## Composite Brief – Communications Sector

## Subheads B1 – B3

***Shaded Areas Contain Confidential Information – Not For Public Release***

## 2007 Outturns and 2008 Estimates

| SUBHEAD | 2007 Outturn €000 | 2008 Estimate €000 |
|---|---|---|
| B1 – ICT Programmes | 37,954 | 53,634 |
| B2 – Multimedia Developments | 4,356 | 7,223 |
| B3 – RAPID Programme | 901 | 1,147 |

# COMMUNICATIONS DEVELOPMENT

## 1. *Metropolitan Area Networks (MANs) Programme*

MANs are State owned, underground telecommunications networks that are located in regional cities and towns. They consist of carrier-neutral duct and fibre rings linking the main commercial and public buildings to "co-location centres" where service providers locate their telecommunications equipment and access the network. The MANs make these state-of-the-art facilities available to service providers to enable them to offer high-speed broadband to their retail customers without having to build their own networks.

In the period 2003 to 2005, 27 networks were constructed under Phase I of the Programme and it is expected that Phase II will have delivered MANs in a further 66 towns by mid-2008.

Since mid-2004, the Phase I MANs have been managed, maintained, operated and marketed by eNet. The Department is currently tendering for a Management Services Entity (MSE) for the Phase II MANs.

At the end of quarter one 2008 construction had been completed on 44 towns. Construction is continuing in a further 22 towns and is expected to be completed in those 22 towns during 2008.

In December 2007, the Minister decided that Phase II MANs not yet under way (in 28 of 94 towns) should not enter into any construction contracts until he has an opportunity to consider and assess the implications of a Value for Money and Policy Review (VFMPR) of Phase I of the MANs Programme and the recommendations of a Next Generation Broadband Policy paper which is expected to be published during Q2 of 2008.

Meanwhile those projects already completed are being managed by an "Interim Management Services Entity" to allow service providers early access to the networks to provide services to end users. A permanent MSE is currently being procured and is expected to be in place by Q3 2008.

## 2. *National Broadband Scheme*

There are still some parts of the country where the private sector will be unable to justify the commercial provision of broadband services. The failure of the market to bridge the digital divide in specific rural areas will be addressed through my Department's National Broadband Scheme (NBS). The NBS will provide broadband services to areas that are currently unserved and will ensure that all reasonable requests for broadband in unserved areas are met.

A complex mapping exercise was undertaken in order to identify all areas where broadband services are and are not available. My Department and ComReg contacted service providers and requested details of their current and planned broadband coverage. This map is available on the Department's website www.dcenr.ie.

Areas that are not currently served but are expected to be served by 1 July 2008 will not be covered by the NBS. However, if those areas remain unserved on 1 July, 2008, the NBS winning Service Provider will serve those areas under the scheme.

The first phase of the procurement process for the NBS, the Pre-Qualification Questionnaire phase, is now complete and four candidates pre-qualified. The four candidates were BT Communications Ireland Ltd Consortium, eircom Ltd, Hutchinson 3G Ireland Ltd and IFA/Motorola Consortium.

Following the withdrawal of the IFA/Motorola Consortium as a candidate the remaining three candidates have now commenced "Competitive Dialogue" with my Department and are developing their proposed solutions to meet the requirements for the delivery of broadband to the unserved areas of the country. It is anticipated that a preferred bidder will be selected and appointed in June 2008, with rollout to commence as soon as possible thereafter, subject to agreement with the chosen service provider.

The broadband product to be provided under the NBS will be broadly equivalent to the products typically available on the Irish market. The most appropriate mechanism to achieve this aim will be decided during the competitive dialogue process.

While the NBS is technology neutral, the technical standards to be provided by the winning Service Provider will be fully specified in the NBS contract. Currently it is envisaged that a minimum of 1Mbps download and 128kbps upload speed with a maximum of 48:1 contention ratio will be provided. The service must support Virtual Private Networks (VPN) for businesses and Voice over Internet Protocol (VoIP) applications and devices for home business purposes. Latency must be sufficient in order to allow standard applications such as VoIP and online gaming to be run without significant degradation of service from an end user perspective. Service Providers are also required to offer improved products in the future, in line with market changes.

