



ANNUAL REPORT 2003



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Message from the 2004 General Assembly Chair

Message

Ibrahim Koluder



It is an honor and privilege for Bosnia and Herzegovina and BH Telecom to chair ETNO's General Assembly during 2004. I would like to emphasise the huge contribution of our predecessor, Anthony De Bono and Maltacom, to the successful work of the association's assembly in Malta last year.

It will be a challenge to achieve Maltacom's level of GA organisation, but one that BH Telecom looks forward to meeting. Via close cooperation with ETNO members, the ETNO Director and his team and the association's Executive Board, we hope that we will meet all expectations.

In this important period for Europe's telecommunications industry, ETNO's 2004 Work Programme and Strategic Set of Actions--approved in Malta--define the vision for the sector and the role of ETNO for the coming period. They provide us with useful guidelines for our future work. ETNO will continue to tackle, through its focused working groups, the list of actions and priorities based on their relevance to ETNO members. This work's outcome will strengthen the association's role in influencing Europe's electronic information and communications marketplace, and in creating a positive environment for business and investment. Thus, it should help shift Europe's private sector to a renewed confidence in our industry and intensify investment for the deployment of electronic infrastructure and new innovative services. Indeed, Europe's public and private sectors each have a major role to play in making eEurope a reality. A multi-platform competition approach will lead to technological innovation and a wide range of affordable products and services for business and consumers.

The year 2004 brings a historic change with the accession of 10 new countries to the European Union. ETNO is unique among the sector's associations for its membership that includes those from all new EU countries. Accession country issues are one of the main strategic areas for ETNO this year, and it is being studied within the Association's Accession Countries working group. Given that the EU is expected to subsequently enlarge to include other transition countries as soon as their conditions for membership are fulfilled, the working group's experiences will be essential.

We look forward to welcoming ETNO members in Bosnia and Herzegovina in November 2004 for ETNO's 25th General Assembly. We will make all efforts to ensure that each of you from the ETNO family will have an enjoyable and fruitful visit to our country.



Message from the Executive Board Chair

Message

Michel Huet



It is a privilege for France Telecom to chair ETNO's board in 2004 and to build on the policy goals and successes that flowed from the Association's work of the previous year.

ETNO is proud to bring a business view rooted in the reality of the various markets and market players. Just as structural market differences exist between the EU's older and newer member states, this has not prevented us from speaking with a strong common voice. Although ETNO companies compete against one another in the marketplace, they achieve consensual views on the great majority of strategic policy issues

Indeed, 2003 saw a trio of challenges critical to the industry's future health and growth. At the top of the list was ETNO's promotion of policies supporting platform-neutral competition in broadband and investment in broadband networks.

Broadband can be supplied in many ways and, as study after study has demonstrated, it is a vital and necessary component to underpin a strong, healthy and competitive economy. But at the same time, suppliers must also be allowed an adequate return on their investment—a message ETNO conveyed consistently to policymakers throughout the year.

A second important task, which we are carrying forward in 2004, involved shaping the association's dialogue with policymakers and the regulatory bodies created by the EU's new regulatory framework of telecom laws. A proper and balanced implementation of the framework is best achieved if there is a regular and frank expression of views between regulatory authorities and industry. For instance, ETNO not only contributed to the public debate started by the European Regulators' Group about its draft report on remedies but initiated an independent study by consultant Case and Associates to bring some challenging views on this issue. The Association fought hard in 2003 to ensure these lines of communication remained as open and transparent as possible. Although some work still remains to be done in this area, the e-communications sector is already benefiting from a stronger dialogue with the new bodies, thanks to the effort of ETNO, other industry players and the openness of the Commission.

Yet the ultimate goal is not merely better dialogue between industry and regulator for the sake of communication; there has to be a purpose. Indubitably, that should be: the creation of a harmonised e-communications market across Europe. This, in turn, implies a consistent application of telecom regulations and laws to the greatest extent possible.

ETNO's third major policy concern in 2003 centered around preparations for the EU's enlargement. This entailed a number of anticipatory actions launched throughout the year: strategic workshops for accession-country operators, the expansion of ETNO's membership with new operators from the accession countries, who have now joined the EU, and an unprecedented day of meetings in Brussels organised by ETNO between the CEOs of its accession-country operators and high-level EU policymakers.

But these are only a few of the more publicly visible actions the Association pursued. There was a host of other policy topics husbanded throughout the year ranging from environmental issues and spectrum allocation to industry-led efforts to combat spam, fraud and piracy. I invite readers to review the full gamut of these strategic initiatives in the pages that follow.



Organisation Chart

GENERAL ASSEMBLY

Chairman: **Ibrahim Koluder** (BH Telecom)

Vice-Chairman: Dan Pazara (RomTelecom)

EXECUTIVE BOARD

Chairman: **Michel Huet** (France Telecom)

Frédéric Donck (Belgacom)

Dorothy Smith (BT)

Andreas Tegge (Deutsche Telekom)

Patrick Galvin (Eircom)

Francisco da Silva (Portugal Telecom)

Thomas Müller (Swisscom)

Luigi Gambardella (Telecom Italia)

Manuel Avendaño (Telefónica)

Grazyna Piotrowska-Oliwa (Telekomunikacja Polska)

Olof Nordling (TeliaSonera)

ADMINISTRATIVE COMMITTEE

Chairperson: **Dorothy Smith**

Members: Olof Nordling and Dietmar Schulz (Deutsche Telekom)

