

COUNTDOWN TO '98

EUROPE: OPEN
FOR BUSINESS
AND READY
FOR COMPETITIONSIGNS OF A FREE MARKET TODAY:
DROPPING PRICES, CHOICE OF PROVIDERS
AND IMPROVED QUALITY OF SERVICE.

Many of the fruits of a liberalised telecom market are here today. Since the announcement of deregulation five years ago, companies and private users are already enjoying cheaper prices and new innovative services. But there are further significant advantages in store for Europe's citizens and businesses. These benefits are the new economic impact that the opening up of Europe's telecoms market will bring, stimulating job creation across the European Union, reducing the cost of doing business and bringing in innovative ways of working and communicating.

Here's an overview of some of advantages we can look forward to:

For business users: the 10:1 differential in tariffs for leased lines which used to exist in favour of the United States is closer to 5:1 today. This is a step in the right direction, but prices are expected to fall even faster as new infrastructure competition enters the European market. Costs for providing cross-border calls within the Union are likely to be up to 10 times lower as they shift to commercially-set prices rather than current internationally agreed "accounting rates" between monopoly operators. The recent World Trade Organisation negotiations should also reduce worldwide communications prices. Overall tariffs in the Member States have fallen by up to 41% in real terms since 1990, though most reductions focused on long-distance and international charges until recently.

For residential users: delays in getting a phone have largely disappeared, faults are much rarer; service is more diverse and there is a wider range of pricing packages and ways in which services can be paid for - overcoming some of the problems traditionally associated with keeping prices at an affordable level.

A DYNAMIC TELECOM MARKET

Europe's telecommunications markets is being reshaped by the prospect of liberalisation, combined with privatisation and/or broadening of the share ownership of existing operators in almost every Member State. Major alliances such as Concert and Global One are some of the most visible examples on the market today. New joint ventures, involving other utilities such as energy companies or the railways, have recognised that they too can offer telecom infrastructure and service as a new and profitable business. Even existing operators are being radically reshaped as they develop strategies to meet competition; combine with new partners, or start to enter new service areas, such as the provision of Internet access.

GSM and other digital mobile systems are still enjoying extremely strong growth as mobile communications and mobile computing become commonplace across the European Union - today there are 25 million subscribers in the EU, with an additional 12 million using first generation analogue systems. Europe's equipment and space industry are set to play an important role in the new satellite-based communications networks, which have already been licensed in the United States.

REGULATORY ASPECTS - MAKING THE
RULES OF THE GAME PERFECTLY CLEAR

It is now been five years since European Telecommunications Ministers and the European Parliament gave the green light to the full liberalisation of Europe's telecommunications markets. While they were criticised at the time for delaying liberalisation, the reality of this complex task has revealed that operators and regulators have needed every day of the preparatory period to ensure that Europe's markets can be opened on schedule, and that the rules of the game are clear.

Today liberalisation is progressing rapidly:

- The UK, Swedish, Finnish, Danish and Dutch markets are already fully open to competition. Licensing of new players is well underway in most Member States.
- Legislation has been adopted or is being finalised in most other EU Member States for 1998 and the detailed rules for universal service, licensing and for interconnection are

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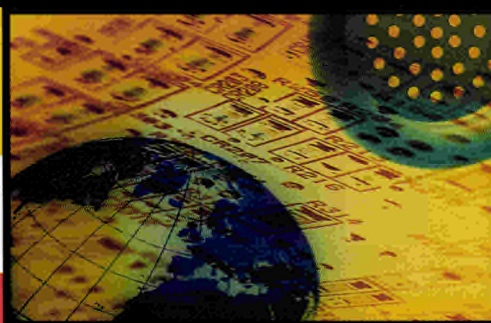
Editorial by Commissioner
Martin Bangemann

1998 - THE BEGINNING
OF A CONTINUAL
EVOLUTION

"The opening of Europe's telecommunications markets is the key to the door of the Information Society".