Importantly the price that people will pay for service under the National Broadband Scheme will be no greater than the average price paid by consumers using similar technologies in areas that currently have access to broadband. The scheme will also have a wholesale product requirement with an associated Service Level Agreement (SLA) so that alternative service providers can also offer services.

## 3. *Schools Broadband Programme*

A joint industry/Government fund of €18 million was established for the Broadband for Schools Programme to resource the provision of high speed broadband connectivity to all primary and post primary schools in the country, at no cost to the schools themselves. DCENR and the Dept of Education and Science both contribute €0.5m each year towards this, and €5m is paid by the Telecommunications and Internet Federation (TIF).

The project involved the installation of a mix of broadband technologies in schools to provide always-on Internet access. All schools are linked to a common schools network which is run by the National Centre for Technology in Education with the support of HEAnet, with helpdesk facilities and security features in place.

Current Status:

99 % of schools have now had broadband installed. A further phase of this initiative is being planned and will be managed by the Department of Education and Science.

## 4. *Digital Hub Development Agency*

The Digital Hub Development Agency (DHDA) is briefed with developing a world class digital industry cluster, as well as regenerating an historic community area in the heart of Dublin by operating a number of significant community and educational initiatives as part of its role in the Digital Hub district.

The Digital Hub's primary function is to promote and facilitate the development, including the carrying out of construction or maintenance works, of the Digital Hub as a location for digital enterprises and related activities. One of the DHDA's main objectives is to attract digital media companies to locate in the Digital Hub and to secure additional space to meet the demands from new and existing Digital Hub tenants.

The Agency has been successful to date in growing the cluster from 15 companies in 2003 to over 85 companies in 2007 employing approximately 750 employees in the Hub. These enterprises are involved in a range of activities including games software development, mobile technology, animation and TV production.

In November 2005, tenders were accepted for the development of two separate sites with a combined area of close to 6 acres. In return for the land, the State will receive a combination of €72.4 million in cash and €45.7 million in high quality offices, which will accommodate digital enterprises as the Digital Hub grows.

This land is to be developed as a mixture of residential, commercial and retail properties, in addition to public spaces. A decision in relation to planning permission is due from Dublin City Council on or before 2nd May. The feed back from DCC is positive and a decision to grant permission is expected.

A target of 200 companies, employing over 2,000 people, has been set for 2012.

## 5. *National Digital Research Centre*

**Background**
The NDRC is a Translational Research Institute that acts as a national focal point for technology innovation in the digital media domain. The NDRC is equally funded, €25 million over 5 years, by this Department and the Departments of Enterprise, Trade and Employment and Education and Science. All funding is provided through this Departments vote. To date, the NDRC has received a total of €4 million in funding from the Department, of which €1.725 million was refunded at end 2007.

**Funding**
A Concession Agreement was signed between the NDRC and DCENR on 23 November 2006 and the NDRC received funding of €1.5 million from this Department upon signing the Agreement. The first quarterly payment of €2.5 million was scheduled to be paid to NDRC on 28 March 2007. However, following examination of the first quarterly report submitted by NDRC this payment was deferred as the Department was not satisfied with the level of detail contained in the report.

A second quarterly report was submitted to the Department on 29 June 2007. The Department was satisfied that this report contained a good outline of and level of detail on the operational progress and financial performance of the NDRC to end Q1 2007. The first quarterly payment of €2.5 million was paid on 16 July 2007.

The NDRC was informed by letter on 20 July 2007 that notwithstanding the funding terms of the Concession Agreement, i.e. payment of €2.5 million at six monthly intervals during the five years, that DCENR would require an estimate of the expenditure in advance of the scheduled payment justifying payment of the advance and that an estimate of NDRC expenditure to end 2007 and for Q1 2008 should be agreed before the next advance could be paid.

**Refund of Unspent Grant**
In December enquiries were made by the Department concerning the level of funds that the NDRC had on hands and it subsequently emerged the the NDRC had unspent moneys. Arrangements were made to have €1.725 million refunded. This money has been recorded in the Appropriation Account as an Extra Exchequer Receipt.