Observer: Michel Huet

ETNO OFFICE

Director: **Michael Bartholomew**

Executive Manager, Operations: Leo Debecker

Press & Communications Officer: Brooks Tigner

Senior Adviser, Public Affairs: Fiona Taylor

Legal & Public Affairs Adviser: Eirini Zafeiratou

HR & Financial Officer: Anne Vallès

Assistant Internal Relations: Isabelle Claeys

Director & Communications Assistant: Sandrine Ackermans

Secretary: Maria Rodriguez-Dhénin



ETNO Members as of 31 December 2003

Members

Auna Telecomunicaciones
Belgacom
BH Telecom (Bosnia and Herzegovina)
BT
BTC (Bulgarian Telecommunications Company)
Cesky Telecom
Community of Yugoslav PTT
Croatian Telecom
Cyprus Telecommunications Authority
Deutsche Telekom
Entreprise des Postes et Télécommunications Luxembourg
Elisa Communications Corporation
Eircom
Elion Enterprises Ltd
Finnet Group
France Telecom
Koninklijke KPN
Lattelekom
Makedonski Telekomunikacii
Maltacom
Matáv Hungarian Telecommunications Company
Netia Holdings
OTE
Portugal Telecom
RomTelecom
Síminn (Iceland Telecom Ltd)
Slovak Telecom
Societatea Nationala de Radiocomunicatii (SNR)
Swisscom
Tele 2
Telecom Italia
TDC
Telefónica
Telekom Austria
Telekom Slovenije
Telekomunikacja Polska
Telenor
TeliaSonera
Türk Telekomünikasyon
VIPnet



Introduction

ETNO led a pro-active agenda in 2003 for the industry, embracing the full spectrum of policy issues. Priority however, went to three e-communications challenges that emerged during the year: promotion of broadband, monitoring of implementation of the EU's new telecoms directives and dialogue with policymakers regarding the EU's enlargement.

One of the Association's central policy messages to Europe's policymakers was the incontestable need for a strong and coherent policy approach to broadband. As a pillar of the European economy, high-speed Internet's development is a necessary ingredient to enable the achievement of e-Europe's aspiration of an Information Society for all. This message reached its target audience thanks to ETNO's position papers, briefings with policymakers and its second annual conference on broadband. Europe's leaders recognised the strategic necessity of promoting technology-neutral competition in broadband and the creation of inducements for industry to invest in broadband infrastructure.

ETNO focused considerable time and energy in 2003 on monitoring implementation of the new telecom package and maintaining a close dialogue with EU officials. The member states did not advance in 2003 at the same pace of implementation, for example, with more than half failing to transpose the measures as required.

Also worrisome for industry is a persistent lack of clear and predictable rules. Meeting that challenge calls for a workable relationship between industry and the EU's new telecom regulatory bodies created by the package,

including access to regulatory documents and decisions. Some of these entities are more transparent than others, although late 2003 saw positive movement in the direction of transparency. Given that the new bodies need time to develop their working methods, the verdict is still out on how transparent they will ultimately be—a challenge that continues into 2004.

There were also signals in 2003 that national and EU regulatory authorities were not working as closely together as expected under the directives. ETNO kept a vigilant eye on the subtle shifts of tactics within these groups during the year to ensure fair and predictable rules for the sector.

The need for clear and open relations between regulators and industry players grew all the more apparent as the EU's final preparations for enlargement were concluded during the latter half of the year. Indeed, a Union of 25 markets demands clear lines of communication and a transparent distribution of policy discussions and decisions to all industry players.

ETNO worked especially hard in 2003 to guarantee that the voice of its member companies in accession countries was heard by EU decision-makers. Inevitably, the EU's enlarged telecoms market will be a heterogenous one for an unpredictable period until the divergent commercial, regulatory and institutional patterns of all the EU's national telecom sectors are fully harmonised. ETNO did its best to ensure that reality was understood in Brussels by bringing together its accession-country operators with EU policymakers to lay the foundation for a rich and fruitful dialogue among all players.



Highlights

Highlights of the Year

Telecom Remedies: ETNO Shapes the Debate

The kind of remedies that national regulatory authorities (NRAs) apply to dominant players in markets deemed as uncompetitive will have a profound impact on shaping the sector. The Commission's definition of remedies and broad guidelines for their application was the last important section of the EU's regulatory package that still awaited completion in 2003. ETNO took the lead early in the year to put forth its views on the issue by commissioning an independent study on remedies by outside experts. Its purpose: to provide input on economic aspects to Commission officials as they prepared to draft a remedies paper in early 2004.

The 50-page study was grounded in economic analysis of different kinds of remedies that regulatory authorities might be expected to apply. Its results were presented to EU policymakers, industry experts and ETNO member company executives at a workshop in Brussels in July. The report's message was favourably received by policymakers and the telecoms community in general, with EU officials saying it offered useful information for their forthcoming remedies paper.



Implementation: Keeping up the Momentum

July 25 was a key date for Europe's e-communications industry since it set the clock ticking for member-state implementation of the EU's package of telecom laws. But as the date drew near it was increasingly obvious that many EU nations would not make the deadline.

ETNO used every opportunity during the year to voice its concerns about the inherent dangers of a delayed implementation. There can be no harmonised marketplace until all member states have the same legislation on their books. Moreover, delays run the risk of encouraging divergent regulatory interpretations and approaches. ETNO conveyed this message during meetings with policymakers and NRAs, at industry conferences and to the public at large via statements and press releases. As the year drew to a close these concerns were acknowledged by EU policymakers, who urged national capitals to respect the package's implementation deadlines.

