Standard Summary Project Fiche
Project Number LT 0003-03

1. Basic Information

1.1. Desiree Number: LT 0003-03

1.2. Twinning Component Number: LT 2000/IB/TE/01

1.3. Title: Support for the establishment of the Communications Regulatory Authority in the Republic of Lithuania with associated investment for the modernisation of its technical and radio monitoring basis.

1.4. Sector: Internal Market

1.5. Location: Ministry of Transport and Communications, Department of Communications, Gedimino 17, LT-2679 Vilnius, Lithuania. Contact: Jonas Usas, Director of the Telecommunication Department and Mr A. Burkauskas. Tel.: +370 239 38 54, fax: +370 222 50 70, e-mail: antburk@transp.lt.

2. Objectives

2.1. Wider Objectives

The wider objectives of this 2.8 MEUR (plus 1.2 MEUR cofinancing from the Beneficiary) Project are to:

- Strengthen enforcement of the Acquis in the Republic of Lithuania in communications through drafting and enforcing secondary legislation on licensing rules and procedures, interconnection, tariffs regulation, leased lines and quality of service in compliance with the Community law;
- Establish independent Communications Regulatory Authority (CRA) for telecommunications and to set up transparent telecommunications regulatory and licensing regime.

2.2. Immediate Objectives

The immediate objectives are to:

- Prepare, enact and enforce about 30 acts of secondary legislation on licensing rules and procedures, interconnection, tariffs regulation, leased lines and quality of service in compliance with the Community law; and
- Establish Communications Regulatory Authority (CRA), providing training of its staff and modernisation of market surveillance and enforcement facilities.

2.3. Accession Partnership and NPAA Priority

The Accession Partnership of the 13th October 1999 in the medium-term priorities section for the Internal Market mentions that more alignment of “telecommunications with the legislation” is needed. The Regular Progress Report concludes that the “legal framework for the audiovisual sector is determined by the 1990 Law on Press and Mass Media, the 1995 Law on Communications, and the Law on the Licensing of Postal and Telecommunications Activities”.

In the Regular Report’ section of the report covering Research and New Technologies, the “Commission concluded that there would be no major problems in the field of research and technological development”. It also considered that the telecommunications sector could be integrated in the EC internal market, provided that there was no let up in the efforts made. With regard to the information society, it stressed that the under-developed telephone network would probably hamper progress in the sector, unless Lithuania experienced strong economic growth and invested in its telecommunications.

The Europe Agreement stipulates that the raising of standards and practices in the field of telecommunications and postal services, standardisation, regulation and modernisation of
infrastructures to Community level is to be achieved through cooperation. The objective of Community telecommunications’ policy is to remove obstacles to the smooth functioning of the single market in telecommunications equipment, services and networks, to open foreign markets to Community undertakings and to give EU citizens and businesses access to modern services. These objectives are to be met by harmonising standards and conditions of service provision, liberalising the markets for terminals, services and networks and adopting any regulatory measures necessary.

There has been significant progress in the telecommunications sector in Lithuania since July 1997. In terms of infrastructure, the telecommunications network has been considerably expanded and there are now 31 lines per 100 inhabitants. Further, the Telecommunications Law was adopted in June 1998 and provided for a full liberalisation of telecommunication market with the exception of the national telephone operator, Lietuvos Telekomas, which may remain a sole provider of local, long-distance and international voice telephony services over the fixed telephony network until 31 December 2002.

The Government of the Republic of Lithuania is now determined to prove further its determination to liberalise the sector, and its ability to operate the new regime in accordance with EC law. Its NPAA Short-Term Priorities (1999-2000) are to:

- Establish the Communications Regulatory Authority (CRA) under the Government of the Republic of Lithuania;
- Harmonize Lithuanian legislation with the *acquis* in the general use of pipe networks, cable channels, collectors, towers and masts, as well as licensing of telecommunication activities;
- Conduct effective supervision of the telecommunications markets and adequate enforcement of liberalisation measures;

The NPAA’s Medium-Term Priorities (2001–2002) are the:

- Drafting of legislation concerning access to and interconnection of telecommunication networks pursuant to the Community principles of the open network provision (ONP), interconnection, etc.;
- Preparation and approval of the Quality Requirements for Telecommunication Services and the National Numeration Plan;
- Preparation for implementation of new telecommunication technologies; and
- Full liberalization of the telecommunications market.