The NDRC was set up following the closure of Media Lab Europe in 2005 which was run by MIT – the objective was to set up a world class applied digital research centre as a flagship project in the Digital Hub where it is located. On foot of a competitive tendering competition run by the Higher Education Authority (HEA) for the operation of the NDRC, the Liberty Consortium won the contract in 2006 to set up and operate the NDRC. The Liberty Consortium comprises five of the leading Dublin based third level institutes (TLI's) in Ireland, namely University College Dublin (UCD), Trinity College Dublin (TCD), Dublin City University (DCU), Dun Laoghaire Institute of Art, Design and Technology (IADT) and the National College of Art and Design (NCAD).

The five institutions that make up the Liberty Consortium signed a concession agreement with DCENR in November 2006 to run the NDRC on behalf of Government. The NDRC operates as a stand-alone legal entity as a company limited by guarantee.

A CEO for the NDRC was appointed only in February 2007 and the full setting up of the NDRC took the whole of 2007, as the lead times for the recruitment of expert staff to the NDRC, and for the submission, analysis and contracting of digital projects suitable for development, were quite long.

## 6. *Dormant Accounts Funding*

In January 2007, the Government approved the allocation of some €2.502 million over two to three years from the Dormant Accounts Fund for 40 projects supporting disadvantaged young people to exploit Information and Communications Technology (ICT) opportunities.

The intention of this funding is to provide greater access to ICT and to promote ICT skills development among disadvantaged young people, particularly early school leavers. The projects approved include provision for implementing IT training programmes and for the purchase of IT equipment. Funding to individual projects ranges from €7,000 to €158,000.

## 7. *Overview of telecommunications market*

ComReg's market report dated March 2008 in respect of the quarter ended 31 December 2007 notes:

Total revenues for fixed, mobile and broadcasting markets now stand at an estimated €4.54 billion for the year ending 31 December 2007.

- Fixed: Total fixed line revenues for the quarter amount to €572 million. The incumbent operator holds a 69% market share with the OAO (other authorised operators) holding 31% market share.

- Mobile: Mobile penetration rate stands at 116%. Revenue market shares show Vodafone at 42.9%, O2 at 37.8%, Meteor at 16.3% and 3Ireland at 3%. Average revenue per user (ARPU) for Ireland is €44.33 per month while the EU/ARPU is €27.00 per month.

- Broadband: Broadband take-up is increasing, with currently around 886,300 subscribers. At the end of 2007 there were approximately 17,900 local loops unbundled.

- Internet: There were almost 1.2 million active internet subscribers at end Q4, 2007.

- Cable/MMDS and Satellite: At the end of December 2007, there were approximately 1.099 million cable/MMDS and satellite subscribers. 58% of all TV households now receive their TV service via a digital television signal, based on either digital cable or satellite.

## 8. *Review of EU Regulatory Framework*

The EU Commission adopted proposals in November 2007 for reform of the electronic communications legislative framework which are now the subject of negotiations at Council and Parliament over the next year or so, with a view to the adoption of revised Directives in 2009-2010 and implementation in Member States around 2010-2011.

The key issues in the Commission's proposals include:

- The establishment of a new EU Telecoms market authority to ensure greater regulatory consistency across Europe.
- The extension of the Commission's powers to allow a veto on the remedies to be applied by National Regulatory Authorities where dominance in a market is found.

- Giving National Regulatory Authorities the possibility of imposing functional separation as a remedy to tackle competition problems, where all other regulatory tools prove inadequate.
- A more coordinated EU approach to spectrum planning and the use of the digital dividend.
- Stronger consumer powers, especially for people with disabilities.

There is almost total opposition by Member States to the concept of a new Market Authority (only Italy are in favour with reservations as to its independence). There is also widespread opposition to the extension of the Commission's powers to include a veto on remedies. Views on functional separation are more diverse with some MS in favour and some against. With regard to radio spectrum/digital dividend the Commission and some Member States want speedy progress towards a common EU spectrum plan. While most Member States wish to see greater spectrum efficiency there are concerns about expanding the Commission's powers in this area – principle of subsidiarity. The majority of MS wish to retain the existing mechanisms which provide a better balance of power between the MS and the Commission. Overall, there is a general questioning of the seeming shift in roles and responsibilities from Member States to the Commission.

## 9. *Next Generation Broadband*

The Department has drafted a policy paper on Next Generation Broadband (NGB) which examines market developments in Ireland and internationally and proposes options on the optimal role of Government in the development of NGB in Ireland. The paper has been critiqued by an expert International Advisory Forum (IAF) convened in Dublin on the 27th February.

