

Gibraltar Regulatory Authority

**Annual Report
2005 - 2006**



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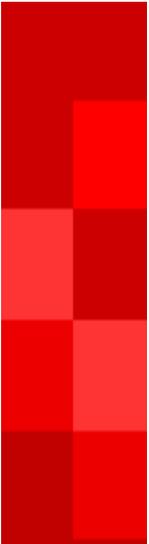
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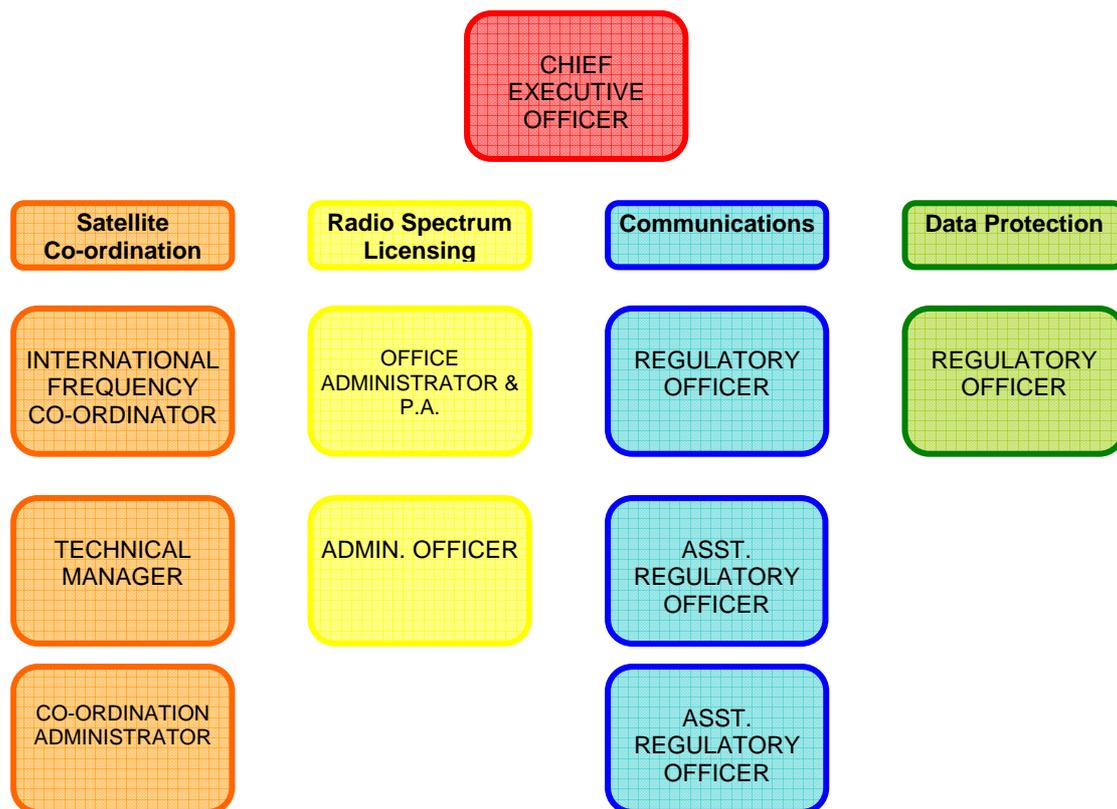
CEO's Statement

This Annual Report of the Gibraltar Regulatory Authority is prepared in accordance with Section 12. (1) of The Gibraltar Regulatory Authority Ordinance and covers the period 1st April 2005 to 31st March 2006.

Organisation & Staffing

The Authority has a total staff of ten. It is divided into four main areas of regulation: international co-ordination of satellite networks and licensing; licensing of the radio spectrum; communications, which includes telecommunications and radio-communications; and data protection.

The diagram below shows the areas of responsibilities and the staffing of GRA.



The International Frequency Co-ordinator is based in the United Kingdom and his main responsibility is the technical co-ordination of frequencies planned for use by satellite operators established in Gibraltar.

Competition in Telecommunications

Despite attempts to find a solution to the major numbering problem affecting Gibraltar, there has been no change in the situation during the year. Numbers, an essential raw material for providing competition, remain seriously circumscribed in Gibraltar. There is hope that the matter will be resolved as part of the trilateral process of discussions taking place at a high political level.

Late in 2004, the Minister for Communications issued an Individual Licence to Broadband Gibraltar Limited to provide public telecommunications networks and services in competition with Gibtelecom. The new operator, trading as Sapphire Networks, has been very slow in starting to provide, what is still, a very limited service. Until such time as Sapphire Networks widens its offering and service area there will be little competition to Gibtelecom in most areas of telecommunications.

The only area which is fully competitive is the provision of Voice Over Internet Protocol (VOIP) with three operators, Gibtelecom, EasyCall and Ad-Lib well established in the market. The number of minutes of calls using VOIP continues to grow and is taking over much of the international traffic which uses traditional network routing.

During the year, the GRA has been in intense discussions with Gibtelecom over the provision by the company of a new Account Separation Report, which will impact on the interconnection process, and the long-overdue Reference Unbundling Offer, which will provide competitors with access to the cable from the local telephone exchange to the premises of the customer (also called "the last mile"). Local Loop Unbundling is one of the most contentious issues in telecommunications regulation as it deals with competition aspects. Under Regulation EC/2887/2000, incumbent telephone operators (Gibtelecom in Gibraltar) have to give access to this local loop to new market entrants.

Both these matters were close to completion at the end of the period covered by this report.

New EU Regulatory Framework

The Communications Ordinance which will replace the Telecommunications Ordinance is expected to be taken to the House of Assembly by the Government in May 2006 and be commenced shortly afterwards. The Communications Ordinance, together with four regulations and a number of other documents, will introduce significant changes. The GRA will carry out a series of market analyses in accordance with EC Commission Recommendation 2003/311/EC starting in June 2006.

Satellite Projects

The year has continued to see growth in the work carried out by the GRA in support to the satellite operator, SES Satellites (Gibraltar) Limited. The GRA has been acting as the Administration for UK/Gib filings, has assisted in the co-ordination of Satellite networks with other administrations and worked with OFCOM, the UK Administration.

This year, SES Satellites (Gibraltar) Limited were granted a second licence under the Outer Space Act 1986 (Gibraltar) Order 1996 which is the legal basis for the regulation of activities in outer space (including the launch of space objects, procuring the launch of space objects and operation of space objects) carried on by Gibraltar operators. This licence granted will permit the operation of a satellite network from a UK/Gib orbital slot.

Data Protection

Pending the imminent commencement of the Data Protection Ordinance, the Government's Legislation Support Unit organised a series of seminars in January 2006 for the public and private sector. The GRA was invited to attend these seminars which were conducted by the Assistant Data Protection Commissioner in Ireland, Seán Sweeney.

The Ordinance will be commenced in stages, starting in April 2006, and the GRA will embark on a series of meetings with Government Departments and the private sector to address their particular concerns on the application of the law.

Digital Broadcasting and RRC06 (Regional Radiocommunications Conference)

The Regional Radiocommunications Conference of the International Telecommunication Union is being held in mid-2006. Its purpose is to develop a new Digital Broadcasting plan that is to replace the Analogue Stockholm Agreement of 1961. The GRA has been very involved over the past year carrying out extensive technical analysis in preparation for the conference and submitting the results within the tight deadlines required by the RRC06 process. As part of the preparative work, and under the auspices of Ofcom in the UK, the GRA has held technical meetings with the administrations of Spain, Morocco and Algeria. The RRC06 conference will be held in Geneva (15th May 06 – 16th June 06) with representatives from over 100 countries. The GRA will be attending, as part of the UK delegation, in order to ensure the future of digital broadcasting in Gibraltar.

Contacts with Other Regulators

During the year the GRA participated in two international forums for regulators of communications and audiovisual media which were held in London and New Delhi.