2.4. Contribution to National Development Plan (NDP)

The NDP stresses that telecommunications have a huge potential in strengthening Lithuanian market. The framework for strategic supply-side investment in Lithuania's economy is conditioned by key strengths, which the country possesses as well as certain weaknesses, which in their own right need to be addressed. There is an emphatic support for investment and development of the sectors, including telecommunications sector.

It is believed, that the further development of telecommunications sector, which is especially underdeveloped in many rural districts, would allow to open significant prospects in other market areas and to take better advantage of natural strength of Lithuania. Latter include such strengths as the country's strategic, indeed pivotal geographical position in relation to EU and CIS markets, reinforced by possession of the most northern ice-free port on the Baltic Sea, Klaipeda. Also good road infrastructure (for the main national transit routes) relative to neighbouring countries, good existing urban and long-distance telecommunications networks, large Lithuanian expatriate community, particularly in the USA and Canada, and high education standards (particularly in terms of a high percent of graduates in the working population) are factors favouring further integration with the broader European economy and neighbouring countries, as well as allowing Lithuania to act as a "bridge" between East and West.
It is therefore clear that a strong and well-developed telecommunications sector is an essential element to the overall strategy of National Development.

3. Description

3.1. Background and Justification

3.1.1 Institutional background

The key policy maker in the communications sector is the Department of Communications within the Ministry of Transport and Communications (MTC). Its main functions are to establish policy and legal framework for telecommunications and post and to issue individual licenses for provision of telecommunication services. Until the CRA is established in the summer of 2000, MTC will also carry out the functions of CRA, as provided for by the Law on Telecommunications (1998).

The MTC is actively assisted by the State Radio Frequency Service (SRFS), which is the executive part of the Radio Administration. The SRFS has the status of independent regulatory enterprise, founded and supervised by MTC. Currently it does not receive any governmental financing, but recovers its expenses from the fees for radio station licences. SRFS’ responsibilities include management of radio spectrum (frequency assignment), spectrum monitoring, telecom equipment testing and type approval, control over the importation, installation and operation of radio stations. However, since SRFS currently has an expertise only in the area of radio communications, fixed telephony, numbering and general telecommunication regulation and standardisation sectors are left without active supervision and policy enforcement body. Therefore it is evident, that existing regulatory structure does not ensure proper enactment and enforcement of the Telecommunications Law (1998) and secondary legislation in the field of telecommunications. This effectively stops the development of liberalised telecommunication market, thus may not be prolonged.

The Government of the Republic of Lithuania plans to establish the independent CRA by the 1st July 2000, at the latest. It is planned that in order to ease the soonest possible establishment of the CRA, it would be done through expansion of existing SRFS structure. This would allow the regulatory momentum in such areas, as radio-communications (radio spectrum management) and law enforcement (inspection, monitoring, etc.), where SRFS currently is holding necessary organisational structure with experienced staff, to be sustained.

However, new regulatory activities embracing general telecommunication regulation, such as numbering and number portability, networks interconnection, access to networks, leased line provision, network pre-selection etc., are absolutely new or were previously held with the former PTT. Following restructuring and privatisation of the Lietuvos Telekomas, the necessary expertise in these areas is either residing with the incumbent operator or is simply lost. Therefore, the establishment of CRA would require significant investments into the facilities and human resources for the latter "new" areas of regulation.