The Forum brought together valuable insight and expertise into the development of Ireland's future broadband policy. The members brought a diverse range of knowledge and experience from around the world.

The draft policy paper is currently being updated to reflect the Forum's contribution and will be published shortly for public consultation.

## 10. *Eircom separation*

Eircom submitted a discussion document to the Minister in 2007 addressing a number of issues related to the future provision of broadband, including their proposal to structurally separate their network into wholesale and retail arms.

Eircom is a private company and is entitled to implement the corporate structure that best meets its needs provided that appropriate engagement takes place with the ComReg on any regulatory issues that might arise in a separated company.

The Minister/Department has no specific role in relation to any form of restructuring of eircom. However, as the roll out of high quality, competitive broadband infrastructure is a key priority for Government, eircom's investment and organisational plans are of major interest and there has been some engagement with eircom in this regard.

Eircom was invited to contribute to the forthcoming consultation process on the Government's draft policy paper on Next Generation Networks which will set out the Government's framework for the future of broadband investment.

## *11. Spectrum Policy Working Group*

A working group was established in the latter part of 2007 to review Irish spectrum policy and to formulate a set of principles to ensure that it reflects current national and international developments in the planning and management of spectrum use. The working group is chaired by Peter O'Neill and its members are drawn from the Communications Divisions of the Department, ComReg and outside experts. A report of the working group is being finalised and will be presented to the Minister prior to going to public consultation. Following this consultation process, a policy paper will be published which will underpin a review of the legislation governing spectrum use.

## *12. RegTel*

The Department is at present reviewing the regulation of the premium rate telecommunications service (PRTS) sector. This sector is currently regulated by RegTel which has its statutory origins in the Telecommunications (Premium Rate Telephone Service) Scheme of 1995, S.I. No. 194 of 1995, when Bord Telecom Éireann was responsible for the regulation of PRTS.

RegTel is independent from the Commission for Communications Regulation (ComReg) and does not report to the Minister for Communications, Energy & Natural Resources.

In recent years, a rise in abusive practices has been seen in relation to PRTS and there has been some media coverage surrounding the issue recently. RegTel is the relevant body to investigate and address consumers' concerns. The Minister recently expressed his concerns at the level of consumer dissatisfaction and the number of complaints by members of the public at the operation of PRTS. The Minister intends for RegTel to be under the aegis of ComReg and details of this will be outlined in the Broadcasting Bill which he will present to the House in the coming months.

## 13. Postal / An Post

### An Post Financials/ Rationalisation Programmes / Price Increase/ Quality of Service.

<u>Programme Goal</u>

*"To ensure Irish customers, both business and residential, enjoy competitively priced, high quality postal services on a par with the highest quality standards in key comparator economies elsewhere in the EU"*

<u>An Post:</u> An Post, a semi-state body under the aegis of the Department, was established in January 1984 under the Postal and Telecommunications Services Act, 1983. As a commercial state company, it is self-financing and does not receive any state funding. Its chief remit is to act as the universal postal service provider, with a statutory obligation to provide one delivery of post to each household and business in Ireland at least 5 days per week. It also provides a range of counter services through its network of post offices, including payment of DSFA benefits and money transmission services.

<u>An Post Financials:</u> During 2006, the company reported an operating profit of €14.7m. However, this translated into an operating loss of €5.3m when items including the €20m Sustaining Progress arrears, paid out in October 2006, were accounted for. This loss compared to the 2005 operating profit of €16.2m. Group turnover for the year was €818.8m, which represents an increase of €66m or 8.76% on the outturn for 2005. The cash balance at the end of 2006 stood at €295.05m.

<u>Rationalisation Programmes at An Post:</u> Following on from resolution of the Industrial Relations issues surrounding the implementation of a major rationalisation programme, the programme was signed up to by all parties in January 2006. Centred in the Dublin Mails Centre and the Collection and Delivery area of the company, the programme, with its core goals of changes in work practices and reduction in staff numbers, was designed specifically to facilitate the company to deliver significant cost savings and efficiencies. This is particularly important in light of the future challenges facing An Post, particularly the full liberalisation of the postal market, set to happen in January 2011. By the end of February 2008, thirteen delivery service units had been converted to the revised working arrangements.

<u>Price Increase:</u> ComReg approved a price increase for the standard domestic letter from 48c to 55c, which came into effect on 1st March, 2007.

