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2005 Regulation Report

Index

Part II – State of communications

II.1 International framework: evolution of the electronic communications sector in the EU

According to the European Commission[1], the electronic communications sector in the EU is currently undergoing a transitional phase with the following most marked features:

- New technologies and services are being marketed, some of them in connection with the process of converging services, networks and contents;
- Fixed and mobile voice telephony has reached a phase in its life cycle close to that of maturity;
- Increasing competition, partly due to the regulatory intervention.

In order to face the above mentioned technological and market developments, operators began to improve their operational procedures, which led to increasing profitability. On the other hand, consolidation efforts are being made and therefore larger operators are being created. This consolidation effort is followed by increasing investment, particularly by incumbent operators. Investment grew about 6 per cent, the third year of growth in a row after the events of the end of the speculation period that came with the first phases of the Internet's life cycle.

Undergoing structural changes in this sector did not affect its relative importance within the ICT[2] sector, nor did they jeopardize its growth. In general, the electronic communications segment is still the most important one within the ICT sector, standing for 44 per cent of its value. On the other hand, turnover grew at a rate close to 4 per cent, in 2005. However, the above mentioned factors have different impacts on the recent evolution of the several electronic communications services.

[1] European Commission, Regulation and the European electronic communications markets in 2005 (11th Report), COM (2006) 68, 22 February 2006.
[2] Information and Communication Technology.

The main recent trends of the electronic communications sector in the EU are described below – for FTS, MTS and broadband – as presented by the European Commission.

Fixed Telephone Service (FTS)

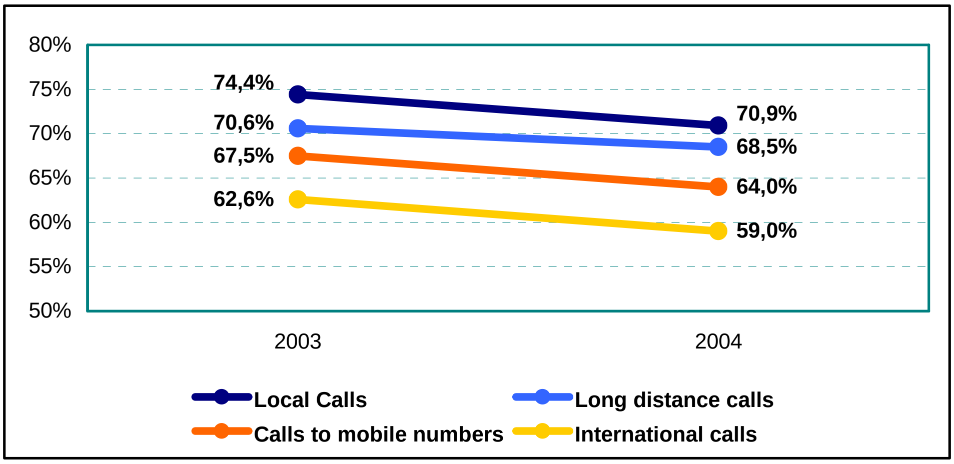
- Traditional voice services, despite still being the largest source of revenues for operators in the fixed communications markets, have had a progressively decreasing turnover.

- This decreasing turnover stems from decreasing call prices, new access and call bundles and special tariff packages aiming large users.

- Price reductions are reactions to the increased competition within the sector and to the new services, namely VoIP service.

- The coming into these markets of a large number of alternative operators, which sometimes use regulated wholesale offers and other items made mandatory by regulation (e.g. portability), led to a significant increase of new operators' shares in the telephone services markets.