3.1.2 Lithuanian telecommunications market

Telephone access in Lithuania is close to the average of Central and Eastern Europe, but well below the EU average (26.8 telephone lines per 100 inhabitants in Lithuania compared with 49.9 telephone lines for the EU average in 1996). There is also a substantial urban-rural divide: telephone networks cover 80% of households in major cities but only 43% in rural areas. To begin solving this problem, a wireless telephone system was launched in 1996 and now provides telephone services to remote individual farms. In 1999, private telephone lines amounted to 81.9% of all lines, the remaining percentage of telephone lines are business lines.

Demand for new services, especially installation of new phone lines, is significant. The waiting list for new installations currently totals 70,000, despite a substantial reduction from 141,600 in 1996. Under the State Communication and Informatics Development Programme, Lietuvos Telekomas (Lithuanian Telecom, the fixed-line monopoly operator privatised through an acquisition of 60% of shares by Amber Teleholdings, a Swedish/Finnish consortium) is planning to raise the telephone
penetration to 37 telephone lines per 100 populations by 2002. Lietuvos Telekomas is also obliged to increase the total percentage of digital telephone lines to 50% in 2002.

The mobile communications market in Lithuania is seeing the major developments and growth. At the start of 1996 there were only about 15,000 total mobile phone users in the country; by end of 1999 the number of mobile users was above 300,000.

There are also significant developments in the areas of data communications and Internet services. The number of ISPs has grown significantly and now everybody in Lithuania may access the Internet easily and at affordable price from any fixed or mobile telephone connection. This subsequently sparked the public interest in such services as electronic mail, electronic publishing, e-commerce, etc. However, the really widespread use of these services is hampered by still low number of PCs held for private use. Therefore the advent of universal telecommunications services, such as the 3 Generation UMTS services, is seen as one of the possible significant improvements in that area.

It is clear, that as it is today, the telecommunications market in Lithuania is still in its very early stages of development and there exist a significant potential for further growth. Even if the incumbent operator maintains comparatively good and developed telephone trunk network and exchanges, still the development of services is restrained to the very tight limits by the poor local infrastructure and access networks. At the same time, existing monopoly for fixed voice telephony operations is publicly perceived as not able to ensure fair pricing for telecommunication services. Therefore, a full liberalisation of telecommunications market should release that hidden potential and produce significant growth in availability and use of telecommunication services. However, the regulatory regime and administrative structures should be adequate to ensure efficient developments of liberalised market.

3.1.3 Establishment of CRA

Given the rapid development of new technologies and business it is extremely important to create favourable conditions in the telecommunications market for the functioning of telecommunications operators. The administrative bodies of telecommunications (the ministry and an independent regulator) have to ensure that the operators of telecommunications are not discriminated against and have equal opportunities to conclude agreements on the connection of telecommunications network and participate when solving disputes with regard to network connections, common utilisation of infrastructure, etc. On the other hand, the administrative bodies have to ensure that the telecommunications services received by the consumers are of good quality; therefore, the role of the regulator is of vital importance.

Therefore, the first item on the list of short-term priorities is the establishment of the Communications Regulatory Authority (CRA). It is intended to work independently under the Government of the Republic of Lithuania in accordance with the Law of the Republic of Lithuania on Telecommunications (1998) and provisions of the National Acquis Adoption Programme. The Law on Telecommunications adopted in June 1998 foresee a two-staged management regime, carried out by two bodies: independent CRA and Ministry of Transport and Communications. The Government of the Republic of Lithuania and the Ministry of Transport and Communications are responsible for establishing the National Telecommunications Policy and enactment of necessary legislation as well as for the fulfilment of international obligations of the state. (More details about setting up the CRA, its budget and staffing levels are given in Annex 6.)