Paul J Canessa
Chief Executive Officer

Public Policy Issues

The Government has responsibility for deciding policy whereas the GRA's role is to implement policy and apply established regulatory and competition principles. It has substantial autonomy from Government. The credibility of the regulatory framework depends on the stability and consistency of the relationship between policy implementation and on the consistency of regulatory decisions.

In telecoms, public policy issues include;

- Gibraltar's economic objectives (inward investment, local entrepreneurship, and domestic supplier interest)
- Universal access/service
- Efficient use of natural and scarce resources (e.g. electromagnetic spectrum, numbers and rights of way)
- Defence and security
- Government's Policy

Main Areas of Regulation

Numbering Plan

The ownership of the Gibraltar Numbering Plan is vested in the Government and the GRA has the duty to administer it effectively to enable competition in the market. Numbering continues to be a major problem in Gibraltar.

Meetings to examine the numbering issue have continued in the trilateral process of discussions taking place at a high political level.

Regulatory Safeguards on Dominant Operators

In order to ensure that the consumers' interests are not stifled by the market power of the dominant operator, additional safeguards are incorporated in the Telecommunications Ordinance and licence conditions of operators. For example,

restrictions are placed on price changes on the incumbent, which have to be approved by the Minister and/or the GRA before they can be effected to prevent the incumbent from abusing its market power to price competitors out of the market. On the 24th September 2001 the Minister made a determination on the period of notice for changes to tariffs. The period of notice required before the implementation of any increase in tariffs is 30 days and the notice period prior to a decrease is 14 days. New safeguards shall be introduced when the new package of Directives is implemented.

Universal Service Obligations

Gibtelecom, as the incumbent, dominant operator in Gibraltar, continues being the Universal Service provider for Gibraltar. This means that Gibtelecom has an obligation under the Telecommunications Ordinance to provide services which at present other operators would not have a duty to provide. These obligations include serving uneconomic customers who would otherwise not be served on commercial grounds, special services for disabled persons, access to emergency services, provision of operator assistance and directory services.

Once the new Communications Ordinance is enacted a review of the Universal Service obligations may be carried out and other operators may be designated as having Universal Service obligations. Article 4 of the Voice Telephony Directive states that "Member States may set up universal service funding schemes for shared financing of services". However, the GRA has determined that the benefits to the incumbent of providing Universal Service at present outweigh the costs, which are not considered an unfair burden on the incumbent. The major benefits include, brand enhancement and commercial reputation, payphones, marketing and branding, customer information and benefits of ubiquity.

Direction Notices

A Direction Notice was issued under Section 9(1) of the Telecommunications Ordinance 2000 to Gibtelecom to ensure compliance with regulation 8 of the Telecommunications (Interconnection) Regulations 2001.

The Annual Pre-Tax Weighted Average Cost of Capital (WACC) used for the determination of its return on investment was calculated by Gibtelecom at 19.7%.

Under the Telecommunications Ordinance 2000, the GRA has a duty to ensure that telecommunications in Gibraltar are conducted in such a way which will promote the development of competitive, cost-efficient services to benefit the public. In particular, Section 15(1) of the Telecommunications Ordinance 2000 provides that -

“The Minister and the Authority shall each have a duty to ensure that, subject to such regulations as may be made under this Ordinance, in Gibraltar, fair and effective competition between persons engaged in the commercial operation of telecommunications networks or the commercial provision of telecommunications services or both in, from or through Gibraltar, is established and maintained”.

The cost of capital submitted by Gibtelecom was far higher than in other EU or similar jurisdictions.

Gibtelecom was directed to set its annual Pre-Tax WACC at 15.3%.

Separated Accounts

Regulatory Accounts are a very important element of the regulatory regime and an important tool for regulators. These accounts provide clear signals to other operators of the costs of key services and they assist the GRA in a wider number of areas. They also inform the regulated company more accurately of the actual costs associated with its services and it is therefore imperative that they are accurate and fit for purpose.

In October 2005 Gibtelecom confirmed its acceptance of the principles of the weighted average cost of capital (WACC) and the Capital Asset Pricing Model (CAPM) as a means to derive its cost of capital for the setting of fixed interconnection prices in the Reference Interconnect Offer (RIO). It argued that due to the intricacies of the Gibraltar telecommunications market, unique factors existed for which allowances had to be made. Gibtelecom revised its calculations and suggested that its pre-tax WACC should be reduced from 23.5% to 19.7%. The GRA reviewed this last figure of 19.7% and concluded that it was unrealistically high.

With the help of independent consultants, the GRA revised its own estimate of the cost of capital. In November (see Direction Notices above.) 2005 the GRA issued a direction in which it determined that the annual Pre-Tax WACC should be set at 15.3%. This would be back-dated as from 1st September 2004.

Following on from the WACC issue, other aspects of the Accounts Separated Report (ASR) were discussed. Among these were element based costing, proper cost allocation between the core network and the local access network and the separation of interconnect charges into charging periods. These changes are necessary to bring the cost allocation in Gibtelecom's ASR into line with practice with other EU jurisdictions.

The GRA is currently examining the latest ASR submitted by the incumbent in March 2006 and is confident that the matter will be finalised soon.

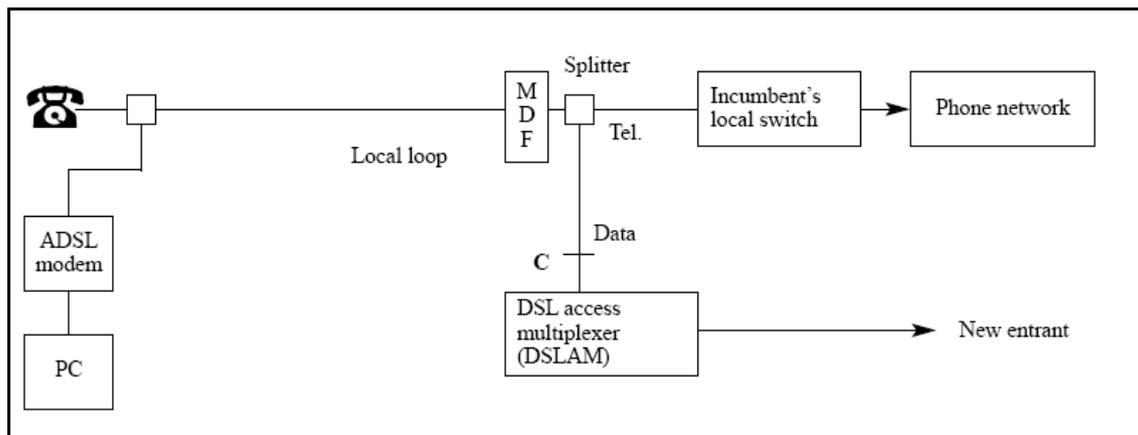
Local Loop Unbundling

The implementation of Local Loop Unbundling (LLU) is a requirement of European Union policy on competition in the telecommunications sector and has been introduced, at various stages of development, in all member states. European States that have been approved for membership to the EU have an obligation to introduce LLU as part of the liberalisation of their communications sector.

With Local Loop Unbundling alternative operators can access the local loop. This is the copper pair connecting each home or business to the local exchange. As the

incumbent in the fixed telecoms market, Gibtelecom owns and runs the vast bulk of the access network. These fixed network operators, considered as having significant market power, are required to develop wholesale products to facilitate access to their networks by other operators.

The following diagram shows one form of access to the local loop (Shared Access)



Shared Access to the Local Loop

Shared access to the local loop

In this form of access, the notified operator i.e. Gibtelecom continues to provide telephone service, while the new entrant delivers high-speed data services over the same local loop using its own high-speed ADSL modems. Telephone traffic and the data traffic are separated by means of a splitter before the incumbent's switch. The local loop remains connected to, and part of, the notified switched network.

Example: The new entrant supplies the customer with an ADSL modem for connection at his/her premises, and installs a DSL access multiplexer or DSLAM (which combines ADSL modems and network interface module) on the incumbent's premises, under a collocation agreement.

