Implementation of the New Regulatory Framework in Lithuania

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Topics

• Communications Regulatory Authority - RRT
• Implementation of EU regulatory framework
• Process of liberalization
• Future priorities & challenges
• Future issues in EU
• Conclusions
Status of RRT

• Established on 1 May 2004
• Independent state institution, accountable to the Government and the Parliament headed by the Director and Council (formed of 6 representatives of state and academic (scientific) institutions and chaired by the Director)
• Director and the Council are appointed for 5 years by the President of the Republic on the recommendation of the Prime Minister
Objectives of RRT

- Effective competition in electronic communications markets
- Effective and efficient usage of resources, necessary for electronic communications (including radio frequencies and telephone numbers)
- Protection of consumers of electronic communications and postal services
Main tasks of RRT

• Electronic communications sector regulation
  – Market analysis (SMP regulation)
  – General authorizations
  – Consumer protection
  – Management of telephone numbers and other identifiers
  – Dispute resolution
• Management of radio spectrum
• Market surveillance (R&TTE, EMC)
• Postal sector regulation
Cooperation with ‘old’ Member States

- Formal and informal consultations and information exchange with the European Commission and NRAs of other EU Member States
  - European Regulators Group
  - Article 7 of the Framework Directive
  - Exchange of information on radio and telecommunications terminal equipment
  - Radio Spectrum Policy Group
  - Comitology committees (CoCom, RSC, TCAM)
Implementation of EU framework

• Before 1998:
  – Factual state monopoly (no real separation of regulation and service provision)
Implementation of EU framework

- From 1998 to 2003:
  - AB “Lietuvos telekomas” largely privatized
  - Legally protected monopoly in public fixed telephony
  - Rigid licensing rules:
    - Exhaustive lists of possible activities:
      - Licensed
      - Unlicensed – permission needed
    - Uncertain status of new services:
      - VoIP
      - Service provision on networks of other operators / MVNOs
      - Lack of innovative business models
Implementation of EU framework

- 1 May 2001:
  - Creation of independent Communications Regulatory Authority (RRT)
Implementation of EU framework

• As from 1 January 2003:
  – Fully liberalised Lithuanian telecommunications market
    • AB “Lietuvos telekomas” exclusive rights in the public fixed telephony market expired
  – New revision of the Law on Telecommunications
    • Transposed 1998 EU regulatory package for telecommunications
Implementation of EU framework

• As from 1 January 2003:
  – Forward-looking regulation, implementing parts of 2002 EU regulatory framework
    • Authorization system, principles etc.
  – Principles of technological neutrality, functional equivalency, minimum necessary regulation
Implementation of EU framework

• As from 1 January 2003:
  – Significant market power (SMP) definition in line with the 1998 EU regulatory framework
    • 25 per cent market share + subsidiary criteria
  – Set of obligations for SMP undertakings
    • Similar to those included in the 2002 EU regulatory framework
    • Including widely defined access obligation
Implementation of EU framework

• As from 1 January 2003:
  – AB “Lietuvos telekomas” group – SMP undertaking:
    • Fixed telephony, interconnection and leased lines markets
    • Comprehensive set of obligations
      – Nondiscrimination, accounting separation, transparency, cost orientation of retail and wholesale tariffs, obligation to interconnect and provide access etc.
    • Continued after implementation of the New EU regulatory package (01/05/2004)
Implementation of EU framework

• As from 1 January 2003:
  – General-authorization-only system
    • No individual licenses necessary for market entry
    • Clear list of activities that should be notified to RRT
      – Public fixed telephony, public mobile telephony, leased lines should be notified and reporting requirements are imposed
      – Reporting requirements for Internet access services
      – Other activities can be pursued without any permission or notification
Implementation of EU framework

• As from 1 January 2003:
  – General-authorization-only system
    • Low cost-oriented administrative charges related to general authorizations
    • No restrictions for foreign companies
      – No establishment requirement
        » At least from 1 January 2004 when the Law on Enterprises was abolished
Implementation of EU framework