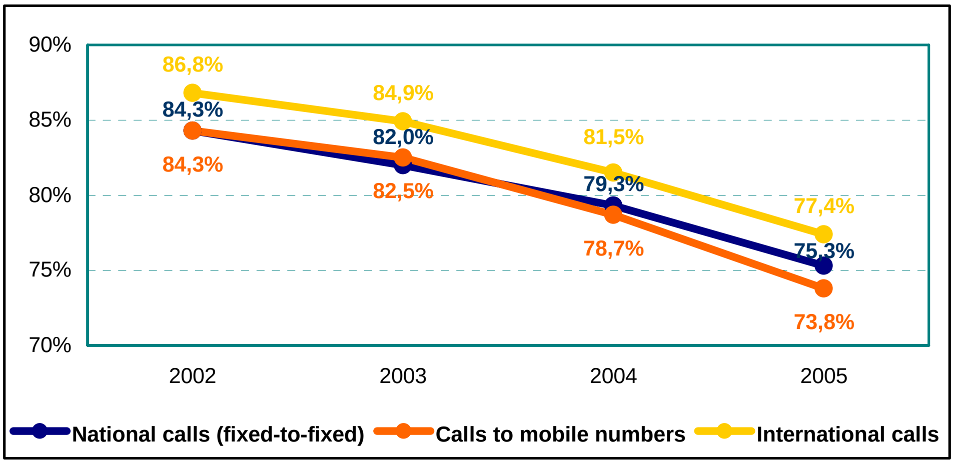
Graph 1 – Average share of the incumbent operator's voice traffic revenues in the EU countries



Source: European Commission, 11th Implementation Report

The incumbent operator's market share in Portugal is higher than the EU average. However, in 2005, its market share dropped more sharply than in the EU, on average.

Graph 2 – Average share of the incumbent operator's voice traffic revenues in Portugal

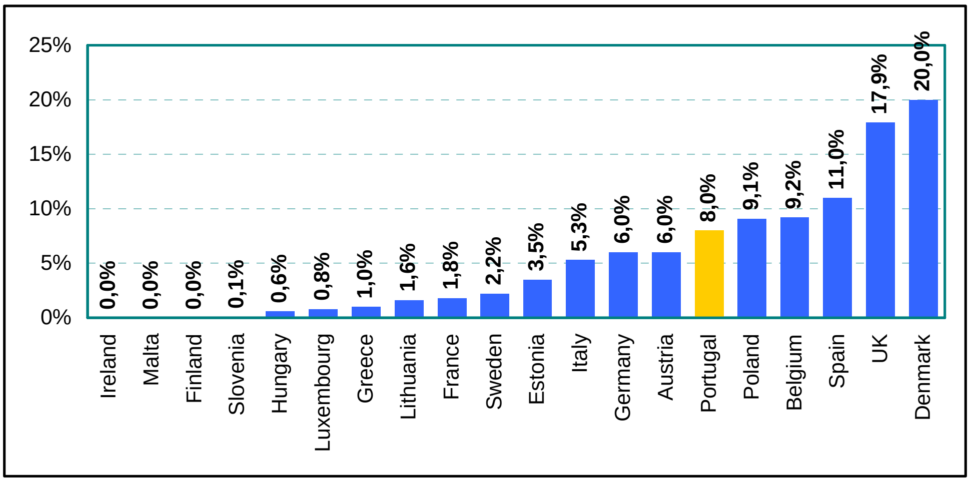


Source: ICP-ANACOM

- Regarding the access markets, the evolution of the alternative operators' market shares was less relevant. The direct access customer share of EU's new operators is 8.3 per cent. The main access means used by these direct customers is cable TV networks.

In Portugal, the direct access customer share of the new operators is close to the average. About 8 per cent of the direct access customers are alternative operators'.

Graph 3 – Direct access customer share of alternative providers in the EU – June 2005



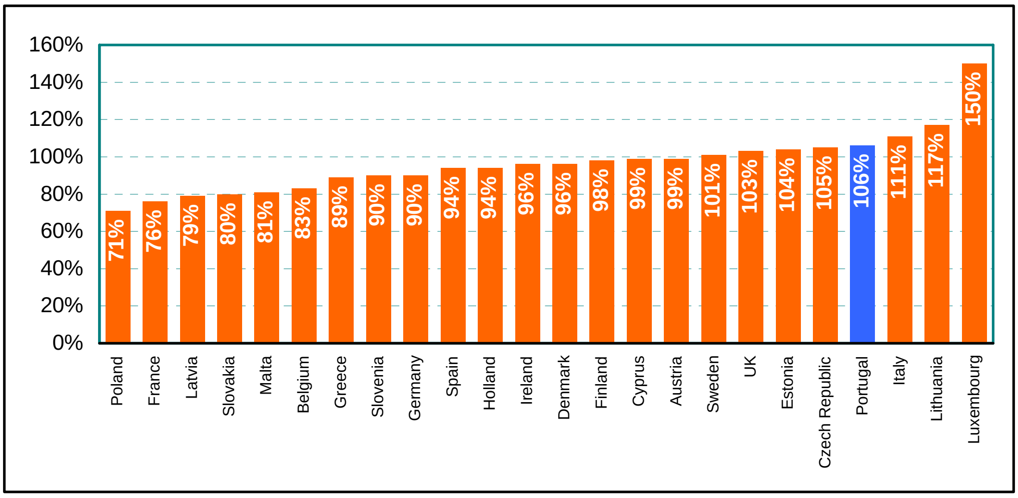
Source: European Commission, 11th Implementation Report

