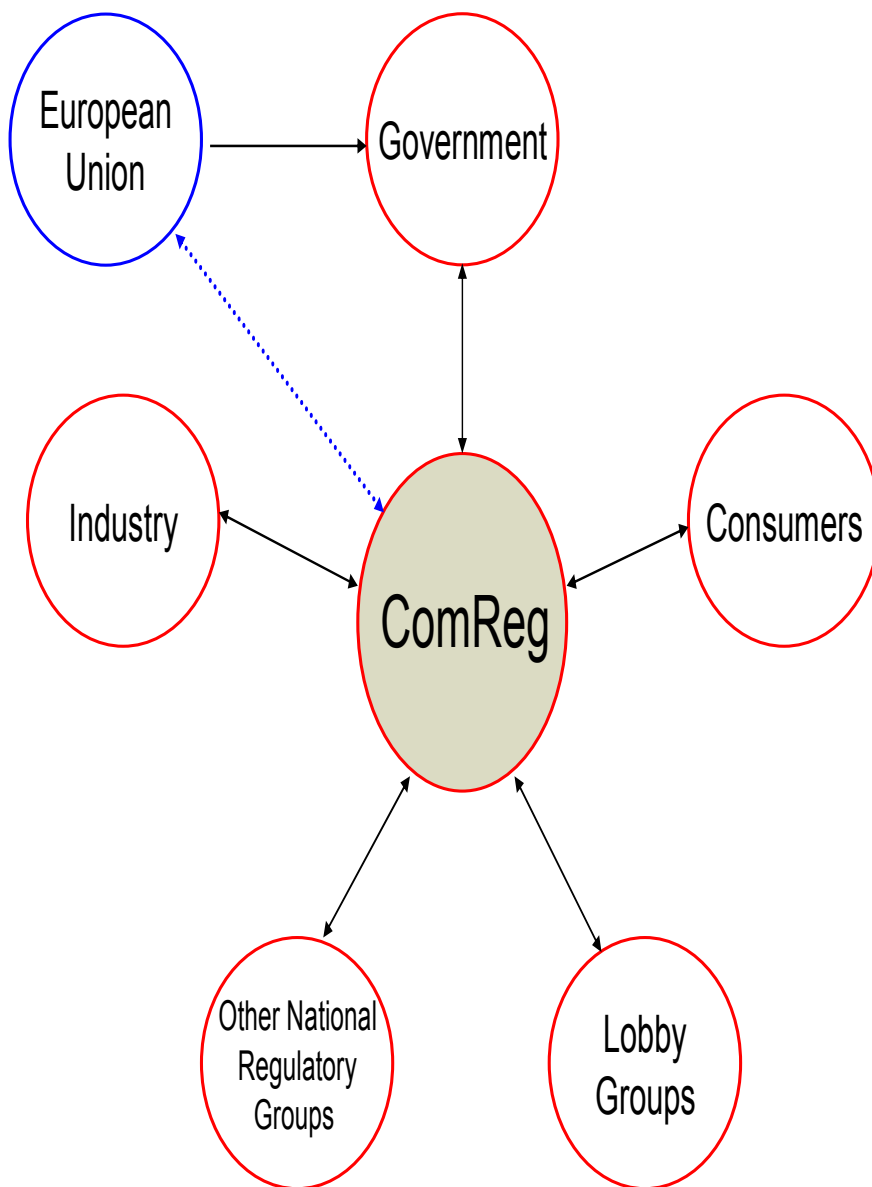
Fax: +353-1-8049680

Envelopes or e-mail message headers should be marked "ComReg Strategy Statement".

Annex I: Organisational Structure



Annex II: ComReg stakeholders



Annex III Typical Market Operators

Fixed:

Ireland's incumbent fixed operator provides a range of voice, data and internet services. It has Universal Service Obligations and provides a national payphone service. With an extensive core and access network, it provides services to both the corporate and residential markets on a nationwide basis.

With a national focus, Ireland's second largest player in the fixed market has extensively rolled out its network. It continues its rollout of DSL to 40 exchanges around the country, further facilitating the extension of its capability to provide data, IP and managed bandwidth services. It currently provides telephony services via Carrier Pre Select to both the corporate and residential markets.