The interface between the incumbent's system and the new entrant is at point C in the diagram (i.e. within this case the splitter being installed by the incumbent).

To comply with the requirements for the introduction of LLU, operators must produce a Reference Unbundling Offer (RUO) that gives details of the LLU products on offer along with their associated tariffs. LLU is aimed at increasing levels of competition in

the supply of access to Internet and other 'broadband' services by unbundling lines on request and providing collocation in its exchanges to other operators.

LLU presents new entrants to the market with another way of delivering choice and new services to consumers without the need to implement a separate infrastructure. Looking at the experience in other jurisdictions, LLU can be particularly useful in the early stages of competition when new entrants have limited networks of their own. Although commercial negotiations are the preferred method for reaching agreement on technical and pricing issues for local loop access, experience has shown that, in most cases, regulatory intervention was necessary due to imbalances in negotiating power between the new entrant and the operator offering access to the local loop, compounded by a lack of other alternatives in the market. In this respect, the publication of a RUO is a critical regulatory requirement in ensuring transparent and non-discriminatory market conditions.

Gibtelecom have produced a first draft of the RUO and is currently being examined by the GRA. The GRA will ensure that the document is fully compliant with European and Gibraltar law and subsequently approve it. Upon completion of this process, the RUO will provide vital information to other operators wishing to compete in the Internet services market.

Code of Practice for the resolution of consumer and user disputes

One of the benefits of liberalisation of the telecommunications market is the introduction of new operators providing services at competitive prices. Quality of service, the ability to raise issues with the service provider and the nature and standard of response expected is of utmost concern to the subscriber. It is the responsibility of operators to take all possible steps to resolve all customer complaints and a basic standard is needed to ensure that they are handled appropriately.

All Fixed and Mobile Individual Licence holders are required to have a Code of Practice, as provided for in their licence conditions. This means that Gibtelecom must implement an appropriate code of practice for the resolution of customer and user disputes and in relation to non-payment of bills and disconnection. Such codes

contain minimum standards as set by the Regulator and provide practical guidelines for consumers when dealing with their operator. They cover a whole range of information on how to apply for a new service, to complaint handling and compensation, consequently providing the customer with a user friendly guide outlining some procedures and entitlements they might have previously been unaware of. In turn, this will give operators an opportunity to gain a competitive advantage by enhancing the quality of service they provide to their customers.

The first draft of the Code of Practice was submitted in December 2005 and then re-submitted in February 2006. After a few minor adjustments requested by the GRA, Gibtelecom submitted their final version in March 2006 and is now available upon request.

Carrier Pre-Selection

Carrier Pre-Selection (CPS) involves the provision of call services to a customer by an operator who provides their service over an alternative operator's network. At present, consumers need to dial a three digit code to choose an alternate operator to carry their call. With CPS, subscribers have the choice of having their calls carried by a chosen operator, other than the incumbent, by default without the need to dial any prefix. This enables competition between operators, particularly on price.

Following a Decision Notice published in March 2005 the GRA decided, amongst other things, that only Gibtelecom would be required to provide CPS as from 1st September 2005 and that the only CPS scheme option available would be for international calls only.

A timetable of CPS processes was published in the Decision Notice but due to the pending introduction of new legislation, work was put on hold in June 2005. The GRA will continue with the CPS project during the next financial year with help from UK consultants.

Tariff Rebalancing

The EU's regulatory requirements on pricing, implemented in Gibraltar by the Telecommunications Ordinance 2000 and the regulations made under it, called for European telecommunications operators to undertake major tariff reforms to correct historic imbalances and pave the way for new services. Such tariff rebalancing is a crucial element of the preparation for a liberalised telecommunications environment.

Section 15 (3) of the Telecommunications Ordinance 2000 and Section 12 (1) of the Telecommunications (Competition) Regulations 2001 require the Minister and the GRA to ensure that fair competition between persons engaged in the commercial provision of telecommunications networks is provided through the re-balancing of tariffs.

In November 2004, Gibtelecom submitted three options to allow for the full rebalancing of tariffs. Since then the GRA has been working with Gibtelecom to finalise an ASR to establish the true costs of Gibtelecom's operations and enable it to provide a RIO, detailing the costs to other operators of interconnecting with Gibtelecom.

Gibtelecom's latest ASR includes Access Deficit Charges to compensate for the fact that the cost of the monthly line rentals is charged below cost i.e. they are being subsidised by other services. This means that the cost of interconnection with Gibtelecom for a competing operator is higher than it should be because the competing operator is being asked to carry some of this subsidy.

Following the licensing of Broadband Gibraltar Ltd. (trading as Sapphire Networks) which intends to interconnect with Gibtelecom, completion of the tariff rebalancing exercise has, therefore, now become a priority.

Contacts with Other Regulators

European Platform of Regulatory Authorities (EPRA)

Late in 2005 the Gibraltar Regulatory Authority became a member of the European Platform of Regulatory Authorities (EPRA).

Set up in April 1995 in Malta, EPRA aims at providing a forum:

- for informal discussion and exchange of views between regulatory authorities in the broadcasting field
- for exchange of information about common issues of national and European broadcasting regulation and
- for discussion of practical solutions to legal problems regarding the interpretation and application of broadcasting solution.

Rather than pursuing national directives or acting as a tribune of common declarations, EPRA provides an open platform for discussions on a wide variety of relevant topics to regulators.

Up to now, 49 regulatory authorities from 40 countries in Europe have become members of EPRA. The European Commission and the Council of Europe are standing observers of the Platform.

EPRA holds two meetings a year at the invitation of a regulatory authority which the GRA will seek to attend in order to share thoughts and ideas with the different regulatory authorities.

International Regulators Forum

In October 2005, the GRA participated in an 'International Regulators Forum' held by the International Institute of Communications. It was hosted by Ofcom, the UK

regulator, in London. This event was exclusively held for regulators and was an excellent opportunity for all regulators to debate and share the numerous challenges arising in broadcasting and telecommunications around the globe.

Commonwealth Broadcasting Association

The GRA was invited to join the Commonwealth Broadcasting Association and participated in its General Conference held in the Indian capital Delhi in February.

At the conference, the CBA and UNESCO launched the guidelines for Broadcasting Regulation, which had been written by Eve Salomon, an international media consultant.

The GRA had contributed to the drafting process and the Chief Executive addressed the conference and chaired the session entitled "Regulating for Quality and Choice". The panel included the author of

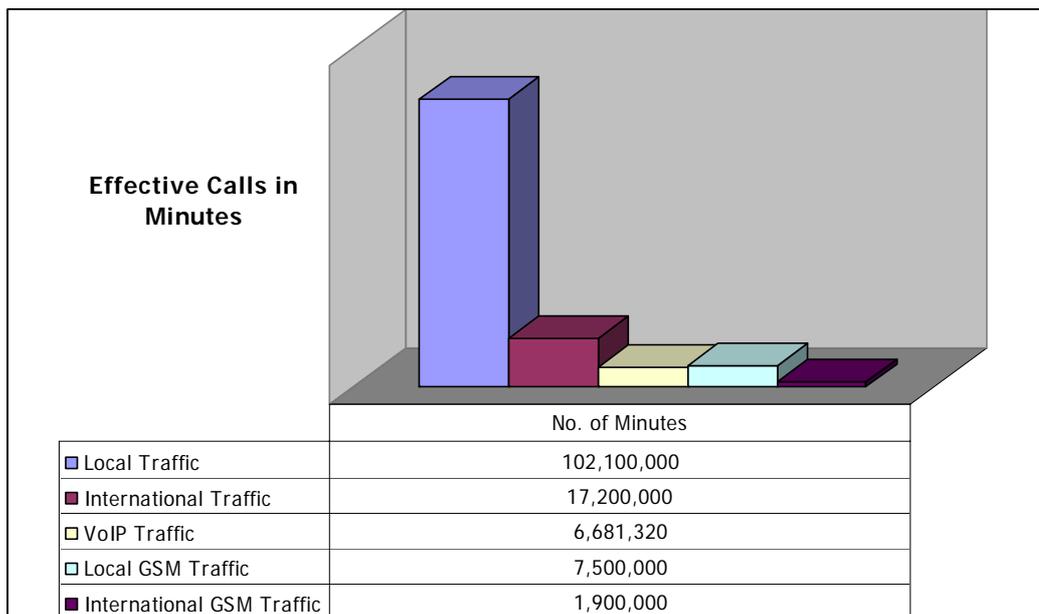


the Guidelines, as well as regulators from Singapore, India and the United Kingdom. The subject was particularly topical as the tide in setting up independent regulators is running strongly in many parts of the world.