3.1.4 Justification for financial support from different parts of this project

The previous section and the details in Annex 6 describe the concept of CRA establishment and presented the proposed CRA structure. The proposed CRA should ease the logistics of this process and would provide significant savings in terms of necessary preparatory works and financial investments compared to the existing SRFS structure. This project is designed to support the CRA
and contribute to institutional building through support in drafting of secondary legislation, implementing and strengthening the acquis within the telecommunications market of Lithuania. The project has three components:

- Twinning
- Technical assistance and training
- Investment

The **twinning component** is crucial for building the capacity of the CRA. This will require detailed knowledge and thorough understanding of the Community legislation, but, what is most important, it also requires understanding of how this Community legislation should be transposed into practical measures on a national level. It is in this area that the twinning part of this project should aid the process in Lithuania. However, in order to achieve the best possible results in this area, the practical knowledge of implementing Community legislation in other (twinning partner) country(ies) should be combined with the detailed knowledge of Lithuanian internal market, legal background and even local business practices and customs. It is for this particular purpose that a part of this project should also assist in creation of internal framework of local experts that would support the process within Lithuania.

**Technical assistance** is required to train CRA staff in new areas of activities. In the today’s strictly regulated Lithuanian telecommunications market it is not possible to find practical or academic expertise in creation and operation of regulatory measures, that would be appropriate for fully liberalised telecommunication market. Other activities of general telecommunication regulation, such as numbering, network and services quality control, etc., previously resided with the former PTT and during re-structuring and privatisation were left only as internal services with the incumbent operator Lietuvos Telekomas. Therefore now there is a danger that this expertise could become biased and acquiring it would not bring desired results. Therefore it is clear that thorough and urgent training is absolutely necessary for future CRA staff to assist in new regulatory activities and this may be done only with the support from outside, as necessary experience and competence of necessary quality would be difficult if at all possible to find in Lithuania. That is why a part of this project should provide assistance in training of CRA staff in the new areas or regulatory activities.

**The investment component** will contribute to the establishment of CRA by assisting in the creation of technical basis for carrying out future enforcement and market surveillance activities. It is generally understood that the enforcement may not be practically feasible without having proper technical basis. Because for justification of any enforcement measures in the strictly technical field of telecommunications the CRA in most cases would have to provide the objective evidence in the form of measurement results: be it the measurements of interference, parameters of terminal equipment or network services quality assessment. The investment component of this project will focus on two specific activities: Radio Spectrum Monitoring and Market Surveillance.

Spectrum monitoring is a major part in of spectrum management and frequency assignment. Recent Communication from EC "Towards a new framework for Electronic Communications infrastructure and associated services - The 1999 Communications Review" highlights that "[in a fully liberalised telecommunication market] specific authorisations would remain necessary [only] for the use of radio spectrum and numbering resources". Therefore it is clear that even in the fully liberalised environment the CRA would have to establish and maintain the appropriate expertise in the area of spectrum management, hence the adequate support of spectrum monitoring is absolutely necessary. Currently the SRFS holds certain facilities for spectrum monitoring, however the participation in the recent multi-country Phare programme in the field of Spectrum Management and Monitoring demonstrated that current SRFS monitoring facilities are clearly not appropriate for work with modern wireless telecommunication networks. Therefore part of this project should aim at providing investments into the modernisation of existing monitoring capabilities of Lithuanian Radio administration.
Market Surveillance is an important area of enforcement; it is the control (performed after conformity assessment procedures) of radio and telecommunications terminal equipment placed, or to be placed on the market, until the time the user purchases the equipment. The EC’s "new approach" directives foresee Market Surveillance and the Chapter 8 of the "Guide to implementation of Directives based on the New Approach and Global Approach" describes its mechanisms and principles. One of the essential parts of Market Surveillance is the verification of compliance with the technical requirements; related activities include the inspection of equipment in operation, with the possibility to carry out on-site conformity measurements. Market Surveillance is crucial to fully liberalised telecommunication markets, however it is absolutely new for Lithuanian authorities; therefore, significant investments are foreseen in this project in order to build up the necessary technical facilities (including facilities for equipment testing and on-site measurement and also the IT knowledge data bases).

3.1.5 Consideration of other possible sources of investments

The CRA is being established at a time, when the existing structure of "light licensing" is to be abolished to make way for a fully liberalised telecommunications market (see aforementioned EC Communication on the 1999 Communications review). Abolishing even the lightest licensing in the area of conformity assessment and free movement of radio and telecommunications terminal equipment (as provided in the R&TTE Directive 1999/5/EC) will mean that the activities of Market Surveillance have to be licensed from the CRA budget, without any possibility to reimburse the costs from businesses through the licence fees or similar mechanisms.