Operating in the fixed market with limited infrastructure, one of the incumbent's key competitors mainly serves the corporate market in Ireland. However it facilitates the provision of services to the residential market through the provision of wholesale services to resellers. It also provides a range of data products to the corporate market together with co-location and web hosting services.

There are a number of operators in the Irish market who operate their business by reselling minutes purchased from fixed network operators at a discount. Typically resellers are unlicensed and compete in the residential market.

Mobile:

Currently there are three GSM mobile operators in the Irish market. Following the competition for 3G licenses an additional fourth entrant is expected to enter the market later this year, with provisions for MVNO access in its license. Mobile network coverage is throughout Ireland with penetration standing at 79%.

Cable:

The Irish Cable/MMDS market is comprised of two major operators and eight smaller local operators. The two major operators have 550,000 cable/MMDS customers between them. The remainder are local operators providing analogue cable services in eight further licensed areas. Currently there is no overlap of services permitted between cable licensed areas but this is soon expected to change. There is some overlap among many of the MMDS licensed areas. All operators offer analogue television services while digital television services are currently only offered by the two major cable/MMDS operators. The total number of households passed for the two major operators is over 1.1 million with over 700,000 passed for digital services. As at Q4 2002 the digital television penetration rate for the two major operators is 12%, up from 5% for Q4 2001.

Annex IV: Legislative Framework

The Communications Regulation Act, 2002 contains various organisational and procedural provisions relating to matters such as the composition, staffing and financing of ComReg, most of which are usual for bodies established by statute. There are various other Acts and statutory instruments which have an actual or potential application to public bodies such as ComReg. Notable examples include the Freedom of Information Act 1997 which (subject to certain specified exemptions) provides a right of access to records held by it and the regulations transposing the EU directives relating to procurement of works and services contracts in the public sector.

As a public sector body, ComReg is subject to various obligations arising as a matter of **administrative law** and some of its decisions may, in certain circumstances, be subject to challenge by way of judicial review. Most of the principles of administrative law have been developed over the centuries through a very large body of case law in the Irish courts and the courts of other common law jurisdictions, whose rulings are persuasive (but not binding) on the Irish courts.

One of the key functions of ComReg is to regulate and **license**, including licensing the use of radio frequencies and radio equipment. The Wireless Telegraphy Act, 1926 is the Act which makes provision for the Regulation and control of and the issuing of licences for wireless telegraphy apparatus. Certain apparatuses such as mobile phones are exempt from the requirement for a licence. The use of spectrum is not licensed as such but is regulated and managed through licences issued under the Act and the regulations made thereunder. ComReg is empowered to grant licences for the public provision of telecommunications networks and services pursuant to the Postal and Telecommunications Services Act, 1983. This will change in July 2003 under the new EU Directives which will abolish the need for individual licences and introduce a new system of authorisations.

Many of the provisions of the Telecommunications (Miscellaneous Provisions) Act, 1996 were repealed by the Communications Regulation Act, 2002 but the provisions in section 7 relating to **regulation of tariffs** remain in force.

The main provisions relating to the **Regulation of the Postal Sector** are set out in the European Communities (Postal Services) Regulations, 2002 (S.I. No. 616 of 2002), which transposes the European Communities' Postal Directive, Directive 97/67/EC, as amended by Directive 2002/39/EC. The overall aim of the EU Postal legislation is to establish common rules for the development of the internal market for Community postal services. It is intended to guarantee, at community level, the provision of a minimum level of universal service, while at the same time progressively opening up the postal services market to competition.

Other domestic legislation, some provisions of which remain extant includes the Post Office Act, 1908, the Evasion of Postage Act, 1937, the Postal and Telecommunications Services Act, 1983, and a body of secondary legislation comprising various statutory instruments and orders. .

