

Introduction

Coming a few weeks after having taken over as Chairman of the electronic communications and postal regulatory authority (ARCEP), this annual report¹ provides me with an opportunity to review the events of 2008 and to outline the central issues and challenges for the coming years in the sectors of activity covered by ARCEP.

Deployment of new digital networks

2008 marked the onset of a new phase that will be shaped by new ultra high-speed digital networks. With the rollout of fibre-to-the-home networks delivering virtually unlimited speeds, fixed networks will undergo an evolution comparable to the replacement of telegraph by the telephone! Mobile networks too are undergoing a major transformation, promising freer and more open use – the recent emergence of mobile data services being only a small taste of what is to come.

Deploying these new infrastructures nationwide is a major challenge for our country. The ability to access competitive ultra high-speed fixed and mobile services is an issue that affects consumers and businesses alike. The investments made in these new networks will contribute to reviving the economy, to furthering our path towards sustainable development thanks to the dematerialization of a great many public and private services and, of course, strengthen the efficiency of our public services and our enterprises' ability to compete.

The “regulated competition” of the electronic communications sector, for which ARCEP is responsible, must enable the optimal deployment of these new networks

Outlook on new applications

It is hard to predict which applications will dominate the ultra high-speed networks of the future. Experience nevertheless tells us that users' bandwidth requirements are without limit. Will videophony be among the central person-to-person communication services of tomorrow – after having failed thus far to develop in the residential market and only just now making strides in the business market? Or will the mainstay be video and information sharing via social networking, or other services which have yet to be thought of?

1 - Article L.135 of the code governing postal and electronic communications in France, amended by Law no. 2005-516 of 20 May 2005 concerning the regulation of postal activities, stipulates that “every year, before June 30th, the electronic communications and postal regulator will produce a publicly available report that provides an account of its activities and of the application of the legislative and regulatory provisions concerning electronic communications and postal activities. [...] This report is addressed to the government and the Parliament. It is also addressed to the Postal and electronic communications public service commission [...]”.

What will the business model be for these new applications, how will value be shared and what impact will that have on end users and the industries involved?

Ultra high-speed access also opens up prospects in the areas of entertainment and access to cultural content. It is expected to contribute to developing new ways of consuming content, especially when the content is time-shifted, self-produced and interactive. In the mobile world, new means of accessing cultural content could emerge, especially in relation to the user's immediate environment (museums or places of interest, for instance).

The development of new ways to communicate also holds the promise of stronger social ties and stronger relations between public services and citizens. A host of innovations are expected in the area of healthcare, including the development of telemedicine and remote patient monitoring, which will help improve the quality of treatment and the home care given to the elderly and those in need of assistance. In the world of education, ultra high-speed access can help further knowledge sharing through virtual courses that extend in-class teaching to the home, and through collaborative working tools.

Optical fibre

The installation of a new fixed network in every street, every building and every home constitutes a challenge that is both economic and operational. The investment cycle now opening up in the FTTx market represents several billion euros, and will be spread out over several years.

In France, the momentum in the broadband market and the willingness of several operators to invest in fibre rollouts is helping to create a singularly positive environment when compared to the rest of Europe, and one which allows us to anticipate the development of a competitive residential ultra-fast broadband market, with the deployment of alternative fibre local loops in a sizeable portion of the country.

The adoption of the Law on modernising the economy of 4 August 2008, and the implementation of regulation governing France Telecom civil engineering infrastructure, through an ARCEP Decision dated 24 July 2008, laid down the fundamental principles for the regulatory framework that applies to fibre. In addition, the European Commission is due to adopt a recommendation that specifies the regulatory mechanisms that apply to next generation access networks, or NGA.

Civil engineering is the largest cost item in deploying the horizontal portion of any wireline local loop network. Therefore, having access to existing infrastructure can change the economic equation of a rollout. But, aside from certain special cases such as the visitable sewers in Paris, only France Telecom has a vast network of civil engineering infrastructure that spans the country, which it inherited from the construction of the national telephone network. In accordance with the market analysis decision adopted by ARCEP on 24 July 2008, France Telecom published, on 15 September of that year, a reference offer that allows all third-party operators to use its civil engineering infrastructure to deploy fibre.