The full liberalisation of Europe's telecommunications markets from 1998 is an essential element in the growth of the Information Society. By breaking open Europe's telecom monopolies and promoting open competition, the European Union has created the conditions to bring users more choice, better quality and lower prices for telecom services. The scale of the new market opportunities is impressive. The Information Society market has a potential of more than ECU 300 billion in Western Europe alone and is growing even faster than in Japan or the United States. This growth rate, combined with the cost savings that the new liberalised market brings businesses, is predicted to increase employment across Europe by up to 1 million jobs by 2005. European citizens have already benefited from the gradual liberalisation in data communications, business services and mobile networks over the past five years. Today, with full liberalisation of public voice services and networks less than two months away for most EU Member States, the regulatory framework aimed at making 1998 a reality is in place. The business community's enthusiasm for the single European telecom market can be clearly seen in the endless stream of mergers and alliances. Member States are pushing liberalisation forward by completing major reforms of their national legislation to ensure that true competition starts from Day One of the new telecom market. The trend towards opening up the market goes far beyond Europe's frontiers. It is also happening to many of our trading partners and is being further accelerated by the recent agreement within the World Trade Organisation to liberalise more than 90% of the worldwide telecom market. But let's not forget that liberalisation is not a goal, but the start of a continual evolution toward a dynamic and ever-growing Information Society. As 1998 approaches, the commercial landscape is being transformed by on-line services, by the Internet and electronic commerce and by a move towards the convergence of telecoms, audio-visual, publishing and Information Technology. It is a very different world from the one in which telecom deregulation was decided just five years ago. The liberalisation of Europe's telecom sector is a valuable lesson to all of us: be prepared for continual change, and expect the unexpected... ■

This newsletter is also available on the ISPO Web: <http://www.ispo.cec.be>



HOW TO BEST PROVIDE TELECOM FOR ALL?



Universal service means providing all users, wherever they live, with a guaranteed basic level telecom of services at an affordable price. This means that all citizens will have access to a telephone service at home and at work, access to directory services, operator assistance and emergency numbers, and convenient access to public pay telephones. The connection - which can be either fixed or wireless - will also allow the customer to connect a fax or hook up a computer using a modem. The guarantee of universal telecom services for all citizens is a central concern of the European Union's work to prepare a free market for telecom services across Europe. In the past, services for certain users has been heavily subsidised by profits made on international and long-distance calls. But as competition drives prices down, other means of supporting loss-making services may be required.

To give the public these guarantees, clear rules must be specified, to identify the cost of universal services and decide how charges should be shared by market players if they are seen as an unfair burden on the universal service provider. In many EU countries - such as

Denmark, Finland, the Netherlands, Sweden and the UK - the costs associated with universal service are so low that cost sharing between operators is not considered necessary. In others the regulator is following a 'wait and see' approach, whilst in a third group of countries, (France, Portugal, Spain, Italy and Ireland) an independently administered universal service fund, financed by the industry, is being created to support the costs of operators that provide universal services.

Today, more than nine out of ten households have a telephone in many Member States. With some exceptions - such as rural areas in Ireland, Portugal, Greece and Spain - the challenge is to maintain the affordable cost of the service, rather than building the national network. This also includes the overall bill, and the way in which bills can be paid and the availability of new pricing formulas.

New rules to be introduced during 1998 will go further. For the first time, an operator will be legally obliged to offer affordable services, and not immediately cut users' connections if they have difficulties paying their bills. The solution is to limit services for non-payers, allowing them to only to receive calls and access to emergency numbers.

Universal service is an evolving concept, which may change - depending on users' expectations and demand for particular types of services. The Commission is currently monitoring the development of universal services and will report its views on the situation in December 1997. The report will focus specifically on progress made - outside the regulatory framework - to open access to new on-line and other services, particularly within schools and colleges. The definition of universal service is a balancing act. If their scope is drawn too narrowly there is a risk that many users may not be able to access the services they need. If the definition is too broad, open competition will be threatened - endangering reduced prices and improved quality for all users as well as subsidising services users are willing to pay the going rate for. ■

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being adopted.

- By 1998 all EU Member States will have created a separate regulatory agency to monitor the operation of their national telecom markets and additional safeguards have been put in place by EU law to ensure regulatory independence, where Governments still hold share in the national telephone company.