In the field of **broadcasting**, ComReg is the Regulator in respect of infrastructure and cable and MMDS apparatus. ComReg's role does not however include the Regulation of content. The law in relation to broadcasting is contained principally in the Wireless Telegraphy Act 1926, the Broadcasting Authority Act 1960, the Broadcasting Act 1988, the Broadcasting Act 1990 and the Broadcasting Act 2001.

As much of the impetus for the **liberalisation of the Communications sector** has over the years come from the institutions of the EU, the state has enacted a range of Directives adopted at EU level.

The Interconnection in Telecommunications Regulations S.I. No. 15 of 1998 which transpose Directive 97/33/EC and deal with the rights and obligations in relation to interconnection arrangements between licensed operators;

The Telecommunications Licence Regulations S.I. No. 96 of 1998 (as amended) which transpose Directive 97/13/EC;

Voice Telephony and Universal Service Regulations S.I. No. 71 of 1999 which transpose Directive 98/10/EC; and

The Leased Lines Regulations S.I. 109 of 1998 which transposes Directive 92/44/EC (as amended)

The European Communities (Postal Services) Regulations, 2002 (S.I.616 of 2002), already referred to above

In addition to the above the EU Parliament and Council adopted Regulation 2887/2000 on 18 December 2000 on **unbundled access to the local loop**. As Regulations are directly applicable and is binding in its entirety on all member states, it did not require any national implementing legislation.

The **new EU Regulatory electronic Communications package** is made up of five Directives and one Decision, a recommendation and a set of guidelines. These are the Framework Directive (2002/21/EC), the Authorisation Directive (2002/20/EC), the Universal Service Directive (2002/22/EC), the Access and Interconnection Directive (2002/19/EC), the Data Protection Directive (2002/58/EC), which has been delayed, and Decision No 676/2002/EC on a regulatory framework for radio spectrum policy in the European Community.

The final adoption of the Framework, Authorisation, Universal Service and Access Directives took place on the 14th of February 2002. The Directives were published in the Official Journal on April 24th 2002. Member States must transpose the Directives into national law within 15 months of publication in the Official Journal (i.e. by July 24th 2003) and apply them from July 25th 2003.

Annex V: Ministerial Direction

Below is the full text of the Ministerial Direction by the Minister for Communications Marine & Natural Resources in accordance with S13 of the Communications Regulation Act, 2002) published in February 2003:

COMMUNICATIONS OBJECTIVES

“In carrying out its functions, the Commission shall have regard to

- the Programme for Government 2002, including the provision of the Programme set out in the section “Building Peace and Justice” stating: “We will improve North-South infrastructural links and facilitate cross-border planning”, and the objectives set out in the section “Developing the Regions and the Islands” as well as the provisions relating to electronic Communications set out in the section “Research, Development and Innovation”, and
- the objectives for the Communications sector specified in the in the Statement of Strategy of the Department of Communications, Marine and Natural Resources, when published.”

ACCESS TO THE INTERNET AT FLAT-RATE CHARGES

“The widespread availability of dial-up access to the internet charged at flat rates and at affordable prices would be of substantial benefit to users as well as for the further development of the market for internet access provision. In the first instance, the development and provision of such access services are matters for market players. The Commission shall make use of its powers under the legislation as appropriate, to bring about agreements among market players in order to facilitate early introduction of retail dial-up internet access services charged at flat rates. The Commission shall report to the Minister on progress in relation to this matter within one month of the issue of these Directions, and on a monthly basis thereafter until such time as retail services are introduced, making any recommendations it considers appropriate for further action.”

BROADBAND ELECTRONIC COMMUNICATIONS NETWORKS

“The Commission shall, in the exercise of its functions, take into account the national objective regarding broadband rollout, viz., the Government wishes to ensure the widespread availability of open-access, affordable, always on broadband infrastructure and services for businesses and citizens on a balanced regional basis within three years, on the basis of utilisation of a range of existing and emerging technologies and broadband speeds appropriate to specific categories of service and customers.”

INDUSTRY SUSTAINABILITY

“The Commission shall ensure that in making regulatory decisions in relation to the electronic Communications market, it takes account of the state of the industry and in particular the industry’s position in the business cycle and the impact of such decisions on the sustainability of the business of undertakings affected.”