In the vertical portion of the network, the Law on modernising the economy of 4 August 2008 introduced a system of rights and obligations for operators deploying optical fibre in buildings. It encourages the installation of fibre, by pre-cabling

new buildings and by having operators' plans to equip buildings automatically included on the agenda for co-owners' property management meetings. Property owners can also appoint an operator as the sole party responsible for installing and maintaining the fibre on the premises. The Law thus aims to minimise the amount of work that needs to be done on the private property. It also guarantees that the building's residents will benefit from access to competing ultra high-speed services. This is why it introduces the principle of sharing, requiring the building operator to provide access to its network to other operators under non-discriminatory conditions.

Trials were performed in early 2009 on the system to be used for implementing this principle. Based on feedback from these trials, which are currently confined to the most densely populated areas, ARCEP submitted its guidelines to public consultation on 7 April 2009. These guidelines are to be followed by the adoption of a legal framework by the Authority in 2009.

ARCEP is prolonging and expanding its efforts devoted to network sharing to determine the terms and conditions for implementing it in more sparsely populated areas. Local authorities are closely involved in this process, as is the *Caisse des dépôts et consignations*.

Ultra high-speed mobile

The deployment of 3G networks in France made it possible to introduce new high-speed data services whose popularity continues to grow – as illustrated by the rapid development of the first unlimited mobile Internet offers, and the launch of handsets adapted to these new applications. Voice and text messaging services are gradually being combined with new enhanced services such as Internet access and multimedia content. The introduction of new handsets with larger screens and of mini PCs, which enable access to richer multimedia content, is altering the behaviour of users who want their high-speed services to be available to them everywhere and at all times, with an eye to the eventual convergence of fixed and mobile solutions.

The next stage is now underway in Europe and around the globe, and the process has begun for introducing the systems that will gradually take over from existing third generation networks over the next decade. Mobile technologies capable of delivering performances in line with market expectations have already been announced, one of them being LTE, or Long Term Evolution technology. These technologies offer high performance and increased quality of service, and are expected to achieve their full potential with the use of very wide bands of up to 20 MHz. Over the next few years, mobile technologies are expected to reach speeds of one to several tens of Mbps, and will prove crucial adjuncts to the consumption of ultra high-speed services, in addition to acting as a complement to fibre for delivering ultra fast broadband services nationwide.

To ensure that the ultra high-speed mobile networks planned for the next decade can be deployed, new spectrum resources need to be made available. To this end, public authorities have mapped out a global spectrum strategy for ultra high-speed mobile.

The switch from analogue to digital TV broadcasting, combined with the liberation of spectrum by the Ministry of Defence, constitutes an historic opportunity. Indeed,

the Prime Minister has elected to assign the digital dividend frequencies to ultra high-speed mobile solutions. In addition to the low frequencies ranging from 790 to 862 MHz, which are well suited to achieving broad nationwide coverage and to indoor coverage, high frequencies ranging from 2 500 to 2 690 MHz (a.k.a. “2.6 GHz” band) will be allocated to provide the capacities needed to carry traffic in densely populated zones. The preparation of the system to be used for allocating these two frequency bands is currently the subject of a public consultation which began back in March 2009. Moreover, the work being done on the fourth mobile licence, which was revived by the Chatel Act of 3 January 2008, is paving the way for the rapid allocation of the remaining 15 MHz in the 2.1 GHz band.

The issues in the postal sector

Equipping the Post with the resources to adapt

In the years to come, two trends will impact on postal operator revenue, with a downturn in volumes being compounded by a shift in revenue mix towards less urgent products and more bulk processing. However, La Poste's efforts to modernise since 2003 should enable it to achieve the efficiency and quality gains that are crucial for adapting to a changing market.

Moreover, observation of postal markets in other European countries (Sweden, the United Kingdom and Germany) has shown that operators competing with the incumbent operator penetrate merely a fraction of the market and develop comparatively slowly.

The price cap set by ARCEP for 2009 to 2011 acknowledges that even though expenditure grew more slowly than inflation at 1 %, La Poste's productivity is being affected by falling volumes. The price cap is therefore designed to give the operator the resources it needs to continue modernising.

Securing the financing of a high-quality universal service

To guarantee provision of a high-quality universal service in a competitive environment, European and national law created the option of setting up an offset fund financed by all operators. Under national law, it is up to the operator to take the initiative when it determines the existence of an unfair financial burden.