Services of a General Interest: Preventing Regulatory Seepage

ETNO's public affairs campaign to convince policymakers not to impose extra notification or universal service obligations on telecom operators beyond existing sector-specific regulations delivered positive results as 2003 drew to a close. At issue was the European Commission's consultative green paper on services of general interest (SGI), unveiled in May 2003, which set the stage for a draft SGI directive expected in mid-2004.

The paper's suggestion was that state-aid notification rules should be imposed on telecom operators and other entities who received compensation for mandatory services offered to the public. ETNO and other industry groups opposed the idea on grounds that the subject was already covered by EU laws specifically governing the telecoms sector, such as the Directive for Universal Service and Users' Rights.

Armed with a position paper arguing that new rules should not be inflicted on a sector already fully liberalised, ETNO conveyed its views to key Commission officials and especially to MEPs. The results were positive: by year-end Parliamentary committees adopted opinions that reflected ETNO's line of reasoning.



ETNO's Second Broadband Conference: A Success Story

The importance of broadband and promoting content to help broadband's development were the twin themes of ETNO's second annual conference, "The Broadband Revolution Takes Shape." Held in Brussels, the one-day event centered around broadband business trends and the challenges of implementing the EU's telecom package in a timely and adequate manner.

The central message from panelists and speakers focused on the critical importance of creating new business models and shaping Europe's regulatory framework to promote investment in broadband infrastructure. Keynote speakers Erkki Liikanen, European Commissioner for Enterprise and Information Society, and Philip Nolan, Eircom's CEO, were among the well known personalities invited to the conference, which attracted nearly 200 participants from EU institutions, industry, national regulatory authorities, consultants, law firms and the press.

Enlargement: ETNO as Facilitator for Its Accession-Country Members

ETNO paid special attention in 2003 to the consultative and informational needs of telecom operators in the EU's 10 accession countries as they prepared to join the Union on 1 May 2004. Special workshops, for example, were held in Slovenia and Romania at mid-year on tax issues and implementation of the EU's telecoms package, while a new ETNO working group on accession was created at year's end.

Of special strategic value were exclusive briefings in Brussels with high-level EU policymakers organised by ETNO for the CEOs of accession-country operators. The one-day event in October saw the heads of 13 operators gather in the Belgian capital for a series of meetings with key Commission officials--including Information Society Commissioner Erkki Liikanen--and members of the European Parliament.

The consultations were an unprecedented and valued opportunity for the CEOs to convey the challenges their companies face as their governments implement the EU's telecom package. ETNO's efforts were amply appreciated by European Commission Competition and Information Society officials, who urged the Association to host a similar event in 2004.



ETNO's General Assembly Meets in Malta

Maltacom hosted ETNO's General Assembly in November during which participants reviewed a wide range of topics: the challenge of promoting broadband, implementation of the EU's telecom package and the forthcoming creation of the European Network and Information Security Agency.

The full agenda included keynote addresses by Malta's Telecommunications Minister and top Maltacom officials, the adherence of Maltacom to ETNO's Environmental Charter and the induction of a new ETNO member, VIPnet of Croatia. The assembly also paid tribute to the memory of ETNO's deceased board member, Hans Kraaijenbrink of KPN, whose contribution to the Association, as one of its founders, was profound.

ETNO Promotes Industry-led Agenda at WSIS

ETNO and its member companies led a carefully coordinated campaign in the run-up to the World Summit on the Information Society to help shape its subsequent agenda. This was carried out via meetings with ITU officials and other international bodies, ETNO position papers and articles and press statements by ETNO's Director. The December 2003 gathering in Geneva of government and business leaders focused primarily on ways to close the "digital divide" separating industrialised and developing countries, and the ITU's reform. ETNO member companies' advocacy of a light regulatory environment supporting investment was largely reflected in the summit's declaration. ETNO and other industry groups' recommendations were discussed regarding governmental bodies' involvement in Internet governance, with ETNO supporting ICANN's role in this respect. The decision was pushed back to the next WSIS gathering in Tunisia in 2005.

New EU Committees: Tracking Their Transparency

Along with other sector players, ETNO maintained pressure throughout 2003 on the European Commission and national regulatory officials to keep the EU's new telecom bodies as open to industry viewpoints as possible. This "transparency target" carried forward the campaign ETNO launched in late 2002 to gain a voice for the e-communications industry vis-à-vis these new bodies: the European Regulators' Group, the Communications Committee, the Radio Spectrum Policy Group and the Radio Spectrum Committee.

The Association approached the issue in a variety of ways. ETNO's Director met the ERG's chairman early in the year to explore the channels of consultation and, regarding the RSC, sent letters to key Commission officials stressing the importance of transparent relations with industry. ETNO also promoted this need at industry gatherings and conferences during the year. As a result, both COCOM and the ERG set up procedures to keep industry informed. These include observership status for ETNO experts, post-meeting debriefings for the sector and public consultations on key issues.

IPR Enforcement: Keeping It Reasonable and Balanced





One of the most contentious pieces of legislation in 2003 was the EU's draft directive on intellectual property rights enforcement--a topic that left much of the e-communications community divided and confused about the best way to ensure the rights of all stakeholders.

The signals from policymakers were just as mixed, with all three EU branches--Commission, Council of Ministers and Parliament--moving on different tracks. ETNO and its member companies strived to ensure that the wording in Parliamentary and Council texts did not impose unworkable legal and economic obligations on operators to act a "cyber police" in the effort to enforce IPR and copyright rules regarding digital products and services. While the final outcome on the issue was still unclear by the end of 2003, there were indications that a compromise between Council and Parliament was underway that would avoid unfeasible legal obligations for operators.