ComReg also agreed to an increase in the price for posting large envelopes and packets, which are now priced at 95c and €2.20 respectively. ComReg also agreed with An Post's newly revised price proposals for its discounted large envelope and packet services.
All future price increases, within the reserved area, will be linked to quality of service improvements.

Quality of Service: ComReg, as the postal regulator, has responsibility for the monitoring and measurement of levels of service to be achieved by An Post. The results of ComReg's quality of service report for 2007 indicated that 77% of single piece mail items were delivered the next working day after posting. This result shows a 5% improvement in service quality over 2006 levels. The current target set by ComReg for next day delivery is 94%.

### 14. *Post Office Network and An Post Financial Services*

#### *Joint Venture – 'Postbank'*

A joint financial services venture between An Post and Belgian bank, Fortis, received Government approval in September 2006 and was launched in May 2007. With its twin objectives of obtaining additional business for the post office network and boosting postmaster incomes, its chief aim is to leverage maximum value from current assets which, as well as a nationwide post office network and a trusted brand, includes also savings and one direct customers. Several products, covering savings and investments, have been launched to date. Further products, including new current account [redacted] will be launched throughout 2008. [redacted]

### 15. *Post Office Network and DSFA Contract*

The Department of Social and Family Affairs (DFSA) currently has a contract with An Post to pay social welfare payments through the post office network. In a case brought before the European Court of Justice as to whether the contract should have been publicly advertised, the Court recently ruled in favour of Ireland, stating that this contract did not have to be advertised. While the DSFA may advertise the contract in the future, this Department has no role in deciding whether the contract should remain with An Post. It is a matter for the DSFA and An Post.

### 16. *Post Office Network and Postmaster issues*

The post office network is made up of 1442 post offices and agents, 78% of which are automated /computerised. As it stands, the automated offices carry out approximately 95% of the network's business. The majority of post offices are operated by contractors rather than by An Post directly and these contractors are represented by the Irish Postmasters Union (IPU).

An agreement on remuneration, severance and other issues was reached early in 2007 between An Post management and the Irish Postmasters Union (IPU). This was in the context of recommendations made by Eamonn Ryan, a former senior manager in An Post, appointed by the Minister as facilitator between the IPU and An Post. Among the issues agreed on was (i) a 10% salary increase, backdated to July 2006, with all arrears paid in April 2007 and (ii) a severance package (of up to €20m) for which postmasters were invited to apply by the end of September 2007. The scheme was confined to the less profitable, less busy post offices.

PA Consulting recently conducted a review of the post office network, the results of which are currently being analysed by An Post.

## 17. *Liberalisation*

In accordance with the European Communities (Postal Services) Regulations 2002, the postal market was further opened to competition on 1 January 2006 with postal items over 50g open to competition.

EC Directive 2008/6/EC (the Third Postal Directive) was recently agreed and sets out the date and terms of the full liberalisation of the postal market, EU-wide. The date set for full market opening in Ireland is 1st January 2011. While the Directive stipulates that there should be no changes to the Universal Service Obligation (USO), certain other key decisions with regard to liberalisation are being left to Member States (e.g. how to finance the USO in a liberalised market). In advance of the transposition of the Directive into Irish law and in order to be able to inform Ireland's negotiating position at the Council working party, a public consultation will be held shortly on the key decisions arising from the Directive. These include:

- The USO – establishment of whether it is a benefit or a cost to the Universal Service Provider and the mechanisms for funding that cost.
- Price regulation
- Wider regulatory framework
- Downstream access
- Barriers to the development of competition in the market

## 18. *Postcodes*

Following the publication of the postcodes working group's report in 2005, ComReg was requested to appoint consultants to provide technical and economic advice including assessing the costs and benefits of the introduction of a postcode. A National Postcode Project Board (NPPB), comprising representatives of Government Departments, together with public and private sector organisations was appointed to oversee the project and present a proposal describing in sufficient detail the most efficient, effective and most publicly usable postcode system.

In July 2006, the NPPB presented its recommendation as to the most appropriate postcode system for Ireland, the costs and benefits arising from its introduction along with a detailed implementation plan. A proposal concerning the introduction of postcodes went to Government in May 2007 and Government decided that, prior to the introduction of postcodes, further