Consequently, the postal sector could be called upon to contribute to this expenditure under a system similar to that which exists in the electronic communications sector. ARCEP would then have the task of calculating the cost of universal service obligations and operator contributions, and it is already developing the necessary expertise.

Seeing that La Poste provides a high-quality universal service is an essential part of ARCEP's mission. In the past, ARCEP has striven to obtain greater transparency from La Poste about its quality of service results and will pursue this activity.

Fostering a new competitive balance

The balance that is establishing itself in mature Northern European markets is characterised by the coexistence of an incumbent operator providing multiple services with specialized operators, in particular in the non-urgent industrial mail sector. These are large SMEs – often subsidiaries of Posts that provide the universal service in their countries of origin – which process several hundred million items and have a limited turnover.

This competition prompts the incumbent operator to improve productivity and adapt its service to corporate needs (SMEs and large mailers), and it is allowed by law to adjust its tariffs to address this competition.

Regulation will tend mainly towards ensuring that the incumbent operator's tariffs permit financing of the universal service without entailing predatory practices. Besides setting the guidelines for the 2009-2011 price cap, ARCEP will have to see that La Poste's tariff policy reconciles universal service funding, compliance with the rules governing competition and appropriate responses to demand.

It will also make sure that competitors meet their obligations and that their entry into the market is not unduly hampered. In this context, ARCEP will have to pursue its dismantling of non-tariff-related obstacles (viz. its past work on access to letter boxes).

ARCEP – At the centre of three essential public policies

Within the scope of the remit assigned to it by law, ARCEP participates in implementing the public policies defined by Parliament and the Government. This work focuses in particular on the three areas of economic development, protection of consumer interests and unified, balanced national development.

These three policies are now at a critical juncture. Last year's activities testify to the sector's momentum and the institution's professionalism, providing a solid foundation for tackling the various complex projects lined up for 2009.

Firstly, on the economic development front, rolling out the new digital, fixed and mobile networks described above is indeed crucial for making French companies competitive, developing new services for our fellow citizens and creating jobs. So implementation of a comprehensive, pro-active strategy is essential for raising player profiles as much as possible.

Secondly, as regards protecting consumer interests, ARCEP will continue to supervise the development of innovation-and-investment-based competition that benefits all users, by promoting lower prices and the expansion of new services while guaranteeing their quality and permanence. Attention centres specifically on enabling consumers to make informed choices by ensuring product transparency and proper information for users, in particular through the publication of quality of service indicators.

ARCEP is also closely involved in the process of dialogue initiated by the Government within the framework of the "Grenelle des ondes" and will implement any decisions taken at the end of this process. ARCEP is constantly endeavouring to guarantee a balance between effective competition that benefits consumers and the development of competitive, innovative operators.

Lastly, in relation to unified, balanced national development, expansion of new networks should not obscure the pressing need to pursue territorial coverage and higher network speeds. In particular, ARCEP needs to see that mobile telephone operators honour their commitments, especially those concerning third generation networks. 2009 will be a pivotal year in this respect, with meetings between operators and ARCEP, and between ARCEP and Parliament. ARCEP must also continue its work on giving all households access to first broadband and then very high speed broadband. This work also has to target companies, and in particular

SMEs, in order to make the entire national territory attractive to enterprise. In the postal context, ARCEP must guarantee compliance with universal service obligations and accessible postal services.

ARCEP and modern governance

So, all of these projects add up to a full year for ARCEP. To accomplish its missions, ARCEP will emphasise governance based on the collegiate principle, so it can benefit from the expertise and skills of all ARCEP Executive Board members. The organisation of intensive upstream cooperation with all players and efficient decision-making processes, flanked by in-depth explanation of the choices made, are indispensable for the workings of a modern, independent administrative body like ARCEP.

Independent administrative bodies are an integral part of the State. Though independent of government, they are answerable to Parliament and the judiciary. However, independence does not prevent either listening or dialogue, so ARCEP will continue its close relations with all public institutions, thus participating actively in improving the State's efficiency.

In a complex economic environment, ARCEP will also contribute to stimulating our economy by securing effective, fair competition that benefits users. At a strategically crucial time for the future of the digital economy and of the postal service, ARCEP must perform its role to the full.



Jean-Ludovic Silicani
Chairman of ARCEP