In other words, under the new liberalised conditions the spectrum monitoring, market surveillance and inspection activities would become the essentially "non-profit" areas and this would effectively mean that these activities may not be practicable to set up through available loan institutions, because there would be no profit generated that would allow re-payment of those loans. That is why Lithuanian Administration perceives this project as the only practical means for outside co-financing of establishment of efficient spectrum monitoring and market surveillance mechanisms.

In 1997-1998 a study by Andersen Management International (AMI) in 1997-1998, under Multi-country PHARE project "Spectrum Management and Monitoring" with participation of Lithuania, considered current status of spectrum management and monitoring facilities in participating countries. It also reviewed various possible options for financing of modernisation of technical facilities. The study noted that the current status of technical facilities in Lithuania was not appropriate (with the evaluation as "not quite professional") and should be modernised. The study suggested that four options could be considered by SRFS for financing technological advancement: budget grants, licence related revenues, loan financing and lease financing.

The licence related revenues option remains the practical solution; however, since Lithuanian licensing fees are based on an administrative costs model, the generated surplus revenues are rather limited and are not sufficient for one-time investments of necessary USD 1.5-2 millions.

International loan financing option was considered first; the European Bank for Reconstruction and Development was approached but they could only finance projects with at least 60% of private capital venture, project loan greater than USD 5 million with the loan component being less than 35% of total project value. These conditions make this option unfeasible for Lithuania. The study also concluded that possibility of multi-country monitoring systems and/or financing schemes were also impracticable.

Local loan financing and lease financing options were considered within the existing financial environment of Lithuania. The study concluded that there were limited possibilities as a State guarantee was a condition of the loans. Such guarantees are practically impossible to obtain because of recurring deficit of State Budget, which means effectively that no grants from the budget are available. SRFS has investigated other local finance options guaranteed by capital operated by the lessee; in 1999 leasing loans totalling USD 200,000 at 7-8% interest were secured. These loans
were used to purchase urgent monitoring equipment (a EMI receiver and four MINIPORT terminals). SRFS plan to negotiate further lease financing on a similar terms for more significant sums (USD 200-300 millions per year); however, there is limit to this borrowing as a result of the significant reduction of SRFS/CRA revenues from licensing with the abolition of the existing approval and importation control regime.

It is clear that local financial leasing is only a partial solution; therefore, it is intended to allocate resources acquired through this option (1.0 MEURO over period of 2000-2003) as national co-financing for this project.

3.2. Linked Activities

This is the first time that the Lithuanian telecommunications sector is included in the National Phare programme (although Lithuania participated in 1995-1999 Multi-country Phare programme for post and telecommunications).

In 1995, an agreement between the Lithuanian Ministry of Communications and Informatics and the Danish Ministry of Research and Information Technology "On Technical Assistance and Cooperation in Telecommunications" was signed according to which the Danish Government allocated 15 million DKK for the sectoral programme, which started in 1996 and was completed in 1998. It covered training of telecom specialists and assistance in drafting Law on Telecommunications (1998).

In the 1996-1998 EBRD financed technical assistance in developing regulatory environment with special attention on licensing regime.

3.3. Results/outputs

The guaranteed results from this twinning, training and investment project are:

Outputs

The key outputs from the twinning and training package would be:

a) CRA established and operational;
b) Secondary legislation enacted by the end of 2002;
c) Personnel to enforce the secondary legislation trained by the end of 2002; and
d) CRA staff trained by the end of 2003.