3G: A Reinforced Dialogue on Mobile and Health Issues

Public opinion about electromagnetic fields (EMF) regarding mobile telephone and 3G masts can be volatile and influenced by unsubstantiated media reports. As in previous years, ETNO and its member companies made a concerted effort in 2003 to keep the public and policymakers furnished with the facts and figures grounded in empirical science.

ETNO provided useful input to policymakers regarding the EU's draft directive on EMF and worker protection which steered the text's reference to EMF-exposure levels to accepted international norms. On the sensitive issue of 3G transmitter masts, the Association discussed scientific facts with MEPs during their consideration of a report on the European Commission's 3G Communication. Contentious references were removed from the report to produce a more balanced and accurate outcome.

-  *Strategic meetings are held throughout the year with EU decision-makers. Key officials from the European Commission's Information Society and Competition directorates address ETNO member companies, as do officials from new regulatory bodies such as the European Regulators' Group.*
-  *The Association stages its fifth annual workshop on accession in Romania in April. Attended by accession-country operators, EU officials and ETNO member companies, the day's discussions focus on the interplay between EU competition law and the new telecoms package.*
-  *ETNO's Director addresses a high-level conference in Amsterdam in November sponsored by the European Commission on the future of the European Network and Information Security Agency, conveying industry concerns about the agency's role.*
-  *ETNO and member company France Telecom stage fruitful debate in February with Members of the European Parliament on mobile telephony and health. The event follows similar meetings with Spanish and German-speaking MEPs.*
-  *ETNO hosts lunch in July with EU Italian Presidency. Lucio Stanca, Italy's Minister for Innovation and Technologies, addresses senior ETNO member company representatives about broadband, e-Europe and the World Summit on the Information Society.*
-  *Dorothy Smith of BT, is re-elected to serve a second annual term throughout 2003 as Chair of ETNO's Executive Board. In May the Association renews Michael Bartholomew's term as Director.*
-  *ETNO organises a well-attended workshop in May on forthcoming introduction of the European Telephony Numbering Space (ETNS) and its impact on telecom operators. The experts agree their companies will track ETNS' implementation at national level to identify the risk of divergent interpretations by national authorities.*
-  *ETNO's Director and the Chair of its General Assembly, Anthony De Bono of Maltacom, represent the Association at the EU Italian Presidency's e-Government conference in Como in July. More than 1,000 participants from 30 European nations attend the high-level event during which new initiatives are launched to push forward e-Government services.*
-  *During expert meetings throughout the year with European Commission officials, ETNO successfully argues for thorough analysis of all technical solutions for Europe's "Card Stop" project to rapidly cancel lost or stolen credit and payment cards.*
-  *The Association hosted a dinner in May for delegates attending the third EU Expert-Level meeting of the Global Business Dialogue on Electronic Commerce. ETNO's Director notes the many policy goals that GBDe and ETNO share such as promotion of broadband infrastructure and the prevention of excessive taxation of e-commerce transactions.*
-  *ETNO holds a special tax workshop in Ljubljana, Slovenia in June to examine the challenges for EU accession countries of transposing the EU's Sixth VAT Directive into national law.*



A Competitive Framework for Communications and e-Commerce

Broadband and eEurope

Broadband's roll-out was among the major focal points of ETNO's activity for the year. Stressing the importance of investment incentives combined with a light regulatory touch, the Association reiterated key messages to policymakers throughout 2003.

In particular, ETNO called on the EU to:

- allow market-driven and demand-oriented broadband policies to flourish;
- encourage the continuing confidence of investors in the telecom sector;
- implement the EU's e-communications package in technologically-neutral fashion with a minimum of regulatory interference;
- support and promote multi-platform competition as a key component to achieve e-Europe's goals.

The need for an investment-friendly approach to broadband formed the crux of strategic statements targeted to meetings of national telecom ministers and European leaders during the EU's Greek and Italian presidencies. The Association put forward these messages at every opportunity such as meetings with policymakers, European Commission workshops and during industry conferences.

This culminated in ETNO's second annual broadband conference in December, "The Broadband Revolution Takes Shape," an event whose participants included Erkki Liikanen, European Commissioner for Enterprise and Information Society and Eircom's CEO, Philip Nolan, as well as national regulators, members of the European

Parliament (MEPs) and industry executives.

By the end of the year, ETNO's message was getting through as reflected in EU leaders' support for investment-friendly and technology-neutral policies to promote broadband's growth. ETNO was also pro-active in its insistence on a nuanced and clear approach to any use of the EU's Structural Funds for development of broadband infrastructure and services. There is a role for such funding in our sector but only under specific circumstances, namely when market forces cannot competitively and viably provide them.



EU Telecoms Package

Implementation: The Overall Goal

Much of ETNO's work in 2003 centered on tracking implementation of the telecoms package directives for current and future EU members, and the creation of new regulatory bodies. This entailed monitoring preparations for the package's critical follow-up measures such as the definition of relevant markets and the remedies to be applied to dominant players in cases of market failure.

Successful implementation of the directives largely hinges on how national regulatory authorities (NRAs) implement and interpret the new package, and whether this is done consistently across member states. The package's official deadline of 25 July, 2003 for implementation was not met by all member states, which has meant delays to the transposition of the EU directives into national law.

In the interest of Europe's telecoms industry and consumers, ETNO conveyed its concerns to EU policy-makers that these delays must be kept to a minimum. It also addressed its larger concern that inconsistencies in the interpretation and application of the directives by NRAs must not lead to an uneven regulatory landscape across the EU.

Implementation: EU Accession Countries

As preparations for the Union's enlargement reached their final stage in 2003, ETNO made a concerted effort to boost awareness among policymakers of the commercial, institutional and market evolutionary differences between the EU's current and incoming

member states. The newcomer countries have to ingest simultaneously the EU's accumulated body of telecom legislation, known as the *acquis communautaire*, and the new package. This a major challenge for any country.