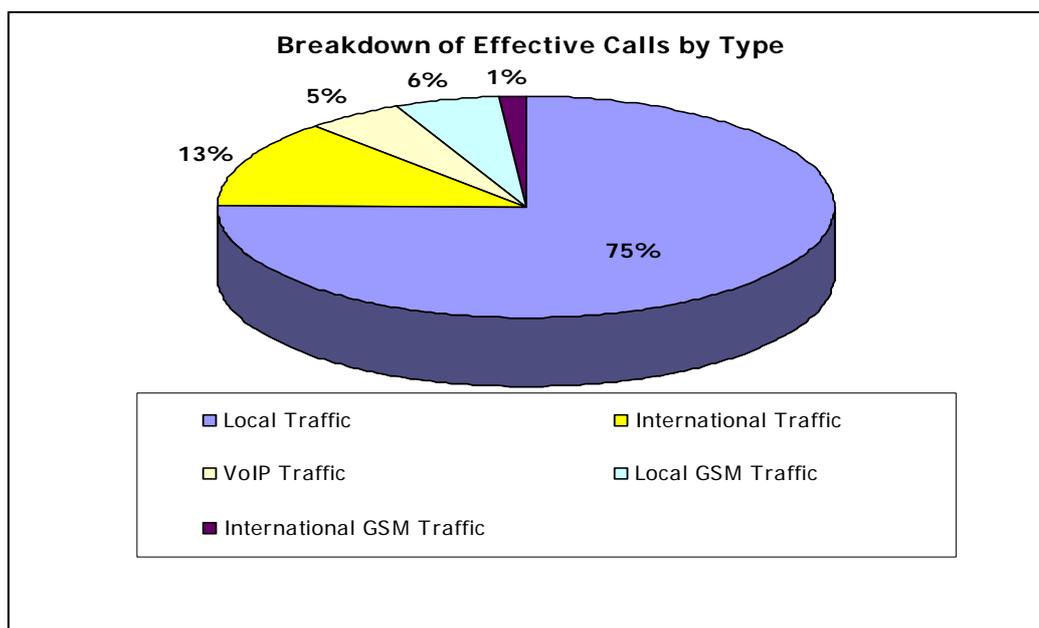
The Guidelines are aimed at helping governments and regulators to see clearly how to enable strong and vibrant public service broadcasting to be preserved and co-exist with a varied and commercially viable industry.

Voice Traffic Breakdown

During the period April 2005 – March 2006, approximately 135 million minutes of phone calls originated in Gibraltar. This figure takes into account calls made from fixed lines (i.e. land lines and payphones), VoIP calls and GSM (mobile) calls. The following diagrams represent the breakdown of each type of call in minutes, and as a percentage of their total value.



As a percentage, this can be expressed diagrammatically as follows:



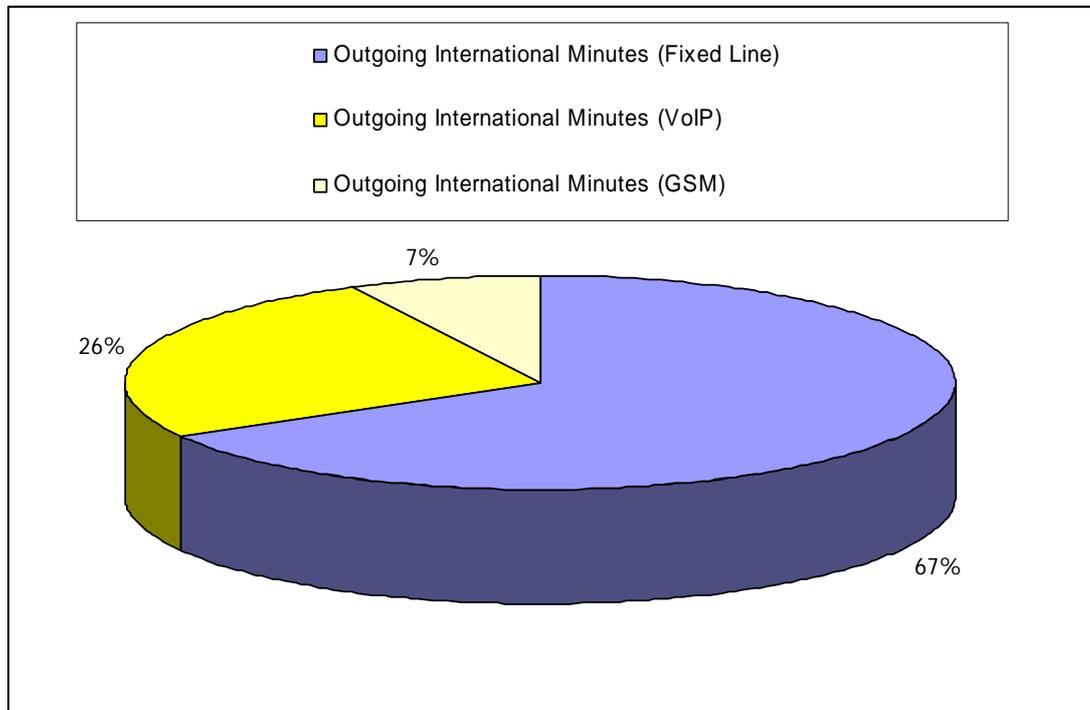
Fixed Services

The total number of exchange/telephone lines in use as at the end of 2005 stood at 24,094.

VoIP Services

VoIP (Voice over IP) telephony is defined as a way of sending voice calls over the Internet using either software or a hardware telephone. VoIP services can be accessed either by means of a pre-paid calling card or by dialling a prefix prior to the call. The prefix ensures that the call is routed via the network corresponding to the prefix. Whilst VoIP calls generally are of less quality than those routed via conventional networks, the cost of the calls is comparatively lower thus providing an attractive alternative in many cases.

During the period April 2004 – March 2005, approximately 6.7 million minutes of outgoing international calls were routed via VoIP. This accounted for 26% of the total outgoing international minutes originating in Gibraltar (this figure includes GSM calls). Excluding GSM, the figure represented by VoIP calls is 28%.



In Gibraltar there are currently 3 VoIP providers which allow for international calls to be routed via their network. These are Gibtelecom, EasyCall Ltd. and CTS Ltd. Each

of these companies operates the service via a license granted to them allowing the provision of such services.