REGULATION ONLY WHERE NECESSARY

“Where the Commission has discretion as to whether to impose regulatory obligations, it shall, before deciding to impose such regulatory obligations on undertakings in the market for electronic Communications, examine whether the objectives of such regulatory obligations would be better achieved by forbearance from imposition of such obligations and reliance instead on market forces.

Where the Commission has discretion as to whether to impose regulatory obligations, it shall, before deciding to impose such regulatory obligations for the purpose of the management of the radio frequency spectrum, examine where the objectives of such regulatory obligations would be better achieved by forbearance from imposition of such obligations.”

REGULATORY IMPACT ASSESSMENT

“The Commission before deciding to impose regulatory obligations on undertakings in the market for electronic Communications or for the purposes of the management and use of the radio frequency spectrum or for the purposes of the regulation of the postal sector, shall conduct a Regulatory Impact Assessment in accordance with European and International best practice and otherwise in accordance with measures that may be adopted under the Government’s Better Regulation programme.”

CONSISTENCY WITH OTHER MEMBER STATES

“The Commission shall ensure that, where market circumstances are equivalent, the regulatory obligations imposed on undertakings in the electronic Communications market in Ireland should be equivalent to those imposed on undertakings in equivalent positions in other Member States of the European Community.”

COST OF REGULATION

“The Commission shall ensure that the costs incurred by it in effectively carrying out its functions in relation to the electronic Communications market and the management of the radio frequency spectrum are minimised, consistent with best practice in other Member States of the European Community, and, subject to any different conditions that may exist, should not be out of line with the cost of regulation in such Member States.

The Commission shall ensure that the costs incurred by it in effectively carrying out its functions in relation to the postal market are minimised, consistent with best practice in other Member States of the European Community and, subject to any different conditions that may exist, should not be out of line with the cost of regulation in such Member States”

CONSISTENCY ACROSS PLATFORMS

“The Commission shall ensure that regulatory obligations imposed upon undertakings engaged in the provision of similar electronic Communications services but using different technologies are consistent, taking into account any different conditions that may exist, including the existence of market power.”

REGULATION OF PRICES

“The Commission shall ensure that, taking into account the requirement regarding the affordability of prices of electronic Communications services that come within the universal service obligation, as defined in the Directive of the European Parliament and Council of 7 March 2002 on universal service and users rights relating to electronic Communications networks and services (O.J. No. L 108, 24.4.2002), the provisions of a price cap under section 7 of the Telecommunications (Miscellaneous Provisions) Act 1996 (No. 34 of 1996) are set in such a way that they do not inhibit the development of viable competition in the market for the services coming within the scope of any such price cap and take into account their impact on further investment in the sector by the industry, including investment in infrastructural development.”

MANAGEMENT OF THE RADIO FREQUENCY SPECTRUM

“The Commission shall ensure that, in its management of the radio frequency spectrum, it takes account of the interests of all users of the radio frequency spectrum.”

UNIVERSAL POSTAL SERVICE

“The Commission shall ensure that, in making regulatory decisions in relation to the postal universal service obligation, it considers the impact of such decisions on the cost of sustaining the universal service, which cost includes per employee costs arising from national pay policy.”

Annex VI: The Evolution of the Irish Telecommunications market since liberalisation

The Irish Communications market has developed significantly in recent decades and more particularly in the years since full liberalisation of the market in 1998. The growth of mobile telephony; the use of the internet and the development of products which allow higher speed data products which can be accessed by end-users, have transformed how we communicate. Moreover, the rollout of digital television services has enhanced the range of services available through our television sets.