• As from 1 January 2003:
  – General-authorization-only system – results:
    • Spreading of new innovative business models:
      – CableTV + Internet
      – VoIP
      – Service providers / MVNOs
      – Emergence of triple-play (telephony + Internet + TV) services
Implementation of EU framework

• As from 1 January 2003:
  – Flexible and transparent system of assignment of radio frequencies and telephone numbers
    • Tenders, auctions (in case demand is greater than spare resources)
    • Possibility to authorise usage on the basis on general authorisation
      – Actual deregulation of certain bands – RLAN etc.
Implementation of EU framework

• As from 1 January 2003:
  – Unbundled local loop
  – Carrier selection (fixed telephony)
Implementation of EU framework

• As from 1 January 2004
  – Carrier pre-selection
  – Number portability, including mobile-to-mobile number portability
    • 15000 numbers ported up till 30/08/2004

• As from 1 May 2004
  – Law on Electronic Communications
  – Full transposition of 2002 EU regulatory framework on electronic communications
Implementation of EU framework

• As from 1 May 2004
  – Definition of ‘telecommunications’ is replaced by ‘electronic communications’
  – Regulatory system adapted to environment of technological convergence
    • in particular, convergence of broadcasting and telecommunications (Digital TV etc.)
  – More comprehensive regulation of rights of way
Implementation of EU framework

• As from 1 May 2004
  – Possibility to introduce the secondary trading of radio frequencies
  – Formal requirements for CRA to execute extensive public consultations
    • Practically executed from the establishment of CRA
  – Express obligation for NRA to ensure fulfilment of international obligations
    • WTO GATS, Basic Agreement on Telecommunications
Implementation of EU framework

• As from 1 May 2004
  – Reform of market analysis
    • New significant market power doctrine as well as market definition and market analysis
      – based on competition law principles
      – flexible imposition of ex-ante obligations for the sake to:
        » Promote effective competition
        » Prevent abuse of market position
Process of liberalization

- Until 1998 – state monopoly
- 1998 – 01/01/2003 – private monopoly (could have been mere separation of regulatory and economic activities) - emphasis on retail regulation
  - Tariffs
  - Contracts for Service Provision
Process of liberalization

- 01/01/2003 – 01/05/2004 – liberalisation - gradual shifting of regulation from retail to wholesale
  - Diminishing the barriers to change service provider (carrier (pre-)selection, number portability)
  - Start of wholesale access regulation
  - More lenient retail regulation
  - Necessity to reduce barriers to market entry
    - Abolishment of licences
    - No exhaustive list of possible activities
Process of liberalization

- From 01/05/2004 – evolved liberalisation - retail regulation is the last remedy (as in the EU framework)
  - Emphasis on wholesale regulation
Remarks

- ‘Old’ EU Member States had 5.5 years from 01/01/1998 to 25/07/2003 for implementation of 1998 EU regulatory framework and transition from monopoly to flexible regulation embodied in the new EU framework.
- Lithuania had only 1.5 years for this goal (01/01/2003 – 01/05/2004).

GDP growth: 8.9%

Telecommunications market growth: 25.0%
**Retail prices of AB Lietuvos telekomas (1)**

### Per minute call prices, EUR

<table>
<thead>
<tr>
<th></th>
<th>2003 January</th>
<th>2004 January</th>
</tr>
</thead>
<tbody>
<tr>
<td>peak, Local</td>
<td>0.075</td>
<td>0.060</td>
</tr>
<tr>
<td>off-peak, Local</td>
<td>0.099</td>
<td>0.080</td>
</tr>
<tr>
<td>peak, Long distance</td>
<td>0.075</td>
<td>0.065</td>
</tr>
<tr>
<td>off-peak, Long distance</td>
<td>0.026</td>
<td>0.030</td>
</tr>
<tr>
<td>peak avg., to Mobiles</td>
<td>0.217</td>
<td>0.150</td>
</tr>
<tr>
<td>off-peak avg., to Mobiles</td>
<td>0.087</td>
<td>0.150</td>
</tr>
</tbody>
</table>