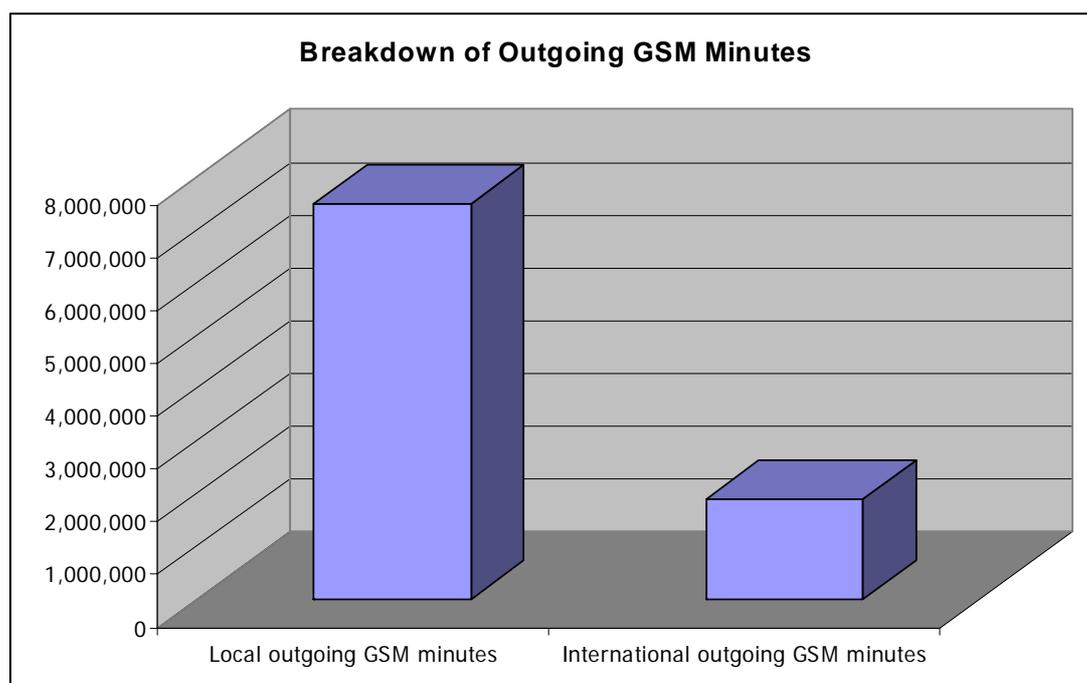
The countries most called via the VoIP calls originating in Gibraltar during the period April 2005 – March 2006 were UK, Spain, India and USA.

Mobile Phone Service

At present there is one licensed mobile phone service operator, Gibtelecom, who operate a GSM mobile network. Gibtelecom has not been designated as having Significant Market Power in providing mobile telecommunications since many people in Gibraltar use Spanish mobile phone operators, which are considered by the GRA to provide unfair competition to the Gibraltar operator. Many customers in Gibraltar subscribe to the Spanish mobile networks in order to overcome the refusal by Spanish operators to enter into roaming agreements with the Gibraltar operator.

GSM Statistics

During the period April 2004 – March 2005, approximately 9.4 million minutes of calls originated from GSM phones in Gibraltar. Of these, 7.5 million minutes were local calls with the remainder being international calls.



Roaming

The period April 2005 – March 2006 saw approximately 293,000 roamers log on to the local GSM network. This figure corresponds to GSM phones using SIM (Subscriber Identity Module) cards originating in countries other than Gibraltar although it is ascertainable that Spain was not amongst that list of countries. This is because there is no roaming agreement between Gibraltar and Spanish GSM operators meaning that Gibraltar registered GSM SIMs card cannot access Spanish GSM networks whilst Spanish GSM SIMs cannot access Gibraltar's GSM network. Roaming mobiles made approximately 1.5 million outgoing international minutes of phone calls and received 966,000 incoming minutes of calls. It is worth noting that the local GSM operator benefits from incoming calls to roaming mobiles because a percentage of the international routing cost is attributed to the host GSM network. This is not the case if local mobiles receive international incoming calls.

SMS (Short Messaging Service)

The local GSM network supports the use of SMS text messages.

During the period April 2005 – March 2006, approximately 6.5 million SMS messages originated from local GSM phones. A further 783,000 originated from roaming GSM mobiles.

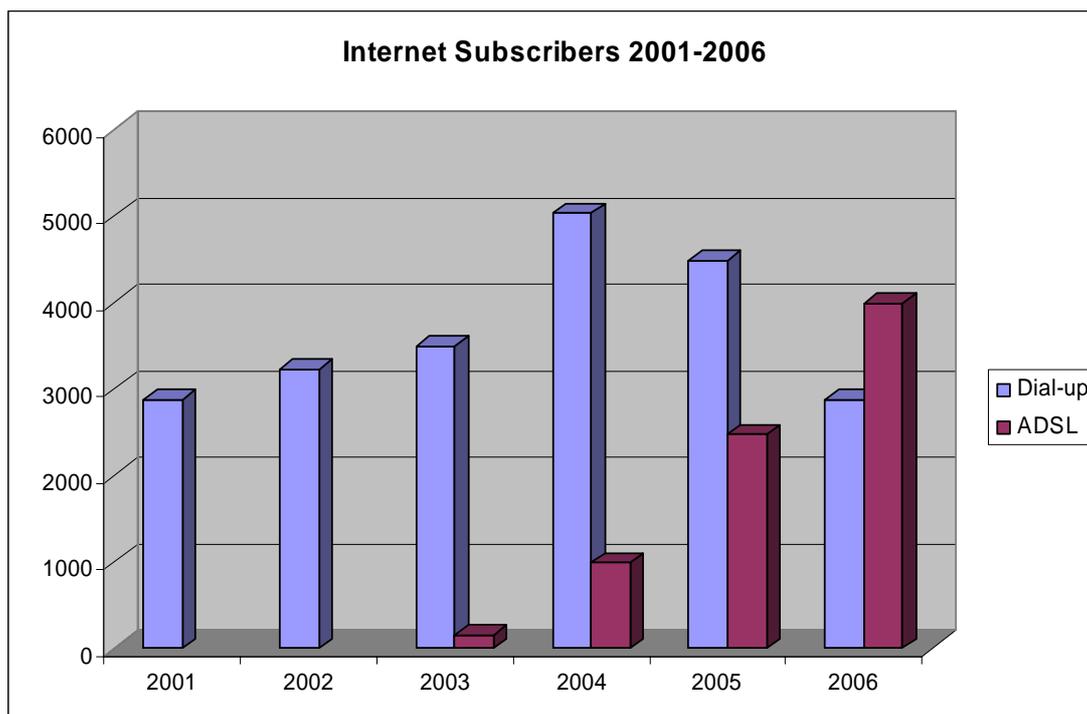
Internet

Internet Service Providers

Currently there are two licensed Internet Service Providers (ISP) in Gibraltar, Sapphire Networks and Gibconnect. Each provider is responsible for providing subscribers with ADSL and dial-up accounts which allow access to the Internet.

Subscriber Statistics

At the end of March 2006, there were a total of 6,838 internet accounts in Gibraltar, consisting of 2,878 dial-up accounts and 3,996 ADSL accounts. Although this actually represents a 36% decrease in the total number of dial-up subscribers compared to last year, it is important to note that the number of ADSL subscriptions has increased by 61%¹.



Public Pay Telephones

Under the notice of Designation of Universal Service Provider, Gibtelecom is obliged to provide sufficient Public Pay Telephones in Gibraltar. However, as in most of Europe, with the growth in mobile telephones the use of public pay telephones has declined.

Gibtelecom submitted a proposal to reduce the number of public pay telephones but, at the same time, revamp the service to include combined payment facilities and an increase in the number of telephones which are available to wheelchair users. The

¹ Figure updated to reflect correct distribution of ADSL accounts following error in last Annual Report published by GRA.

GRA has informed Gibtelecom that the proposal meets the requirements of the notice of Designation of Universal Service Provider

At least one Public Pay Telephone will be available at 36 locations around Gibraltar, instead of the 39 locations at present. A list of public pay telephone locations can be found in the Official Gibraltar Telephone Directory.

The Gibraltar Radio Spectrum Management Panel (“GRSMP”), which was constituted early in 1996, is chaired by the GRA and includes representatives from OFCOM, the Ministry of Defence, and the Emergency Services. The role of the GRSMP is to provide strategic advice on spectrum management policy issues, to the Minister for Communications. Policy decisions are crucial for the protection of the various services in Gibraltar and to ensure they may continue to operate without suffering harmful interference.