As they formulate policy, EU decision-makers need to take into account that markets in the Union's incoming members have not developed in the same way as in the older member states. The new member states' regulators also face a number of challenges. The task of market analysis and definition is a resource-intensive process, which suggests that accession country regulators may need extra time and resources to develop the same tools and capabilities as their more established counterparts in the other member states.

The Association positioned itself as a two-way conduit between operators in the accession countries and EU decision-makers. In April, ETNO staged its fifth accession workshop in Romania, which attracted 80 regulatory affairs experts from its member companies. This was followed in October by an unprecedented day of consultations organised by ETNO between the CEOs of 13 accession-country operators and key EU officials. The event culminated in a meeting with Erkki Liikanen, EU Commissioner for Enterprise and Information Society, and a high-level networking cocktail for the CEOs, Commission officials and members of the European Parliament.

Remedies

The kind of remedies that NRAs apply to dominant players in markets they deem as uncompetitive, or "failed", will have a profound impact on shaping the sector. Not unreasonably, the telecoms industry seeks crystal clear guideposts before regulators turn to these last-resort measures. Regarding the EU's future stance on remedies, the Association was particularly active in

2003 in getting its viewpoint across to the European Commission and national authorities. It commissioned a detailed study at mid-year on the economic implications of applying different remedies by assessing each remedy's impact on return on investment.

The study was the subject of a strategic workshop in Brussels that ETNO organised in July to present its findings. The study's arguments were widely acknowledged by industry experts and policymakers as useful in-put to the EU's consultation process.

New EU Regulatory Bodies: Transparency and a Voice for Industry

It is in everyone's interest that the EU's new package of telecom legislation functions well, and strong industry consultation is an important factor to make Europe's new regulatory framework a success.

The telecoms sector is worried by signals of a tussle for policy influence between the NRAs on one hand and, on the other, the European Commission. If not

satisfactorily resolved, this could run against smooth implementation of the package and the creation of a harmonised marketplace. Another source of ambiguity is the relationship between the European Regulators' Group (ERG) and the Independent Regulators' Group (IRG), which are functioning side-by-side for an unforeseen period. Neither group's regulatory role was fully formed as 2003 came to a close, though the ERG's legal status was clearer.

ETNO and its member companies led a concerted effort throughout 2003 to ensure transparency and a voice for industry in the new EU bodies created under the package: the Communications Committee (COCOM), the Radio Spectrum Committee (RSC), the Radio Spectrum Policy Group (RSPG) and the ERG.

ETNO's Director held a meeting in early 2003 with the ERG chair, for example, to discuss how industry will express its views on matters the ERG will handle. Such issues as the ERG's regulatory thrust were debated by ETNO at public meetings organised by the European Parliament and other actors. Steady insistence by ETNO for transparency paid off in the end. Access was secured for the sector in COCOM and transparency procedures vis-à-vis the ERG, with the latter's web site, agendas and hearings increasingly available to the public as the year progressed. The RSPG also agreed to hold regulator public consultations to take account of market players' views.

The situation remains somewhat fluid for industry, however, regarding the RSC which did not extend permanent observership to industry in 2003. But the Commission accepted our invitation to participate in meetings of ETNO's Frequency Management working group and to discuss on a regular basis the RSC's work with ETNO members.



Data Protection & Spam

ETNO's public affairs efforts in the area of data protection centered primarily on the separate issues of data retention and fighting the spread of spam. As the October 23 deadline for implementing the EU's Data Protection Directive approached, the Association and other telecom groups issued a joint statement urging caution regarding the need to carefully balance the costs and benefits of data retention for society as a whole.

By the close of 2003, the problem was still unsettled, with the Member States shying away from harmonisation of national data retention periods. These continue to diverge sharply across EU member states, though political pressure is rising in national capitals for a more concerted approach. The challenge lay in defining data retention's parameters--i.e., retention times, costs, the type of data to be retained and so on--and finding the right balance regarding the needs of public versus private stakeholders.

Meanwhile, as 2003 came to an end the policymaking jury also was out regarding the way industry and regulators should handle unsolicited commercial communications, known as spam. In March ETNO contributed to an EU questionnaire on the problem of spam, participated in a related workshop in October on the Commission's paper on spam and organised post-workshop meetings with key EU officials on the subject. The workshop laid the groundwork for a wider OECD/Commission spam conference of industry and government officials in early 2004 of which ETNO was a sponsor.

While supporting all efforts to fight spam, ETNO and its member companies also stress that implementing legislation is only one step in the process. It requires vigilance and participation by industry, which is fully

committed to developing effective and appropriate anti-spam technical solutions and to raising awareness among consumers and business about the risks of spam.

Cyber-crime & Network Security

ETNO devoted close attention to policy debate within EU circles regarding the European Commission's intention to set up a new pan-European advisory body regarding network and information security. A key issue was definition of the future body's responsibilities and the composition of its management board. ETNO and its member companies insisted on the importance of industry oversight in this area--a message carried by the Association's Director to a major conference in Amsterdam on the European Network and Information Security Agency (ENISA) sponsored by the European Commission.



Before the year closed EU member states approved ENISA's creation, tentatively choosing Greece to host the new body. The actual legislation establishing ENISA was set for early 2004, after which its director, management board, rules of procedure, work programme and an advisory "permanent stakeholders group" will be established. ETNO will be represented on ENISA's management board.

