AUTORITÉ DE RÉGULATION
DES COMMUNICATIONS ÉLECTRONIQUES
ET DES POSTES

RÉPUBLIQUE FRANÇAISE

2006 : the beginning of a new era for regulation

ARCEP
www.arcep.fr
AUTORITÉ DE RÉGULATION
des Communications électroniques
et des Postes

Electronic communications: flexible regulation that is focused on wholesale markets

In 2006, electronic communications regulation entered a new phase. The culmination of work begun in 1998, France's electronic communications markets are now totally open to competition. Competition is here. In 2005, the Authority essentially completed competition analyses of all relevant markets identified by the European Commission. Today, the new regulatory framework makes it possible to establish flexible regulation that is more appropriate for wholesale markets and less rigid for retail markets.

Three significant advances were made in 2005:

- Wholesale line rental (WLR), under the name VGAST *(for Vente en gros de l'abonnement au service téléphonique)*, was created. This will permit the development of new services that combine subscription with consumption and therefore are simpler for consumers.
- Wholesale offerings in the bitstream market were enhanced in order to improve broadband coverage.
- France Telecom introduced a wholesale offering enabling new entrant operators to offer alternatives to France Telecom's capacity services for businesses.

Other important work was undertaken in 2005. Updating the numbering plan was a major project for the Authority. ARCEP revised the 1998 numbering plan administration rules to bring them into alignment with the new regulatory framework and respond to the emergence of alternative telephony offerings, in particular those based on voice over IP. A new category of numbers, beginning with 09, was made available specifically for interpersonal communications. Numbers beginning with 118 were allocated for information service providers, a move that will expand consumer choice.

Certain projects launched in 2005 are near completion. These include establishing a universal telephone directory and restructuring mobile number portability, the latter to be implemented over a 10-day period in early 2007. Finally, the allocation of spectrum for WLL will allow operators and local authorities to densify their networks and reach areas not served by ADSL broadband.

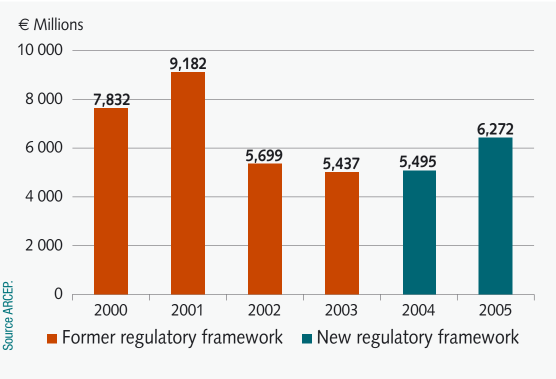
These achievements will allow regulation to move into a new phase favouring competition common law by adapting to boundary changes arising from the convergence of fixed and mobile communications and voice and data transmission and by reducing sectoral regulation, particularly in retail markets.

The electronic communications market in 2005

Resurgence of investment and growth clearly evident

For the first time since the Internet bubble burst in 2001, operator investment rose significantly, reaching €6.3 billion (+15%). This encouraging sign reflects increased consumption (of voice communications, SMS, and Internet). In 2005, the value of services to end customers exceeded €40 billion (+2.4%). As in previous years, growth was driven by broadband and, to a lesser degree, mobile services.

Investment 2005



Source ARCEP.

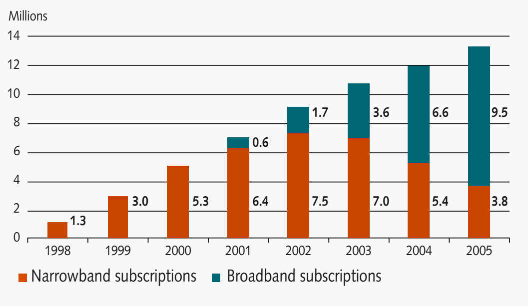
Decline in conventional telephony

Now in its maturity, the market for switched fixed telephony has suffered from the faster-than-expected rise of voice over IP. It has seen further revenue declines (-4.9%) despite increases in subscription numbers and subscription pricing. In response, operators have modified their conventional offerings to meet customer expectations more effectively, and they have made available a much greater number of unlimited-use offerings. In 2005, for the first time ever, access revenue exceeded fixed-terminal communications revenue following ARCEP's favourable response to France Telecom's request that the operator be allowed to raise telephone subscription fees provided it also lowered its call prices and modified its wholesale offerings.

Broadband boom

For many fixed players, broadband Internet access represents an important growth opportunity. The market has continued to grow steadily because broadband is being substituted for narrowband and because of innovative offerings incorporating television and voice over broadband. With more than 9.5 million broadband subscribers in 2005, France ranked second among European countries with respect to number of subscriptions and first with respect to multiservice offerings. Unbundling, which is emblematic of the dynamic competition in this market, has reached 2.8 million lines (+80%), and the incremental growth of unbundling over all is very significant (600 000 access lines).

Number of Internet subscribers



Source ARCEP.