Digital Broadcasting - RRC 06

The current worldwide used technology for carrying the broadcast signals to your TV or radio uses an analogue infrastructure. This technology has been around for many years but the demand for better and richer content programming (sound and vision quality) cannot be met by the analogue systems, which in all fairness is rather resource hungry and therefore inefficient. Digital, on the other hand, better utilises the radio spectrum, the medium where the signals are propagated, so where before you could only transmit a single channel in analogue, in a digital platform you can have a multiplexer. This multiplexer can transmit in the region of 6 to 8 distinct programs using the same amount of spectrum. This also means that there will be more spectrum availability and competition can be promoted.

Next generation of TV tuners which can be found in televisions sets, plasma screens, LCD (liquid crystal displays) and even VCR come with this feature built in. There are also various ‘Set Top Boxes’ on sale which you can connect to your existing TV set and take full advantage of these new medium.

More importantly, digital transmissions are less susceptible to interference and the quality does not degrade (you get it or you do not) therefore better quality delivered to the viewer.

The GRA has over the past year been heavily involved in the run up to the RRC06, Regional Radiocommunications Conference 2006 which aims at creating a digital plan to replace the Stockholm 61 analogue agreement which affects the ITU region 1 and

parts of region 3. The ITU (Gibraltar comes under responsibility of the United Kingdom) has produced analysis tools to aid the process of allocating channels to each country within the planning area as per their submissions. Nonetheless, the ITU software is not without its compromises, this software assumes a '2-D Earth scenario' which does not take into account the contours of the terrain and therefore identifies 'unrealistic interferences' i.e. situations which in reality would not occur because the site could be protected by mountain ranges etc. Even with this limitation it took an array of computers in excess of 30 hours to produce the first output from the initial run of the software. This meant that neighbouring countries will have to come into agreements and file for 'Administrational Declaration' for these situations. The GRA developed specialist software in house to help in the examination of these results in order to identify which channels were less congested and which transmitters caused no real problem. The GRA, under the UK Administration, has been in discussions with, Algeria, Morocco and Spain, to enter into these agreements. To date, Morocco is the only one pending, but the negotiations are at an advanced state and the GRA does not foresee any problems.

Locally, the GRA has been giving regular updates to the broadcasters, Gibraltar Broadcasting Corporation (GBC) and SSVC (BFBS network operator) and keeping them informed of developments, the course of action and how best to proceed.

British Virgin Islands

Gibraltar has been a Category 1 Red Ensign port of registry for a number of years now and as part of the IMO (International Maritime Organisation) requirements, the GRA developed software to issue, maintain and administer Ship Station licenses including a GMDSS (Global Maritime Distress Signal Service) and EPIRB (Emergency Positioning I Radio Beacon) register of Gibraltar registered vessels.

The British Virgin Islands (BVI) are aspiring to become a Cat 1 port of registry and approached the GRA for guidance on the Ship Station Licensing. The GRA offered to provide the software which has been developed in-house and consultancy. This was agreed and Joseph Torres (GRA) visited the BVI in October 2005 to identify their specific needs and made recommendations. There was a follow up visit in February 2006 to finalise, implement and train the staff of the Telecommunications Division of

the British Virgin Islands. During this visit, the implementation was completed and the BVI are now in a position to proceed and apply to become a Category 1 Registry.

Licensing of the Electromagnetic Spectrum

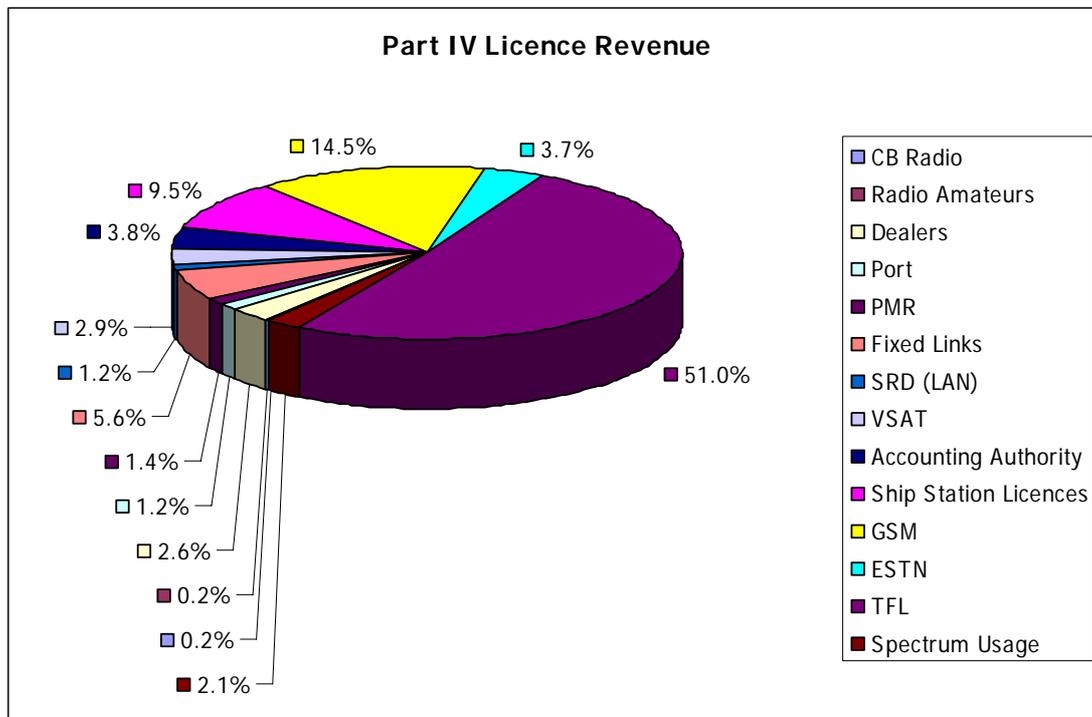
The GRA is responsible for issuing Part IV licences on behalf of the Minister for Communications. These licences are for the radio equipment and/or the frequency use, i.e. Ship Station licences pay a fixed annual fee for the licence regardless of the equipment on board, whilst point-to-point fixed links pay per transmit frequency registered. The latter provides an incentive for the operator to re-use the same frequencies where possible thus reducing his operational costs and helping manage the spectrum more efficiently. The frequencies allocated for GSM use and the Earth Station Licence (ESTN) were included last year for the sake of completeness. A breakdown of the type of Part IV licences issued can be found in the table below.

Lic Description	New Licences	total No. of Licences	2004/2005	2003/2004	2002/2003
CB Radio	1	23	25	27	38
Radio Amateurs	2	40	39	42	43
Dealers	3	73	77	82	90
Port	1	32	32	30	31
PMR	1	37	37	35	42
Fixed Links	0	3	3	2	2
SRD (LAN)	4	17	16	15	6
VSAT	1	5	4	4	3
Accounting Authority	0	23	23	22	20
Ship Station Licences	150	583	553	513	450
GSM	0	1	1	1	-
ESTN	0	1	1	1	-
TFL	0	1	1	1	1

Spectrum Usage		1			
Total	163	840	812	775	726

Part IV Licence Revenue

The chart below contains the percentage contribution to the revenue collected over the last year for each type of Part IV licence. Please note that these figures are made up of all monies collected on behalf of Government for the period 1st April 2004 to 31st March 2005 including licensees who were in arrears from the previous financial year, but collected during the current period.