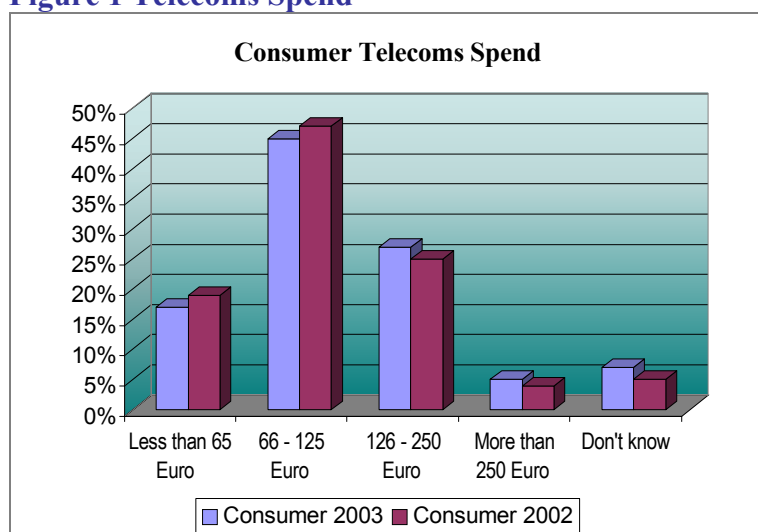
The Irish market is categorised by diverse market segments, each of which have different communications requirements. Ireland has a few hundred large corporates who demand integrated data/voice requirements, with in general a high demand for leased lines to transmit large capacities of data on sophisticated fixed networks, and who also make substantial use of mobile-for-business purposes. Even in the mid 1990's these companies were generally to the forefront in their requirements in respect of leased Communications.

The remaining business sector is characterised by a large number of Small Business Enterprises (SMEs) with typically less than 10 employees who have traditionally required voice services but in recent years have been demanding data products with the growth of online activity. In ComReg's SME survey, conducted in December 2002, approximately eight in ten companies indicated that they had access to internet. Smaller scale broadband services such as DSL, FWA and wireless local area networks (W-Lans) are appropriate to this category, together with Flat Rate based services for the smallest firms. Mobile use has become widespread in this group.

The Government sector has become an increasingly sophisticated user of data Communications services as well as the traditional voice services and in some cases an innovative users of mobile Communications for keeping contact between dispersed services.

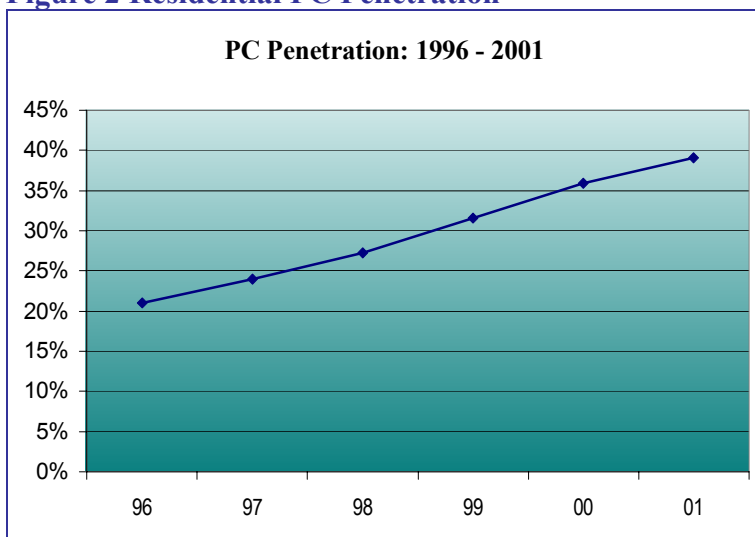
Finally, in the residential sector there is still the requirement for fixed line telephony and explosive growth in mobile usage and a growing use of internet for email and online shopping services.

Figure 1 Telecoms Spend



As noted above, there is widespread access to internet and PC usage in the business sector. The residential sector has expanded its usage rapidly in recent years as shown in the tables below. Domestic PC penetration in 2001 was 39%, ahead of the EU average (31%) and a significant improvement on the 1996 position (21%).