The Law on Telecommunications foresees the creation of the regulation environment by implementing the requirements of certain EC directives; therefore the twinning will assist in the implementation of:

- Directives on licensing (EC directive 97/13/EC) and interconnection of telecommunications networks (EC directive 97/33/EC);
- Number allocation mechanism (EC directive 96/19/EC, 97/33/EC) – the Communications Regulatory Authority should develop and maintain the National Numbering Plan, to be approved by the Government, and on its basis allocates telephone numbers;
- Provision of universal services (EC directive 97/33/EC) – the list of universal services is approved by the Government;
- Establishment of the universal services compensatory mechanism (EC directive 96/19/EC) – unprofitable universal services will be financed following the order set by the Government prepared by the Communications Regulatory Authority; and
- Tariff policy: the main principles for voice telephoning, line rent, network interconnection legalized (EC directive 97/33/EC)

The key outputs from the investment package would be:

- Creation of technical basis for implementation of market surveillance mechanisms to work in the conditions of fully liberalised market for radio and telecommunications terminal equipment;
- Modernisation of existing radio monitoring facilities.
3.4 Activities/Inputs

The inputs to this project are:

- Twinning and training package;
- Package for creation of internal framework of experts to support development of CRA;
- Investment into modernisation of technical and operational basis of market surveillance and spectrum monitoring functions of the CRA

3.4.1 Twinning and Training Package – legal framework and CRA (LT 2000/IB/TE/01)

This project will support a 2-year Pre-Accession Adviser (PAA) providing general management and institutional support to draft acts of secondary legislation and to develop CRA supported by a series of short-term adviser inputs (approximately 20 person months of STAs), covering support to CRA with:

- Acts of secondary legislation drafted and passed,
- Regulatory and licensing procedures and their monitoring,
- Operational management and procedures,
- Development and management of tariff policy,
- Extensive staff training (analytical, financial, managerial, technical, technological),
- Information management, including preparation of public awareness campaigns,
- Software development for management of legal and technical databases.

The outputs will be delivered by the PAA over 24 months and by between 4-8 Short Term Advisers (STAs) providing approximately 20 person months over 18 months. A summary of the indicative inputs is given in the following table; these are intended only as a guide, the exact schedule of inputs, their duration and technical specialisms will be determined during preparation of the twinning covenant.

<table>
<thead>
<tr>
<th>Activity</th>
<th>PAA</th>
<th>STA's</th>
<th>Total Person months</th>
</tr>
</thead>
<tbody>
<tr>
<td>General legal advice, management &amp; training</td>
<td>24</td>
<td>-</td>
<td>24</td>
</tr>
<tr>
<td>Specialist legal advice</td>
<td>6</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Licensing specialist</td>
<td>3</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Managerial &amp; technical training</td>
<td>6</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Information &amp; software development specialist</td>
<td>5</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>24</strong></td>
<td><strong>20</strong></td>
<td><strong>44</strong></td>
</tr>
</tbody>
</table>

It is envisaged that the individual team members could be involved in more than one activity.

Profile of PAA

The PAA (24 calendar months) should have a broad work experience at a senior level in a Member State’s communications authority, preferably either a specialist in legal affairs or licensing. The PAA will be responsible for co-ordination of the activities on-site and the inputs of the STAs; therefore s/he should have experience in project management and excellent inter-personal skills. The PAA will work closely with the management and staff of the CRA and the TA team. The PAA will also be requested to deliver a significant input of training activities, particularly with regard to planning and management functions.

Profile of Short Terms Advisers

Other members of the team (approximately 20 person months) will be between 4 and 8 STAs. The STAs should have experience at a senior or middle management level in the Government or relevant agency of a Member State and have at least 5 years of experience in the areas relevant to this Twinning Arrangement, namely specialist in:

- Legal advice (1-2 STAs);
- Licensing (1 STA)
Managerial and technical training (1-3 STAs)
Information and software development (1-3 STAs). These specialists should assist the CRA in a detailed needs analysis and preparation of appropriate technical specifications and tender documents for procurement of monitoring equipment. One of the STAs should participate in the eventual tender evaluation.

All the STAs should all be fluent in English and computer literate and should be capable of providing training covering workshops, classroom training, on-the-job training as well as personal advice at a high level in the institutions involved. The emphasis will be the transference of skills and knowledge so that the results of the project are sustainable.