Maritime

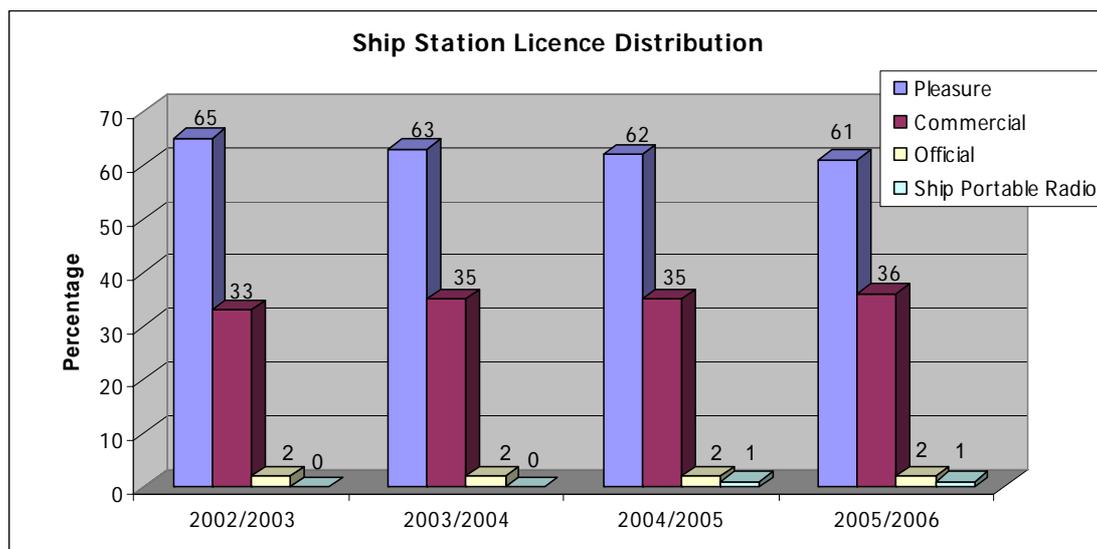
Port Operations, Accounting Authorities and Ship Station Licences make up the Maritime quotient of Part IV licences. In order to meet a need from users a new licence was introduced, the Ship Portable Radio Licence. This is intended for use by persons who operate radio equipment on marine frequencies for work or pleasure, but do not want to associate their equipment with a vessel. The licence fee is the same as for a pleasure yacht (£20) and licenses the use of VHF with or without DSC equipment and also the registration of a personal locator beacon to an individual.

There is a steady increase in the number of licences issued for the maritime sector on the whole.

Ship Station Licences

150 new licences have been issued over the past year. This figure includes changes in vessel ownerships. Because licences are non-transferable and a new licence must be issued on change of ownership, the figures in the table above will not tally with the number of vessels registered in Gibraltar.

Comparing the ratios from past years we can clearly see that ratio is basically 2:1 between Commercial and Pleasure. However, the respective monetary contributions balance is shifted towards Commercial vessels which pay £75 compared to the £20 in fees for pleasure yachts.



The GRA is responsible for maintaining the GMDSS (Global Maritime Distress & Safety System) and EPIRB (Emergency Position-Indicating Radio Beacon) registers and the allocation of the MMSI (Maritime Mobile Service Identities) numbers in conjunction with all other call signs for terrestrial licences. Therefore changes to SOLAS (Safety of Life at Sea) and IMO (International Maritime Organisation) implemented by both the Port Authority and Ship Registry affect the requirement of vessels to be equipped with radio equipment.

Accounting Authority

It is an international requirement that all Gibraltar registered vessels with radio equipment enter into an agreement with an Accounting Authority, recognised by Gibraltar, to process the payments of bills incurred from radiocommunications. A total of 23 are now registered in Gibraltar out of a maximum of 25 permitted by the ITU Radio Regulations.

Port Operations

Ship agents, ship chandlers and other maritime businesses require Port Operations Licences to communicate on the busy maritime channels. Calling channel 71 and working channels 61,62,63,68 and 69 have been set-aside for Port Operators to use. As the industry expands there may be a requirement to introduce cross-border co-operation for better frequency management in this saturated band.

Radio Amateurs & CB Radio

Radio Amateurs & Citizen's Band ("CB") users together only account for less than 1% of the Part IV licences revenue. The Gibraltar Amateur Radio Society are currently offering foundation and intermediary courses to provide access to most of the Amateur band, but restricts licensees to a maximum RF output power of 10 watts. The syllabus is based on the premise of producing "safe and competent" radio amateurs. For more information on this course and on the Gibraltar Amateur Radio Society visit their website www.gibradio.net

Dealers

Under the law, any person who sells or deals in licensable telecommunications equipment requires a Dealer's Licence to deal in equipment such as TV receivers, CB radio's etc. Updates are sent regularly to dealers concerning changes to equipment, which become exempt from licensing and the GRA contacts businesses which may be dealing in licensable equipment, such as 802.11a, a type of wireless network standard, and may be unaware of the regulations. The GRA has issued a number of notices over the passed year informing both licensed and unlicensed traders of new

electronic equipment and how to regularise their position if required. We continue to liaise with the Trade Licensing section of the DTI to inform traders of any licensing requirements.

Private Mobile Radio

There has been 1 new Private Mobile Radio (“PMR”) licence issued this year. Despite the proliferation of GSM phones and the exemption from licensing of short-range radios operating on 446 MHz, some companies are seeing the benefit in changing back to PMR. Nonetheless, in future we will probably see the number of licensees levelling off, though commercial activities (e.g. crane operators) may require a protected frequency for their sole use, unlike the 446 MHz licence exempt band which is unprotected and open to the public.

Short Range Devices

A whole range of Short Range Devices which include WiFi Local Area Network, are licence exempt throughout Europe. In Gibraltar, only CE approved equipment with integral antennas is exempt from licensing. Equipment fitted with an external antenna requires an SRD (LAN) licence. These types of equipment are used mainly as a cheap, but less reliable alternative to leased lines, to connect a remote office to the main computer network. The basic limitations with these systems are a requirement for line-of-sight between the antennas, and power is restricted to very low levels. Companies are charged a single annual licence fee depending on the type of system (point-to-point, point-to-multipoint), and not on a per links basis. With the advent of WiFi, WiMax and wireless broadband we could see these types of links, at least the point-to-multipoint being setup around Gibraltar to provide Internet connectivity for both fixed and mobile users.

VSAT

Very Small Aperture Terminals (“VSATs”) are small Earth Stations that operate within 14-14.5 GHz at reduced power levels. One new permanent terminal has been licensed this year. Satellite News Gathering (“SNG”) terminals come under this umbrella because technically they operate on the same frequency bands but are

licensed for a period of 3 months in which they can provide live broadcasts from Gibraltar.

Interference & Inspection

The GRA is responsible for protecting and monitoring the electromagnetic spectrum in Gibraltar. The GRA continues to develop in-house software programs to aid in the management of the radio spectrum. An ongoing monitoring programme to identify available frequencies and bands complements this. When an operator (operator of telecommunications equipment) reports interference, the GRA attempts to identify the source before taking any action.

The task of determining the origin of the interference is a complex one where many factors can contribute. The type of interference varies from an obvious random communication whilst watching T.V., to a slightly elevated level of apparent background noise. The most common type of reported interference is on television reception, which in the majority of cases is due to a faulty installation or degraded equipment. If the interfering signal originates in Gibraltar, that operator is contacted and, as part of its licensing conditions, could be required to reduce transmitter power or co-ordinate with the other operator. If the interfering transmitter is operated without the appropriate licence, the equipment will be disconnected until the system can be inspected and a licence is issued. If the interference is identified as emanating from Spain or Morocco, a formal report is sent to Ofcom (Office of Communications) in London who in turn contact the other country's administration to request their co-operation in eliminating the source of the interference. There is a procedure established by the ITU for handling interference which involves bilateral meetings and co-ordination of systems. This procedure does not provide a quick solution and therefore certain services and systems are sometimes altered or migrated to another frequency in order to avoid interference.

Satellite Co-ordination

The International Telecommunication Union (ITU) is responsible for co-ordination and recording procedures for space systems and earth stations.

The ITU's Space Services Department handles receipt, processing and publication of data and carries out examination of frequency assignment notices submitted by administrations for inclusion in the formal co-ordination procedures or recording in the Master International Frequency Register.

Every Administration is entitled to file through the ITU for any orbital slot in the geostationary orbit. However, once an Administration has filed it has 7 years in which to co-ordinate, build and launch the satellite.