- Of the countries that have requested an extension of the transition period to a fully open market, Greece has been granted a 3 year period. For Ireland and Portugal full liberalisation is set for 1 January 2000, whilst for Spain markets will open 1 December 1998 and Luxembourg has been granted an extra six months. ■

CREATING THE BEST OF ALL WORLDS

Europe's telecom liberalisation can only reach its full potential if service is available to all citizens, with, where necessary, the financing through the creation of specific mechanisms funded by market players to ensure the provision of universal service. Indeed, if telecom providers adopt a 'cherry picking' approach to market development - where they concentrate on providing new services in populated urban areas and more affluent regions - the liberalisation of Europe's telecom sector will broaden the opportunity gap between Europe's more and less developed regions. Bridging this gap is a primary concern of the European Commission as the 1998 deregulation deadline approaches. A series of actions have been taken by the European Union to ensure make service and network quality a reality for every European citizen. One option offered to the EU 'cohesion countries' that have less developed telecom infrastructures (Portugal, Spain, Ireland and Greece) is the possibility of adapting the pace of deregulation to

national circumstances to allow them to modernise their networks and create the best conditions for open competition. The appropriate transition periods of between 6 months and 3 years have now been agreed (see *Europe: Open for Business ... on page 1*). Given the rapid pace of technological change, there will be fresh rounds of investment, service innovation and competitive entry in the core regions which, if not reciprocated, will affect development and employment opportunities and sustain the relative gap between core areas and 'cohesion regions'. As deregulation progresses, the Commission will keep a watchful eye on the 'cohesion perspective'. The regulatory framework and the scope of universal service, will be kept under continual review to ensure that all territories participate in the full range of benefits of liberalisation - for affordable prices, service levels and innovation. As the market develops, targeted support to spread the beneficial effects to the less developed regions, in compliance with the competition rules, should complement the regulatory framework. ■

FUNDAMENTAL RIGHTS FOR ALL MARKET PLAYERS

Creating a free market requires the right efforts - applied in the right places. It's not enough to say that markets are open to competition, then sit back and watch new investment pour into Europe's telecom markets. This is why the liberalisation of Europe's telecom sector is supported by a package of measures that bring all market players three guarantees:

- Any company can enter the market easily and with as little bureaucracy as possible.
- New players can connect their networks or services to those of current market players.
- Operating conditions are similar in every part of the

EU to ensure fair and effective competition.

Two important aspects of this framework are licensing and interconnection. These two aspects have led to detailed rules concerning how players can get into the network and the conditions to ensure that networks are fully interconnected and services interoperable, so that any user in the Union can communicate with any other user. Top priorities for licensing are to offer simple procedures, to limit the use of discretion in choosing who is awarded a licence and to set clear time limits and steps in national procedures. The rules for interconnection of networks identify those organisations which enjoy a right or have an obligation to interconnect with other networks. It emphasises the process of commercial

THE USERS' PERSPECTIVE



WE NEED TO PUSH THE FREE MARKET FORWARD

1 January 1998 may be important for telecommunications operators, but it is above all a major milestone for European citizens and companies. European business users' long struggle to persuade governments of the need for an enterprise culture in telecommunications, bringing the advantages of competition and choice, has - with some minor exceptions - been won. Since 1974 the International Telecommunications Users Group (INTUG) has represented the interests of business users of telecom services worldwide. INTUG has actively voiced members' views at international telecommunications gatherings and raised issues of direct concern to all companies whose livelihood depends on telecoms - and who ultimately finance the telecoms industry and its profits. Nevertheless, despite the initial euphoria of full liberalisation, users remain acutely aware that January 1998 is also the beginning of a difficult transition period in the progression towards an open telecoms market where

negotiation, and is supported by national regulatory authorities who can intervene and impose solutions where necessary. As a part of this effort authorities are gathering as much information as possible to clearly place into the public domain technical standards, interfaces and the cost-basis for interconnection prices. The regulatory framework for the telecom sector is complemented by the competition rules of the EU Treaty and many national laws. These are the tools which guarantee a free market for telecom. They will also be used to assist the process of open competition, such as determining whether new alliances and joint ventures are consistent with fair competition or in considering the impact of price rises proposed by existing operators. ■