Copyright Issues & Intellectual Property Rights

With the rapid evolution in 2003 of broadband-delivered multimedia services, piracy and illegal file-sharing grew enormously. These underscored the crucial importance of copyright and intellectual property rights (IPR) compliance--twin topics that shifted to the front line of public attention as the year progressed.

The Association devoted considerable time and energy to tracking the EU's draft IPR enforcement directive as it moved through the Union's legislative machinery. Of particular concern were the number and nature of draft amendments put forward by the European Parliament--changes to the text that, if accepted, would have increased the directive's enforcement scope in ways unworkable for the telecommunications industry. ETNO and its member companies met with key members of the Parliament, Commission and Council to convey industry's concerns. The Association also issued a joint industry statement in late 2003 with other e-communications groups to reiterate the message, which started getting through to policymakers in early 2004.

ETNO also kept a close eye on copyright and digital rights management issues during the year to defend the industry's interests and to combat piracy.

Taxation

VAT and e-Commerce

The EU's value-added taxation directive on e-commerce entered into force in mid-2003 and its on-going implementation raises several issues for the industry. ETNO sought clarification from the European Commission and national authorities regarding the distinction between telecom services and e-commerce services for purposes of VAT collection since different taxation rules will apply to them. This pressure prompted the Commission early in the year to draw up its own guidelines, which clarified almost all crucial points for the telecoms industry. ETNO's request, for example, that mobile commerce services be classified in the e-commerce services category was adopted. National capitals will follow the new guidelines.

ETNO also consulted closely with the Commission on new place-of-supply definitions in the EU's Sixth VAT Directive on business-to-business supply of services. The EU executive's proposal to change the 6th Directive's Art 9--i.e., that supplies should be taxed in the country where the customer's business is established--was supported by the Association.

VAT and UMTS License Fees

Objecting to the heavy fees paid for their UMTS licenses, several operators across the EU began legal preparations to challenge their governments to recuperate the inherent VAT paid to national treasuries.

ETNO members in Austria, Britain, Germany, and the Netherlands all expressed interest in the issue.

By year-end operators in both Austria and Britain took their cases to court with a view to pursuing all appeal options. As a result, a judge in Austria decided to forward the case to the European Court of Justice, whose judgement should definitively settle the issue--in case of auctioned licenses--of whether national governments are obliged to return part of the cost of 3G licenses fees to Europe's operators. ETNO will closely follow the Court's review of the Austrian case since it will be a precedent-setting decision involving potentially billions of euros.

WTO/GATS

With the failure of the WTO's Cancun ministerial in September 2003 due to disagreement over agricultural subsidies, the goal of liberalising world trade ground temporarily to a halt in 2003. Though services were not a focus of Cancun's negotiations, ETNO conferred with European Commission trade officials and policymakers to retain liberalisation of the telecoms sector, the removal of market access barriers and WTO accession countries--including Russia--as priorities for the EU once the trade talks start up again.





Improving European Competitiveness

Competitiveness

R&D

ETNO worked closely in 2003 with other sector players such as the European Information and Communications Technology Industry Association (EICTA) to define a consistent approach to involving Europe's telecom operators in the EU's high-tech research programmes. Special attention was paid to technical standards, network interoperability and the evolution of mobile systems.

ITU/WSIS

ITU-related activities were a continuing focus of ETNO's work in 2003, with multiple contacts taking place at the working group level between ITU officials and experts from ETNO's member companies. The association coordinated agendas with its member companies and conferred with CEPT working groups on reform of the ITU.

In December ETNO's Director, along with a delegation of ETNO member companies, attended the World Summit for the Information Society (WSIS) in Geneva. WSIS' declared goal of using ICT to help bridge the "digital divide" between advanced and developing economies via a light regulatory environment and investment-friendly conditions was universally supported by participants.

However, ETNO and other industry groups opposed the potential involvement of government bodies such as



the ITU for purposes of Internet governance. It conveyed this viewpoint to summit participants and members of the press in an ETNO article in the conference's official publication, "WSIS 2003: Connecting the World." ETNO will work closely with its member companies in 2004 to prepare for the next WSIS summit in Tunisia in 2005, particularly regarding the role of the UN's post-WSIS internet governance working group and the ITU's in-put.



Resources

Fair Management of Resources

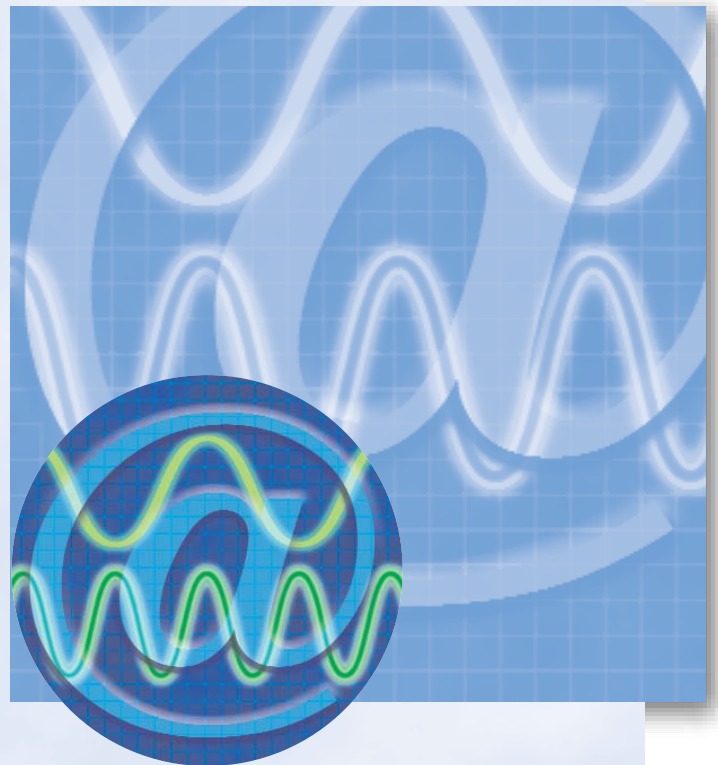
Numbering, Internet Naming and Addressing