The GRA at present has filed for over 20 orbital slots with the ITU and is actively pursuing their co-ordination with other Administrations. These filings have, been submitted on behalf of SES Satellites (Gibraltar) Ltd, a subsidiary of SES Americom that is one of the SES Global group of companies, one of the largest satellite operators in the world.

Over the past year, the GRA's involvement in satellite co-ordination and subsequent work has grown exponentially. The table below provides an indication of the amount of co-ordination work entailed per country. In total we have received from the Administrations of other countries and other UK networks 593 requests for co-ordination with the UK/Gib filings and the GRA has sent 216 requests informing Administrations that their networks could interfere with our filings and that they are required to co-ordinate with us.

Correspondence Received		Correspondence Sent	
Countries		Countries	
Argentina	5	Australia	9
Australia	61	Brazil	6
Brazil	54	Canada	27
Canada	92	China	17
Cuba	1	France	1
Spain	11	Holland	10
France	26	India	1
Holland	57	Israel	1
Japan	54	Ivory Coast	1
Luxembourg	42	Japan	2
Malaysia	4	Luxembourg	9
Mexico	8	Malaysia	50
Russia	1	Mexico	15
Thailand	1	Saudi Arabia	1
United Kingdom	14	United Arab Emirates	1
United States of America	161	United Kingdom	24
Venezuela	1	United States of America	41
Total	593	Total	216

Managing all the correspondence to and from Administrations and the ITU, meeting all the deadlines and assessing the potential interference from other satellite networks is essential for the success of a satellite project that would culminate with the launch of a satellite network into a UK/Gib orbital slot.

In order for the GRA to provide an efficient and reliable service some in-house software has been developed. The main purpose of the software is to assist the GRA staff with the following responsibilities:

1. Ensuring that the ITU Radio Regulations are complied with.
2. Track all correspondence with other Administrations
3. Monitor the progress of the UK/Gib filings through the ITU regulatory procedures, and meet all the deadlines.
4. Ensure all ITU invoices are correct and paid on time.

Additional software is currently under development and will perform the interference calculations required to identify which of the proposed new satellites might have the potential to cause harmful interference to one of the SES satellites.

At present only one of the UK/Gib filings is operational in the SES network. It is a Lockheed Martin A2100AX satellite commercially known as AAP-1, which was launched in October 2000 and is currently providing an extensive range of services to Asia.



Lockheed Martin A2100AX



SES Satellites (Gibraltar) Ltd Satellite Control Centre

The satellite is controlled from the SES satellite control centre at Lease Place, Gibraltar.

International Telecommunication Union

The ITU, headquartered in Geneva, is an international organisation within the United Nations System where governments and the private sector co-ordinate global telecom networks and services.

The three Sectors of the Union — Radiocommunication (ITU-R), Telecommunication Standardization (ITU-T), and Telecommunication Development (ITU-D) — work today to build and shape tomorrow's networks and services. Their activities cover all aspects of telecommunication, from setting standards that facilitate seamless interworking of equipment and systems on a global basis to adopting operational procedures for the vast and growing array of wireless services and designing programmes to improve telecommunication infrastructure in the developing world.

In March 2006, GRA Representatives participated in the ITU-R Working Party for a meeting which have been tasked with studying areas of orbit/spectrum efficiency, interference and co-ordination and related aspects. Its work has significant relevance to preparatory work for the World Radiocommunication Conferences to be held October 2007.

At the end of the period covered by this report, the Data Protection Ordinance 2004 (DPO) had not been commenced. The DPO grants the GRA the powers to act as the national supervisory authority in matters relating to data protection. Such matters include the maintenance of a public register containing details of processing operations carried out by data controllers and investigatory powers of breaches of the DPO.

Although the DPO has not been commenced, confirmation has been received of its impending commencement and so the GRA has been finalising the requirements necessary for it to act as the Data Protection Commissioner.

The DPO is due to be commenced in two stages, starting in April 2006, and the GRA will embark on a series of meetings with Government Departments and the private sector to address their particular concerns on the application of the law.

Government Seminars

Pending the imminent commencement of the DPO, the Government's Legislation Support Unit organised a series of seminars in January 2006 for the public and private sector. The GRA (acting as the future Data Protection Commissioner) was asked to participate on the Q&A panel for all the sessions. Paul Canessa of the GRA also gave a presentation as to the powers and role of the Data Protection Commissioner.

Website and Electronic Registration

One of the GRA's functions under the DPO is the maintenance of a public register of data processes. The register will serve as a tool for the public to obtain information about what kind of data the local data controllers are processing.

The GRA has decided to adopt a policy to encourage electronic registration via the GRA website. Much development has been undertaken to ensure that capabilities exist for such registration to occur. It is envisaged that such a system will prove less

onerous on the data controllers who are obliged to register their activities as well as on the GRA who will be maintaining the register. Provisions for manual registrations however, will continue to exist.

Although not yet available to the public, the GRA's data protection website has been prepared. This will run parallel to the current GRA website and will include a wealth of information about data protection related matters, namely guidance on registration, rights and obligations of both the individual and data controller and approved codes of practice. It will also contain links to data protection related sites.

New Licence Applications

The draft Individual Licence which was submitted to the GRA last year is still on hold. Currently the GRA is giving advice to one other company which is planning on applying for an Individual Licence.

Number Portability

The GRA is hoping to introduce Number portability in Gibraltar and has engaged a consultant to provide advice. Work has already begun. Number Portability allows subscribers to change their telecommunications provider providing publicly available telephone services while keeping their telephone number. Such portability must be provided by one telecommunications operator to another in accordance with detailed rules, where such exist, under obligations imposed on such telecommunications operators under legislation implementing the provisions of Article 30 of the Universal Service Directive (2002/22/EC).

Market Analyses

In accordance with the new Regulatory Framework and EC Commission Recommendation 2003/311/EC, the GRA is required to carry out a series of market analyses. The GRA has engaged consultants who will commence this work in May. Their proposal was tailored to GRA's requirements and will require the involvement of GRA staff in order to ensure knowledge transfer and also to participate in the development of the final recommendations on remedies as well as managing the mandatory consultation process for the market analyses and associated recommendations on SMP and remedies.

Digital Broadcasting

Ensure Gibraltar obtains a reasonable number of channel allocations for both T-Dab and DVB-T out of the RRC06 process. Once the international agreements are in place, the GRA will liaise with broadcasters and Government as to the planned implementation and set a date for the rollout of Digital TV in Gibraltar.

I.T. Systems

Continue the development of the in house monitoring software used to control and produce the GSM site audits. Extend the functionality of this package to make it compatible with the planned purchase of new monitoring equipment. This would reduce the time required to produce detailed reports and of audits of the other technologies besides GSM especially WiFi, WiMax and both analogue and digital broadcasting. The licensing databases will continue to be developed and streamlined in order to provide a better service to the public and for auditing purposes.

Website

The GRA website is planned to undergo a full redesign in order to make it more user friendly and to reflect the new responsibilities the GRA has been assigned such as Gambling, Data Protection.

Satellite Projects

The involvement of the GRA at satellite co-ordination meetings and with ITU matters will continue to increase over the coming year. The development of specialised software to identify potential harmful interference between satellite networks will continue in order to improve the service provided and to assist with the co-ordination of new filings.

Data Protection

In light of the commencement of the Data Protection Ordinance 2004 (DPO) in the first half of 2006, the GRA will be organising a series of workshops geared towards specific industries. These workshops will attempt to highlight pressing issues which may affect those sectors involved. The GRA has a good working relationship with the Irish Data Protection Commissioner and will be asking one of its members to attend the workshops in order to present by way of case studies an overview about how data protection has affected various sectors in Ireland.

The GRA also plans to meet with most government departments prior and after commencement in order to discuss any data protection issues they may have and outline some of the actions points they will have to establish in order to be compliant with the DPO.