For purposes of regional development and to strengthen competitiveness, local authorities have mobilised to expand the broadband footprint. The committee for public-initiative networks, CRIP (Comité des Réseaux d'Initiative Publique), comprising operators and local authorities, was established in early 2005. It has allowed players to share information about and find sustainable synergies in public investment, private investment, and competitive market dynamics. CRIP's work bears most notably on identifying broadband dead zones, tariffs for networks initiated by local authorities, and equipping business parks with broadband. Thus, CRIP launched some sixty projects representing financial commitments of more than €800 million in 2005. CRIP's work will be expanded in 2006. Other topics will be addressed, including superfast broadband for residential customers and conditions for the emergence of local operators.

National coverage of ADSL broadband
(as of 31 December 2005)

	% of population	Number of communes	% of communes
Areas with unbundling	56.22	5 918	16.13
Areas without unbundling	40.37	27 757	75.66
Areas without an ADSL offer	3.41	3 012	8.21
Total	**100**	**36 687**	**100**

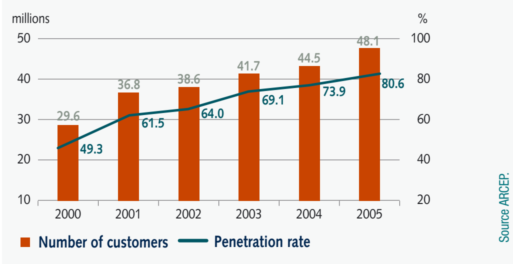
Estimation Ortel/ARCEP april 2006.

Mobile growth

Growth continued in 2005: turnover reached €16.2 billion (+8.5%) for 48.6 million customers (+8%). The market was characterised by offerings clearly segmented by customer consumption, a policy of using flat rates to encourage usage, and customers moving up the product range. Nearly 30% of mobile operator customers used a multimedia service in December 2005.

The year 2005 was marked by the emergence of mobile virtual network operators (MVNOs), which use the radio networks of host mobile operators. Because their appearance is but recent, their stimulative effect on the retail market is not yet very significant.

Evolution of the mobile market



Source ARCEP.

2006: The beginning of a new era of regulation

The year 2005 was an important one for the Authority: the regulator's jurisdiction was expanded to include the postal sector, and a new regulatory framework for electronic communication was established. The new framework has already proven to be an effective and flexible tool for facilitating investment and innovation. Also in 2005, operators saw an important shift in the way their customers use electronic communication services. Rapid technological progress as well as changes in consumer consumption and habits are driving operators and service providers to offer technically and commercially innovative services that more effectively address new requirements deriving from voice-data and fixed-mobile convergence. In 2006, further changes of this nature will be seen and a new era of regulation will begin.

First steps in postal regulation

Under the law of 20 May 2005, the then telecommunications regulator ART *(Autorité de Régulation des Télécomunications)* acquired responsibility for regulating the postal sector and became ARCEP *(Autorité de Régulation des Communications Électroniques et des Postes),* the regulatory authority for electronic and postal communications. In the postal domain, the aims of the Authority are the same as in the electronic communications domain - to facilitate economic development, innovation and investment, not only with respect to services but throughout the value chain, which for postal items covers design through distribution. The objective is to accommodate both the existence and viability of universal postal service and the introduction of competition into the postal delivery market.

User needs assessment

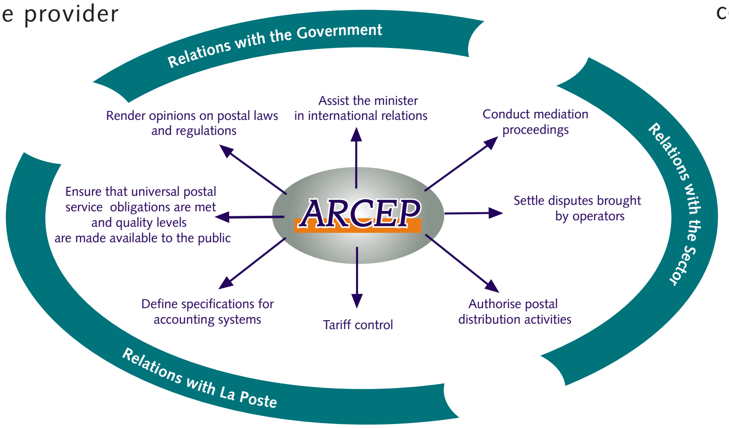
In 2005, ARCEP's concerns about the quality of postal service provider performance led it to conduct a survey to identify user needs.

Postal markets observatory

ARCEP also created an observatory for these markets. The initial data is providing an indispensable foundation for future ARCEP work and contributes to improved visibility of the sector.

Sector dialogue

The Authority's 10th conference, held in October 2005, focused on postal regulation and provided a venue for other countries to present their experiences. Thus, Europe's leading players and regulators were able to discuss regulatory issues and share their views of the sector. To fulfil its mission, the Authority will continue this constructive dialogue with businesses in the sector, with the incumbent operator (the La Poste group), with other authorised business entities, and with its European counterparts.



ARCEP's missions and mandates in the postal domain

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