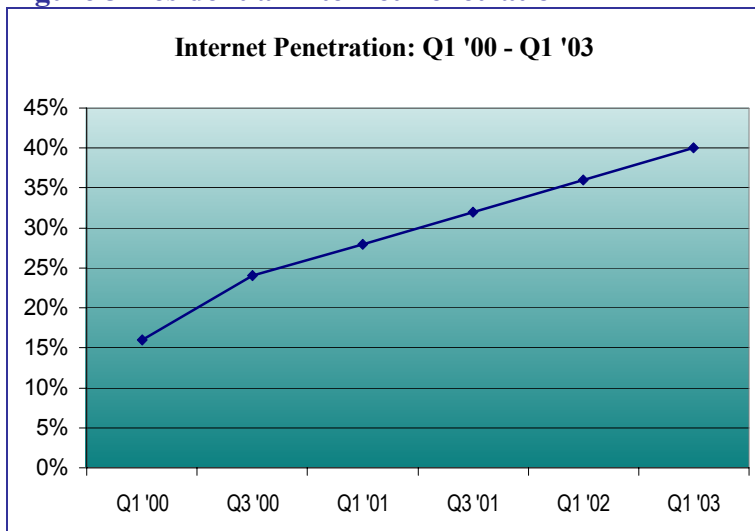
Figure 2 Residential PC Penetration⁶



Source: ITU estimates

Residential internet penetration has also risen significantly in the last 5 years.

Figure 3 Residential Internet Penetration



Source: Amarach

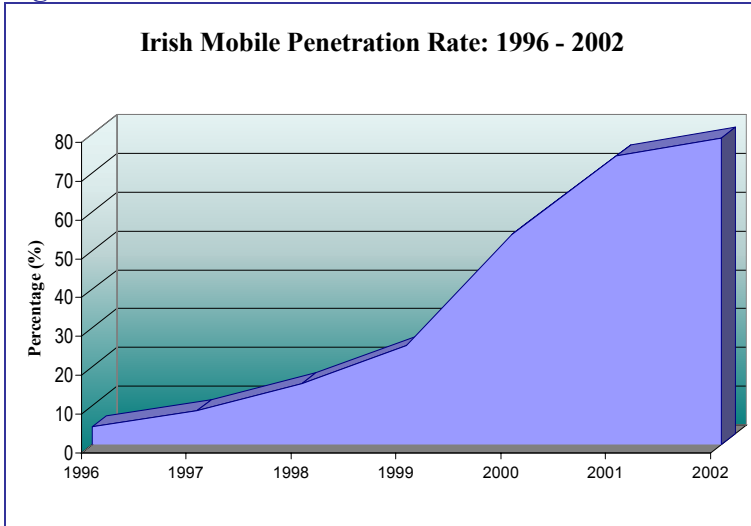
The above reflects the residential experience of internet take up. The Irish SME has, in recent years, increasingly used email and web browsing to improve productivity. ComReg surveys suggest that the SME sector will increasingly need data products with 26% planning to increase their bandwidth needs in the next 12 months.

In 1996 mobile penetration was approx 10% of the country with only one operator in the marketplace. This took 10 years from the initiation of mobile service in 1986 to get to 10%, but now in 2003 there are 3 million users of mobile phones. Moreover with the dramatic growth of Short Messaging Services (SMS) as a Communications tool we have

⁶ The Irish Population has grown from 3.6m in 1996 to 3.9m in 2002. For the purposes of this historical graph a population figure of approx 3.7m million was used (CSO estimate 1999).

approximately 2 messages sent daily per person. SMS has spawned a text generation with a unique text language from a facility which was not anticipated only a few years ago, and mobile voting in the entertainment sector has become a substantial business in its own right. While some Government services such as the Department of Agriculture recognised early the business uses of SMS, Business, Government and the mobile operators generally are just beginning to focus on and develop relevant business applications for mobile generally.