Mushrooming demand for Internet protocol (IP) addresses is a major concern for operators and ETNO was particularly active in monitoring and lobbying policy developments at the EU, ITU and ICANN. In May it organised a special internal workshop for ETNO experts on forthcoming implementation of the European Telephony Numbering Space in order to assess ETNS' impact on network operators. The Association also defended its member companies' views at an October workshop on ENUM sponsored by the European Commission, arguing that no new structures were needed to oversee naming, addressing and numbering activities.

Indeed, ETNO's naming, addressing and numbering expert group met frequently in 2003 to exchange information about pan-European telephone numbering rules, caller-location methods for emergency services, anti-theft "card stop" procedures and rules governing the allocation of Internet addresses to regional registries. The Association issued position papers on each of these subjects throughout the year.

Frequency Management

The past year was a full one for ETNO's frequency management experts, who produced no fewer than eight position papers in the Association's name on issues ranging from European strategies for spectrum



use to defending terrestrial waveband frequencies against competing claims by other systems. ETNO's frequency management working group paid special effort, for instance, to protecting the integrity of fixed services against radio-interference from automotive short-range radar devices.

Elsewhere, ETNO stayed in close touch with the European Commission officials regarding the EU's evolving stance on the introduction of secondary trading of radio spectrum. There were also regular contacts throughout the year with the EU's new Radio Spectrum Policy Group and Radio Spectrum Committee to exert pressure on the two bodies to establish transparent relations with industry.



Cooperation That Benefits Both Providers and Customers

Cooperation

Fraud Control and Network Security

ETNO's working group on fraud control and network security carried forward in 2003 the substantial agenda established the previous year. Work was split among several sub-committees, which focused on analysis of intrusion detection and operator-reaction in IP environments, calling line identification manipulation, risk management and revenue assurance. Operator best-practice voluntary guidelines were prepared for the use of multi-tier virus protection and security features for wireless networks.

Two important meetings during the year in Tallinn and Copenhagen brought together fraud and security experts from 21 ETNO member companies to exchange information and experience, with a focus on interconnection fraud that attacks wholesale markets. ETNO operators vowed to work closely with manufacturers to expand customer awareness and promote technical information about possible remedies. A good level of cooperation has been reached with other fraud and security-focused groups such as the Communications Fraud Control Association.





Socially and Environmentally Responsible Management

Environment

Sustainability

ETNO enjoys a solid and unique environmental position on Europe's industrial landscape since it was the first sector to elaborate an environmental charter in the mid-1990s. Membership in the charter, which is open to both ETNO and non-ETNO telecom companies, has grown steadily in the intervening years, along with the charter's scope of activities.

Indeed, ETNO's environmental experts devoted a large part of their effort in 2003 to collecting new data on the positive contribution that Europe's e-communications companies are making to economic growth that is compatible with the environment. The data will be incorporated into the Association's next biannual environmental survey of charter participants, to be published in late 2004. This next survey, however, will carry a new name and level of commitment among its participants--the Sustainability Charter--which ETNO will actively promote.

Electromagnetic Fields (EMF)

EMF and Mobile Telephony

ETNO endeavoured to provide a steady flow of scientific-based information throughout the year to the public and policymakers about the facts concerning human health and mobile telephony.

An important achievement for the Association in 2003 was its successful effort to persuade MEPs to vote on a balanced report on the European Commission's 3G paper. This was due to a focused information campaign launched the previous year by ETNO and other telecom groups, which continued in 2003 via meetings with key MEPs. ETNO and member company France Telecom, for example, organised a debate on the issue with French-speaking members of the Parliament in February.

Draft Directive on Workers' Protection from EMF

ETNO's electromagnetic fields task force and its health and safety working group were particularly active



during the year in this area, producing position papers to help shape the member states' debate on worker health and EMF.

The Association kept up a steady flow of dialogue and information to policymakers on the EU's draft worker protection directive. The draft's initial wording was not acceptable to either national governments or their industries. Thanks in part to the public affairs effort of ETNO and its EMF experts, however, the final Council text maintained its reference to internationally adopted standards for emissions and a pragmatic approach to emissions evaluation in the workplace.

Corporate Social Responsibility (CSR)

The notion of corporate social responsibility in Europe grew enormously in 2003. This is directly linked to rising pressure from consumer groups, regulators and stockholders on business and industry to be socially accountable for their actions.

ETNO maintained a regular dialogue with EU and national officials on corporate governance issues, providing in-put and expertise to policy papers on the subject, while voicing the sector's views at conferences and meetings. ETNO member companies reiterated throughout the year that CSR should be a voluntary, business-led initiative. While global in scope, it should avoid too much emphasis on employment and social issues.

EU Sectoral Dialogue Committee

As in previous years, the EU's Social Dialogue Committee for telecommunications addressed skill shortages, work organisation and other key issues facing the sector in 2003. ETNO and telecom representatives from UNI, the Union Network International, conferred several times during the year to review future areas of discussion.

These included the ICT sector's telework guidelines, the need for more diversity in the workplace, human resource issues facing operators in the EU's accession countries, addressing the labour shortage in Europe's telecom sector and, finally, the prospects for promoting e-skills. The group undertook joint work with UNI to prepare a "Call Center Charter", to be adopted in 2004.