trans-national competition really works. As AT&T chairman Robert Allen recently commented: "... declaring a market open does not in itself create a competitive market". Yesterday's monopoly can easily become tomorrow's dominant supplier. Without strong political will being exercised by governments, customers will not get the expected benefits of liberalisation. The real-life experiences of liberalisation in the United States and the UK caution us that competition takes time. In Washington much discontent has been voiced by politicians about lack of promised results from the 1996 Telecommunications Act. The burden of the complaints is that new market entrants have been slow to appear, that forecast job creation has not come as quickly as expected, and that the promised tariff reductions are not yet forthcoming. Liberalisation in the UK also has its share of disappointments - though offset by significant encouragements. *The Economist* remarks that despite ten years of regulatory efforts, "every month the same telephone bill still arrives from the same old monopoly". To avoid similarly slow progress in the new European telecoms market, users are looking to the European Commission to drive forward the implementation and enforcement of all existing free-market legislation. Action is especially needed to minimise penalties and barriers to cross-border communications. Regulatory fragmentation among Member States and gross tariff distortions (as revealed by INTUG Europe's survey of the costs of International Leased Circuits in Europe) show just how much must be reformed if the single European telecommunications market is to be worthy of its name. ■

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QUESTIONS AND ANSWERS

POST 1998 CLEAR ANSWERS TO PRACTICAL QUESTIONS ABOUT THE NEW EUROPEAN TELECOM MARKET

Assume you are a small company, producing furniture in a provincial city. Most of your telephone calls are local, as suppliers and trucking companies are nearby. But you communicate by phone and fax your clients in other regions and countries. Overall, telecoms represent 10% of your overhead costs - themselves 10% of sales - therefore 1% of your sales. Given that your net profit is 2% of sales, reducing telecommunications costs, even by only 10 to 20%, would increase profits substantially. Moreover, your sales representatives have mobile phones, still costly, and would also like to use the Internet, to contact customers and advertise. Is all this possible with telecoms liberalisation? And what are some of the risks? Situations do differ from country to country and over time, but here are some possible answers to basic questions concerning liberalisation after 1998.

Will telephone prices decrease anyway, whatever I do?

Generally yes. But the best deals will be found by those people and companies that make an effort to identify and negotiate the best price packages. However, if you make relatively few calls, so that your basic monthly subscription (which could increase, see *rebalancing on page 4*) is a big element in your bill, you may not see an overall reduction, unless you find a special pricing package. These packages will become increasingly common after 1998. Most customers will save with liberalisation.

Will new players be interested in smaller businesses or residential customers?

Most new players will target large companies - which are the biggest users, then smaller companies, then residential customers. However, a range of different strategies are possible and likely, as there are no more restrictions on which part of the market new players can enter. And don't forget, existing operators may be offering special deals to hold on to existing customers of all sizes. It will be a matter of shopping around and watching advertising in the press.

Can I negotiate prices with the existing operator, on the basis of the competing offers that I receive?

If you are a relatively small company, probably not. However,

dominant operators, such as the incumbents, are not allowed to discriminate between different users, except if there are real cost differences justifying these price differences. Other operators have more freedom in pricing. It's a good idea in any case to talk with representatives from several companies, including the present one. They can help you determine the best service for your needs.

Will I need a new telephone line if I change to a new operator?

No, a new operator will normally use the wires which were put in by your current telecom operators to provide service to your business or your home. It is entitled by law to connect its network to the existing operator's local loop, in exchange for paying interconnection fees. However, some companies are even willing to carry competition into the local loop where the cost of providing the line justifies it. This might be the case for larger customers who will generate high volumes of telephone traffic which justify the provision of a new 'leased line' into the premises. These customers pay a fixed charge per month for the connection, for unlimited use, instead of paying a line rental and separate timed call charges. Another option is that a company could provide cost-effective alternative access by using a cheaper technology or by combining different services, such as entertainment and telecoms which make it easier for it to cover its costs. An example of cheaper technology is a 'wireless link' to a home or a business which can



sometimes cost the same or even less than a fixed line. A combination of services is being considered by cable TV companies which could also use their existing networks to provide telephone services. In this case the only requirement will be the installation of a socket or some rewiring within your building.

Will I need new equipment, such as a new telephone or a new switchboard?

Generally not. If you were using the

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Q & A

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existing operators' equipment nothing stops you from continuing to rent it. However, it might be cheaper in the long run to buy your own equipment (even if you stay with your current phone company), and you are free to do so.