### Per minute internet dial-up prices, EUR

<table>
<thead>
<tr>
<th></th>
<th>2003 January</th>
<th>2004 January</th>
</tr>
</thead>
<tbody>
<tr>
<td>peak, internet dial up (Atvirus takas)</td>
<td>0.050</td>
<td>0.040</td>
</tr>
<tr>
<td>off-peak, internet dial-up (Atvirus takas)</td>
<td>0.040</td>
<td>0.030</td>
</tr>
<tr>
<td>ADSL (takas iD), within time limit</td>
<td>0.030</td>
<td>0.020</td>
</tr>
</tbody>
</table>

**Percentage Changes**

- Internet dial-up prices: 40% decrease
- ADSL prices: 50% increase
Fixed → to → mobile interconnection charges (average)

Price, Lt

peak time, 8-20 w.d.  off-peak time, 20-8 h.
**Future priorities**

- Where possible – the final goal is infrastructure competition
  - Promotion of service competition with a view of gradual shifting to infrastructure competition where possible
  - When infrastructure competition is established in relevant areas there is no need of sector specific ex-ante regulation of competition
  - Promotion of alternative infrastructures
Future priorities

• Market analysis
  – Consistency with harmonised policies and practices of EU and Member States
    • Following the trend established by the Commissions Guidelines on Market Analysis, Recommendation on Relevant Markets and ERG Position on Remedies
    • Extensive consultations with the Commission and other Member States, including procedures according to Art. 7 of Framework Directive
Future priorities

- Market analysis:
  - Wholesale fixed markets
    - Implementation of FL-LRIC for call termination in incumbent’s fixed network
  - Call-termination in individual mobile markets
    - Call-termination tariffs are still 3-5 times higher than on-net retail tariffs
    - Necessity to balance retail tariffs and call-termination rates
    - Proportional approach advocated by the ERG Position on Remedies
  - International Roaming
    - Common approach by all Member States is necessary
Future challenges

• Understanding necessary regulatory response to changing market environment
  – Growing importance of mobile market

• Maintaining achieved level of competition while introducing new services in the market
  – Technologically neutral approach where it is possible
    • Neither promote nor discriminate technologies offering comparable services
  – While granting new resources priority should be given to those market players that do not have comparable resources
Future challenges

• Maintaining achieved level of competition while introducing new services in the market
  – Incentives to develop a number of independent networks even in investment-sensitive cases
  – Cautious approach to sharing of resources and networks, especially:
    • National roaming
    • Sharing of infrastructure in commercially attractive areas
    • Sharing of radio spectrum
Future challenges

- Internet regulation
  - Domain names
  - Place of governmental regulation in the largely self-regulated sector
Future challenges

• IT security issues:
  – Availability increases vulnerability:
    • Spam
    • Viruses
    • Incidents on networks
    • Critical infrastructure
    • Security of transactions
    • Etc.
  – Wider cooperation – ENISA (European Network and Information Security Agency)
Future issues in EU

• (De-)regulation of radio spectrum
  – More extensive harmonization
    • Use of successful examples – GSM, UMTS (?), RLAN (WiFi)
  – Secondary trading
  – Remove obstacles for future promising technologies – CDMA450, WiMAX etc.

• Common approach to alternative infrastructures
  – Power line communications (PLC)
Future issues in EU

- Data retention by operators
  - Constitutional debate in Lithuania
  - Highly debated on EU level
  - Necessity to balance economic, privacy and public security (including counter-terrorism) interests
Future issues in EU

• Use of experience gained in telecommunications sector for liberalization of other sectors
  – Post
  – Energy
  – Railways
  – Etc.
Conclusions

• Lithuania experienced very rapid liberalization of telecommunications market
• Deregulation of market entry together with appropriate sector specific regulation establishes a solid basis for market growth and consumer satisfaction without the need of stringent retail regulation
  – Topic further expanded in the next presentation
• Implementation of EU regulatory framework fosters positive national developments
THANK YOU FOR YOUR ATTENTION

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