ETNO strongly supported the need to develop Europe's e-skills at a meeting of ETNO member companies' personnel directors at mid-year in Greece, and again during the EU Danish presidency's e-skills conference in Copenhagen in October. ETNO's Director delivered keynote speeches at both events.



Profile ETNO's Public Profile

ETNO's name was in the news throughout 2003, particularly regarding the European Commission's definition of telecom markets and its work on remedies in cases of market failure. The Association's views on broadband and the application of EU Structural Funds for infrastructure development also figured prominently in the press.

ETNO's policy statements and press releases issued before and after key meetings of EU policymakers were diffused widely across the European media landscape and drew public attention repeatedly to the dangers of over-regulation in the telecommunications sector. In presenting ETNO's interests, Director Michael Bartholomew was interviewed throughout the year by news agencies, broadcast media, European and international newspapers and magazines. Other staff members articulated ETNO's views in leading telecom business and trade publications.





Board

ETNO's Executive Board



Francisco da Silva
Portugal Telecom

Manuel Avendãno
Telefónica

Luigi Gambardella
Telecom Italia

Olof Nordling
TeliaSonera

Andreas Tegge
Deutsche Telekom

Patrick Galvin
Eircom

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Belgacom

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Swisscom

Beata Kosno *
Telekomunikacja Polska

Michel Huet
France Telecom

Dorothy Smith
BT



* Representing Grazyna Piotrowska-Oliwa (Telekomunikacja Polska)



Staff

ETNO's Office Staff

Michael Bartholomew
Director



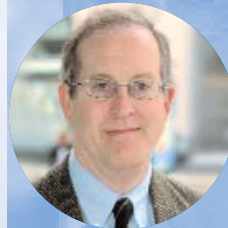
Fiona Taylor
Senior Adviser, Public Affairs



Leo Debecker
Executive Manager, Operations



Brooks Tigner
Press & Communications Officer



Eirini Zafeiratou
Legal & Public Affairs Adviser



Anne Vallès-Meunier
HR & Financial Officer



Isabelle Claeys
Assistant Internal Relations



Sandrine Ackermans
Director & Communications Assistant



Maria Rodriguez-Dhenin
Secretary





Papers

ETNO Position Papers

Common Positions

- CP070** on proposed CISPR 22 limits for radiated disturbance above 1 GHz (30/4/2003)
- CP071** on European Telephony Numbering Space (ETNS) (14/10/2003)
- CP072** on "Internet Assigned Numbers Authority (IANA) Policies for Allocation of IPV4 Blocks to Regional Internet Registries" (7/11/2003)

Reflection Documents

- RD169** on the public consultation on: "Barriers to widespread access to new services and applications of the information society through open platforms in digital TV and third-generation mobile communications" (14/2/2003)
- RD170** on the Canadian House of Commons Committee's consultation on Foreign Ownership (14/2/2003)
- RD171** on the proposed Directive on the minimum health and safety requirements regarding the exposure of workers to the risks arising from physical agents (electromagnetic fields) (4/3/2003)
- RD172** on the draft ECC Recommendation (03)03 (24/3/2003)
- RD173** on Networks funded or operated by local/public authorities - possible use of structural funds (14/4/2003)
- RD174** on the EU's draft Directive on IPR Enforcement (13/5/2003)
- RD175** on the draft Commission Recommendation on Caller Location Information for emergency services (27/5/2003)
- RD176** on the consultation paper "VAT - the place of supply of services" (26/6/2003)
- RD177** on the World Summit on the Information Society (WSIS) (15/7/2003)
- RD178** on the Review of the Television without Frontiers Directive (18/7/2003)
- RD179** on ERG consultation on bitstream access (28/8/2003)
- RD180** on EU's Green Paper on Services of General Interest - Issues of Relevance for ETNO (1/9/2003)
- RD181** on Consultation on the ERG's PIB for LRIC (2/9/2003)
- RD182** on commenting on the EU Communication on modernising Company Law and enhancing Corporate Governance in the European Union (9/9/2003)
- RD183** on the European Network and Information Security Agency (4/10/2003)
- RD184** on the draft Regulation on the law applicable to non-contractual obligations (Rome II) (19/11/2003)

Expert Contributions

- EC046** on the FCC notice of proposed rulemaking (NPRM) on ISP, ISR, Benchmark Policies and Mobile Termination Charges (1/1/2003)
- EC047** on reciprocity and countervailing buying power as presented in the European Commission's 8th Implementation Report (15/1/2003)
- EC048** on commenting on the working document "Implementation of the European Telephony Numbering Space" (28/2/2003)
- EC049** on the ECC Consultation Process on draft ECC Report 25 (25/3/2003)
- EC050** on commenting on the draft EU Recommendation on Leased Lines Interconnection Prices (17/6/2003)
- EC051** on the proposal for "ETNS Telemedia Applications" (30/6/2003)
- EC052** on the implementation of automotive collision avoidance Short Range Radars in Europe (5/9/2003)
- EC054** on the ENF on a recommendation for a numbering resource for Card Stop Europe (17/10/2003)
- EC053** on ICANN reform (22/10/2003)
- EC055** on the draft ECC decision designating frequency bands for the permanent use of Automotive Short Range Radars (ECC/DEC/(04)AE) (20/12/2003)
- EC056** on frequency arrangements for the UMTS / IMT-2000 extension band 2500 - 2690 MHz (20/12/2003)
- EC057** on draft ECC decision on CDMA-PAMR ECC/DEC/(04)AG (20/12/2003)