My phone number is an important business asset, that's how our customers reach us. Do I need to change it if I change operator at the same address?

No, in most cases you will be able to keep your current number. In some countries, there is already what is called 'number portability', which allows you to keep your existing number if you change to a new operator. Originally it was planned for this to be mandatory within the EU by 2003, but many Member States and operators are moving faster than that with the result that the European Commission is now proposing to bring the date forward to 1 January 2000. If this is not yet the case in your region, you can decide to use a new operator for your outgoing calls, those you pay, and keep the existing operator and existing number to receive calls. Or you could indeed choose to change the phone number. Where you simply want to use a new operator for some or all of your long-distance or international calls, your home

telephone number stays the same. But you will probably have to dial a new code to route your call to the new operator's network, instead of using the long-distance or international services of the company that brings the line into your home. In practice, EU rules are likely to require that by 1 January 2000 you should be able to identify an alternative carrier by default. Until then, you can easily program the access number into the memory of your telephones, fax or computer.

Will I still be mentioned in the phone book and directory enquiry listings if I change operator?

Yes, if you wish to be mentioned, you will be. New EU rules in the process of agreement require Member States to ensure that at least one directory is available in each Member State which lists the numbers of all customers (both on the fixed network and on mobile networks) wishing to be included in the directory.

What guarantees are there that new operators will provide high quality service?

The level of service will vary according to what you are willing to pay, but guarantees of a minimum service standard, specified by EU rules, are now set out in national law. At least one operator in every part of a Member State will be required to provide the standard level of service at an affordable price. In addition, rules have been agreed which ensure that whatever network or equipment you are using you should be able to communicate with any other user or any other business within the European Union.

If I have problems, to whom do I turn? Who is the referee in this new competition game?

You can take up disputes with your operator directly. EU rules also require all Member States to ensure that there is a dispute resolution procedure, particularly for disputes over bills. Additionally, regulatory authorities exist for telecoms in every Member State and complaints can also be taken up with them, or with national competition authorities who also have general responsibility for market behaviour. For some issues, you can also turn to the national competition authority. Recourse to the

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REGULATIONS TO PROTECT A FREE MARKET

1998 is not the last day of the liberalisation deadline, it is Day One of the open and perpetually-changing European telecom market. Ironically telecom liberalisation requires more regulation, to guard against obstacles to open competition and to guarantee the conditions in which the open market can thrive. A key role for the European Commission will be to ensure that these rules are applied effectively and fairly. To support this effort, EU

competition rules in the telecom sector will be rigorously applied. The Commission has set up a special "Countdown 1998" joint team to follow implementation. In May of this year it published its first "monitoring" Report, with a first update in October. Similar emphasis will be placed on implementation of the agreement to open up world markets for telecommunications services from the beginning of next year. ■

To see a copy of the "monitoring" Report, point your browser to: <http://www.ispo.cec.be/infosoc/telecompolicy>

The European Commission has recently published a brochure entitled "Competition in telecommunications: why and how?" (CM-07-97-159).

It can be freely obtained in all Community languages from European Commission representations in the Member States.

European Commission is normally limited to cases with a significant cross-border dimension. ■

Addresses of these National Regulatory Authorities (NRAs) and National Competition Authorities can be obtained from the ISPO Secretariat or can be found on the Web at: <http://www.ispo.cec.be/infosoc/legreg/docs/nras.html> (NRAs) <http://europa.eu.int/en/comm/dg04/internal/director/ee-eea.htm> (National Competition Authorities)

More information on the Legal and Regulatory Framework can be found at: <http://www.ispo.cec.be/infosoc/telecompolicy/>

Studies related to telecoms policy and the Information Society: <http://www.ispo.cec.be/infosoc/promo/pubs.html>

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Access code

A dialling code (for example, 0800 for freephone or 075 for GSM mobile) used to access the services of another telephone company

Leased line

Instead of owning their own networks many businesses "lease lines" from the telecom operator at fixed rates, where that is cheaper than paying rental + a timed usage charge

Local loop

The part of the network between the local telephone exchange and the customer.

Number portability

The possibility to keep your phone number when you change to another phone company.

Rebalancing

The process of adjusting prices for telecom services to reflect the cost of providing service

Wireless links

Connection provided via a radio-link rather than over a physical wire.