Other supplies and services, including development of software supporting market monitoring, collection and assessment of market data, translation costs, fellowships etc.

3.4.2 Creation of internal framework to support legal and CRA

This 2-year technical assistance project will help create the internal framework for general management and institutional support in development of necessary secondary legislation and technical and operational bases of CRA, with the involvement of local experts (approximately 40 person months), covering support to CRA with:
- Drafting acts of secondary legislation,
- Operational management and procedures,
- Development and management of tariff policy,
- Software development for management of legal and technical databases.

Other supplies and services, translation costs, travels, fellowships etc.

3.4.3 Investment to create the technical basis for spectrum monitoring and market surveillance activities

The indicative budgets in Euro for the investment component covers:
- Underlying fundamental hardware and software for database management (Servers, networks, database software) until 2003 (700,000 Euro),
- Equipment for fixed monitoring, equipment conformity testing and on-site inspection (1,000,000 Euro),
- Two mobile monitoring stations and associated equipment (500,000 Euro).

The hardware and software equipment purchased under this investment package should be selected so as to provide best possible modernisation of currently existing in SRFS monitoring facilities and creation of new technical facilities for carrying out the activities related to Market Surveillance and Inspection. The hardware should provide sufficient computing power to process large amounts of data and link local terminals with a central database management facility. Possibility to process testing and inspection reports together with the associated databank of existing licensed radio stations should be foreseen. Minimum requirements for computers would be Intel Pentium grade and Windows NT operating system. The facilities should be developed for the electronic handling of the official correspondence and transactions (filling of the licence applications, notifications, fee payment, etc.), utilising Internet technology and other modern communication technologies.

As part of the development of these technical facilities mechanisms should created to assist in implementation of the R&TTE Directive. This should be done in a form of setting up a computerised expert office, linked with the central European databank for exchange of notified, found incompliant, etc. equipment types and manufacturers.

The monitoring equipment should be capable for fixed and mobile operation and for testing of all modern telecommunication networks, including future 3 Generation UMTS/IMT-2000 networks. Important elements to be included are modulation type and ID identifiers as well as direction finding equipment. The inspection officers should be equipped with cars, that would have installed in them the on-site verification and testing equipment and hand-held PCs, linked with the central office.
The AMI study of situation in Lithuania concluded that the current status of technical administrative and radio monitoring tools in Lithuanian Administration is "not quite professional" and that at least USD 1 million should be invested into modernisation of fixed monitoring and hardware for administrative basis plus additional USD 0.5 million into a new factory-equipped mobile monitoring station. The study recommended that the minimum requirements for upgrade of monitoring facilities should be:

- Frequency range 9 kHz to 3 GHz, extendible to 42 GHz (e.g. to cater for latest Wireless Access systems at 42 GHz);
- Direction finding equipment VHF/UHF range 20 MHz - 3 GHz;
- Link to administrative database (register) of frequency assignments;
- Ability to check a compliance with licence conditions;
- Ability to interrupt interfering transmissions when necessary, etc.

The IT STA will assist the CRA in preparing detailed needs analysis and subsequent technical specifications and tender documents for upgrading laboratory, testing and monitoring equipment for the CRA.

4. Institutional Framework

The key policy maker in the communications sector is the Ministry of Transport and Communications (MTC), with strategic input being provided by its Department of Communications. Its main functions are establishing policy and legal framework for telecommunications and post and issuing of individual licenses. The CRA will be established on 1st of July 2000 and the purpose of this project is to provide help in this process. Until then, MTC carries out the functions of CRA, as referred to in the Law on telecommunications.

State Radio Frequency Service (SRFS) is the executive part of the Radio Administration of Lithuania, which will be used as a basis for creation of CRA. Currently it has a status of independent regulatory enterprise, founded and supervised by the Ministry of Transport and Communications. The intended structure of CRA after its establishment is presented in Fig. 1 in section 3.1 above.