- In order to face competition and decreasing revenues, operators are investing in new markets and new technologies (new generation networks).
- Telephony services using the Internet protocol (IP) (and the VoIP one) are already available in most Member States, although with no important effects in the traditional fixed telephony's revenues, so far.

Mobile communications service

- Mobile voice communications services are already showing signs of maturity, with very high penetration figures. The average mobile service penetration rate in the EU reached 92.8 per cent in October 2005. Penetration reached rates above 100 per cent in eight countries, namely Portugal.

Graph 4 – MTS subscriber penetration in the EU – September 2005



Source: European Commission, 11th Implementation Report

- In spite of the high penetration that was already reached, this service is still growing considerably, boosted by its evolution in EU's ten new Member States.
- The service's revenues are also growing. Estimated revenues in 2005 grew about 6 per cent. This growth was generated by new data services and takes place in spite of the mobile terminations' price reductions enforced by regulators.
- There is also an increasing competition due to the entry of new operators in the market.

  Beyond the 79 2G network operators in the EU, these markets have about 214 virtual mobile service providers/operators (there were 166 in 2004). In 2005, about 14 countries had this kind of service providers. In eight of those countries there are more than ten mobile operators (including virtual operators).

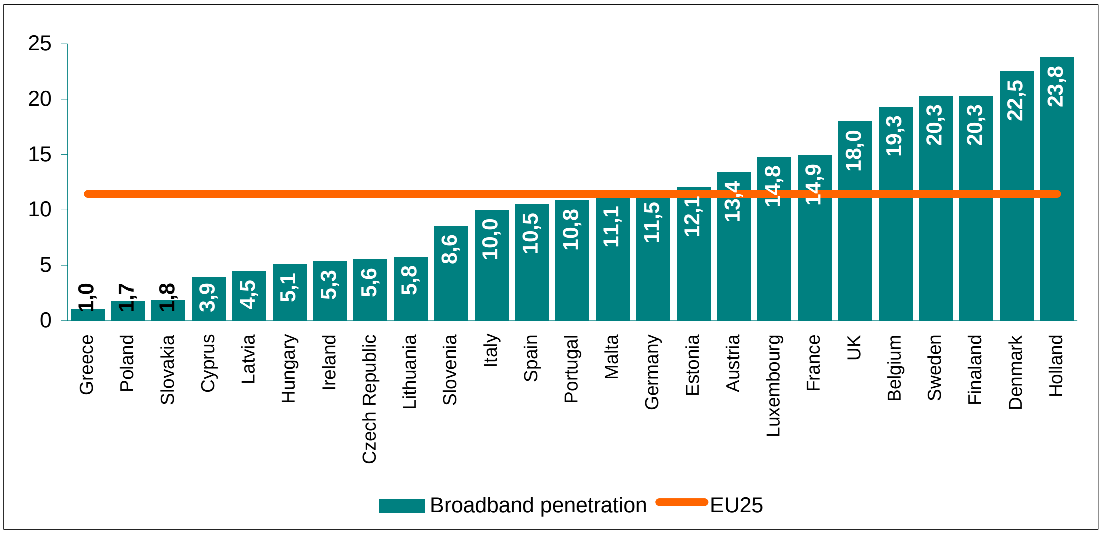
  It should be mentioned that the amount of ported mobile numbers doubled in 2005.
- The above mentioned increase in competition led to lower market shares of the market leaders. However, in 13 EU countries, the market leader's share is above 40 per cent.
- Increasing competition also led to decreasing prices, namely in Portugal, and to an increase of the available offers.

- 3G services are now beginning to step up, already with 15 million subscribers in the EU. In Portugal, 3G services were launched in 2004 and in 2005 the population coverage rate of this service was 50 per cent.
- International roaming prices[3] are still high and their tariffs still not clear.