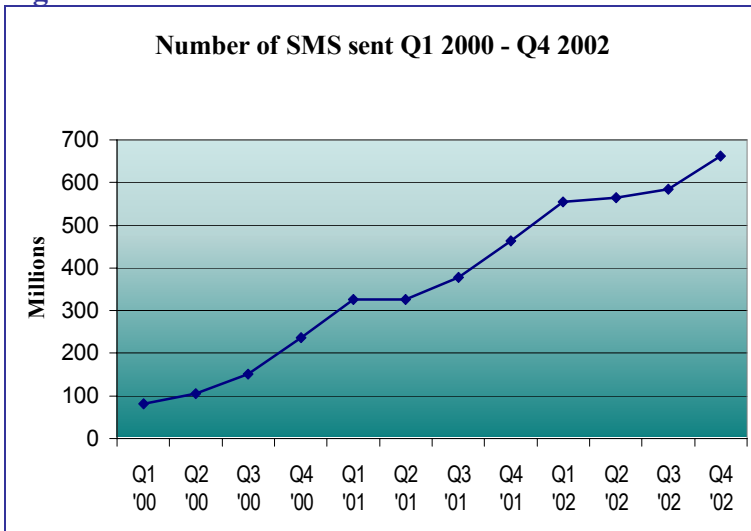
Figure 4 Mobile Penetration



Source: ComReg Estimates

SMS services started in Ireland in the late 1990's, with a co-operative basis established at an early date between operators with regulatory approval, providing users with full interoperator use.

Figure 5 SMS

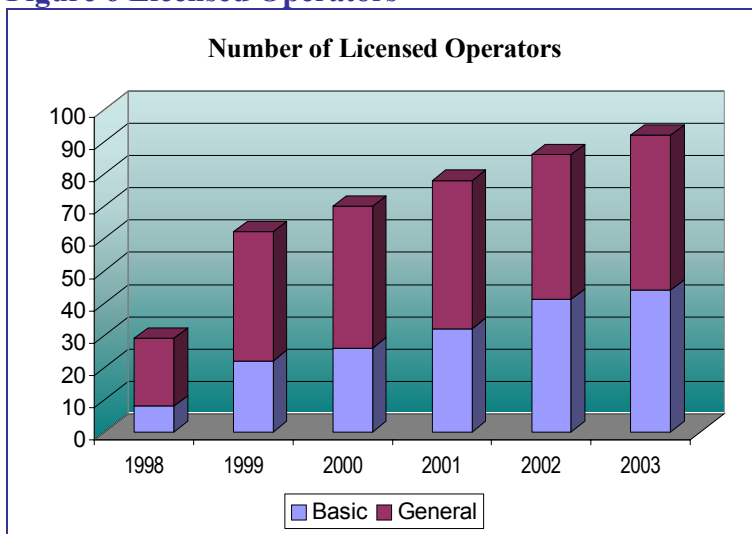


Source: ComReg Quarterly Key Data Report

The mobile penetration rate reflects not only residential take up but high adoption of mobile telephony by business. Our most recent SMS survey reveals that 88% of the population have company mobile phones.

In 1996, Ireland had a near monopoly provider, Telecom Eireann, of fixed line services, with only a small number of larger corporates availing of alternative operators. In that year, a derogation to delay full liberalisation to 2000 was obtained – but the Government reversed its position in May 1998 and full liberalisation was introduced in December 1998. The chart below shows that in 2003 we have 92 licensed telecommunications operations, of which 44 general and 48 basic are operating in Ireland. At this point, all of the major operators and many of the others are owned by multinationals and this has implications for the availability of capital investment for the development of the Irish operations.

Figure 6 Licensed Operators



Source: ComReg

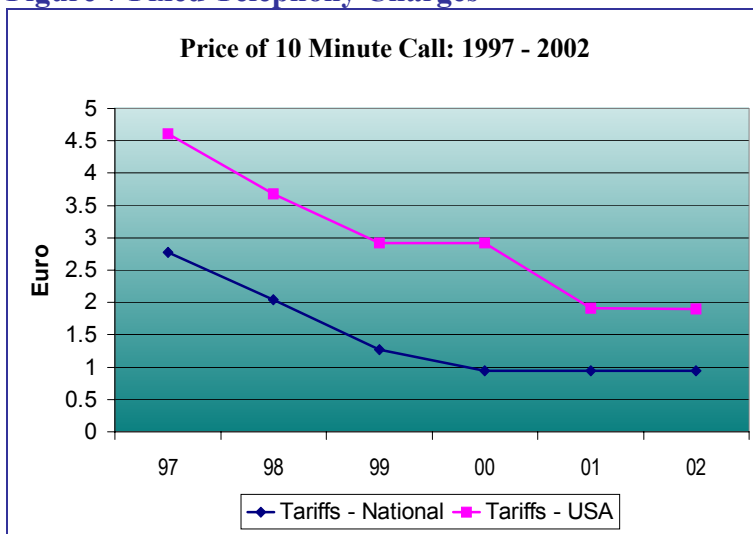
Television Distribution:

In 1997, Cablelink which controlled the TV franchises in Dublin, Galway and Waterford was majority owned by Telecom Eireann and had seen little investment since its purchase at the start of the decade. It was sold to ntl in 1998 and they took over control in 1999. Princes Holdings Limited (now Chorus) was the second biggest operator with cable and MMDS networks in 1997, and in the following years it acquired most of the other, smaller networks, becoming an operator on a national scale. Both acquired telecoms licences at the time of liberalisation, and started work on upgrading/rolling out networks for digital television and telephony, but investment funds become more difficult in late 2000, and now they do not provide the challenge to eircom in respect of broadband which other more advanced cable operators do in some other EU countries. Only one small operator, Casey Cablevision in Dungarvan had an upgraded network capable of delivering internet services directly. Under the ComReg plan for the upgrade to digital television, ntl and chorus accepted new TV distribution licences in 1999 and upgraded their networks, with the last elements to be completed within 12 months. Sky TV has expanded very rapidly in Ireland with a full digital service. A DTT operator has not yet been designated. Digitalisation is largely achieved on the main networks, but developing competition in the Broadcasting distribution sector has been more problematic and the challenge they might pose to the fixed network has remained unrealised.

Prices:

Ireland had traditionally been an expensive country for telephony, in particular for SMEs and residential customers. Prior to the establishment of the ODTR in 1997, OLOs had to pay retail prices for connection to the eircom network, making the charges they faced very high in EU terms. With competition, supported by regulatory interventions, there has been a substantial reduction in telephony charges as shown in Figure 7 and also leased lines. Interconnection rates are among the lowest in Western Europe however, improvements in efficiency in the incumbent have been slow, and the fragility of the competition in current circumstances with its small scale and constraints on investment have meant that it is not possible to maintain a sharp downward pressure on retail prices, despite the attractiveness of this in terms of competitiveness, and in encouraging users to make more use of innovative services. A long term major concern for competitive services is the embedded, fully allocated cost of the incumbent network which, on the basis of eircom figures, would be considerably in excess of that in other countries in terms of local access.

Figure 7 Fixed Telephony Charges



Source: Eurostat

Despite the slow development of DSL services in Ireland, Ireland has made progress in reducing the gap between the adoption of innovative services elsewhere and in Ireland. ComReg has played a part in facilitating this. In some cases, what was needed was to catch up with other countries, introducing full satellite licensing for example, and publishing Frequency Allocation Tables and spectrum management policy. The ODTR was among the first European NRAs to issue FWA licences, benefitting from their early issue with some early roll-out as compared with many other countries. It also set up an innovative test licence regime under which more than 30 licences have been issued, to help research, development and adaptation of new radio technologies.

Following the competition for UMTS (3G) licenses in 2002, Ireland will see the commercial launch of 3G before the end of 2003 and the prospect of a new operator offering 3G services. ComReg has published papers on a wide range of new technologies, including wireless optical connections and DSL technologies to encourage interest among operators and others to examine the potential for developing them for Irish use.

The wide range of technologies becoming available to end users should increase the competitive spur and allow consumers choose the technology and services that best fits their requirements. Given the relative dispersal of the population, the availability of spectrum in Ireland and the speed of new wireless developments, wireless in particular should offer very useful solutions to Irish Communications gaps. With increasing choice

and increasing convergence it would be expected that the choice of operators and of technologies will increase.

Maintaining competition and nurturing its development in the current fragile markets is essential to ensuring choice and innovation at reasonable prices into the long term. The Communications market faces a number challenges in coming years and the role of ComReg as Irish Regulator will be to play a facilitative role in the future development of the sector.