Broadband

- Broadband roll-out significantly speeded up in 2005. The average penetration rate (lines per 100 inhabitants) in the EU reached 11.5 per 100 inhabitants in October 2005, whereas a year earlier the ratio stood at only 7.3 per 100 inhabitants. In 2005, more than 20 million lines were installed. The penetration rate in Portugal at that date was 10.8 per 100 inhabitants, a yearly increase of 52 per cent.

Graph 5 – Amount of broadband accesses per 100 inhabitants in the EU25



Source: European Commission, 11th Implementation Report

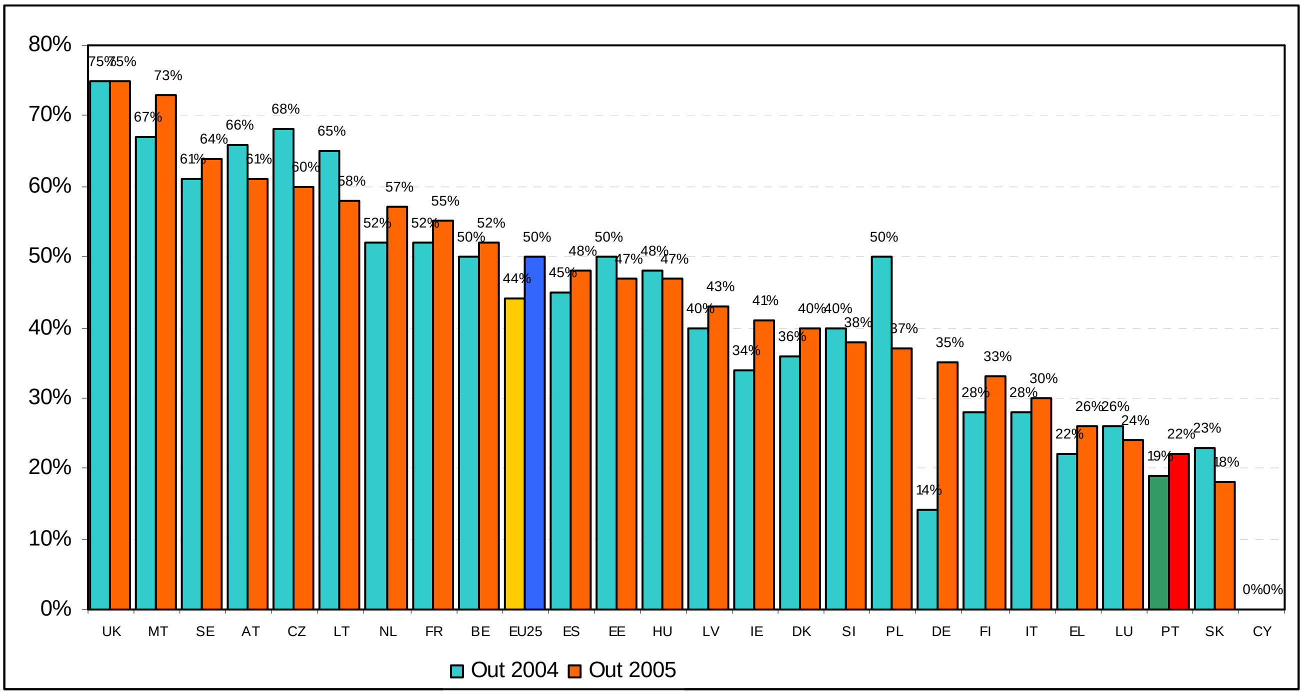
- Broadband is replacing dial-up accesses. In Portugal, the amount of broadband customers is larger than that of narrow band customers.

[3] Roaming is the use of a mobile network by subscribers to another mobile network, by agreement between the operators. International roaming stems from agreements between operators from different countries.

- ADSL is the main access technology, above cable modem. In Portugal, this phenomenon occurred for the first time last year.
- Incumbent operators' market share in the EU has been decreasing. It was 50.2 per cent in October 2005, vis-à-vis 55.7 in the same month of 2004.

  In Portugal, the alternative operators' market share was 23 per cent at the end of 2005. The incumbent operator's growing market share trend was reversed during this year.

Graph 6 – Evolution of new operators' broadband market share



Source: European Commission, 11th Implementation Report

- Due to the increasing competition, the prices of this service have been decreasing at the same time that the throughput has increased. The market in Portugal evolved in line with this trend.