MTC also foresees that after its establishment the CRA will be charged with certain regulatory responsibilities in the field of postal services (with a Postal Division numbering approximately 5 persons). It is believed that the transfer of these functions to a single independent regulatory authority would bring significant benefits to the postal sector. However, since the CRA did not exist at the time when the recently adopted Law on Posts (1999) was drafted and approved by Seimas, the Law does not mention CRA explicitly, leaving the allocation of postal regulatory functions for settlement by Government Decree (assumed to be delivered in June 2000). In the area of postal services, the Law on Posts will be amended in year 2000, to ensure full compliance with Directive 97/96/EC.
5. **Budget (in EUR)**

<table>
<thead>
<tr>
<th>Project Components</th>
<th>Investment Support</th>
<th>Institution Building</th>
<th>Total Phare (= IS + IB)</th>
<th>National co-financing</th>
<th>IFI (local leasing)</th>
<th>TOTAL</th>
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</thead>
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<tr>
<td>Twinning and training for legal &amp; CRA</td>
<td>1,000,000</td>
<td>1,000,000</td>
<td>100,000</td>
<td>-</td>
<td>1,100,000</td>
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<tr>
<td>Internal framework legal &amp; CRA</td>
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<td>500,000</td>
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<td>700,000</td>
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<tr>
<td>Procurement of equipment &amp; software</td>
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<td>1,300,000</td>
<td>900,000</td>
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<td>3,200,000</td>
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<tr>
<td><strong>TOTAL</strong></td>
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<td><strong>1,500,000</strong></td>
<td><strong>2,800,000</strong></td>
<td><strong>1,200,000</strong></td>
<td><strong>1,000,000</strong></td>
<td><strong>5,000,000</strong></td>
</tr>
</tbody>
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6. **Implementation Arrangements**

6.1 Implementing Agency

The CFCU is responsible for contracting and accounting of the project. Responsibility for technical preparation, control and management of the PAA/STAs under twinning will remain with the beneficiary, first with the Ministry of Transport and Communications and then move to the CRA after its establishment. A Steering Committee will be established to manage and monitor the Twinning Arrangement.

The PAO will be the Director of the CFCU, Mr Z Pajarskas, Ministry of Finance J. Tumo-Vaizganto 8a, 2600 Vilnius; telephone: +370 2 61 19 32, fax: +370 2 22 53 35 and e-mail: cfcu@takas.lt.

6.2 Twinning

The beneficiary institution is the Ministry of Transport and Communications, Department of Communications, Gedimino 17, 2679 Vilnius, Lithuania. Contact person: Jonas Usas, Director of the Telecommunication Department and Mr A. Burkauskas. Tel.: +370 239 38 54, fax: +370 222 50 70, e-mail: antburk@transp.lt.

6.3 Non-standard aspects

There are no non-standard aspects to this project and the CFCU will ensure that the DIS manual will be strictly followed. The project has three components: twinning, technical assistance, and procurement.

6.4 Contracts

There will be three contracts in this project:

- Value of Twinning Covenant 1 MEURO
- Value of technical assistance contract: 500,000 Euro
- Value of procurement contract: 1.3 MEURO

7 Implementing Schedule

**Twinning and Training Package**

- Start of Twinning Arrangements: 2Q/00
- Start of Twinning Activities: 4Q/00
- Completion of Twinning: 3Q/02

**Technical Support**

- Start of T.A. Tendering: 3Q/00
Start of Project Activities: 4Q/00
Project Completion: 1Q/03

**Procurement Support**
Launch Procurement Tender: 1Q/01
Start of Delivery of Equipment: 3Q/01
Completion of Procurement: 4Q/01

8 **Equal Opportunity**
Equal opportunity principles and practices in ensuring equitable gender participation in the Project will be guaranteed.

9 **Environment**
The investment components of this Project all relate to Institution Building activities.

10 **Rates of Return**
The investment components of this Project all relate to Institution Building activities.

11 **Investment Criteria**
The investment components of this Project all relate to Institution Building activities.

12 **Conditionality and Sequencing**
Several conditions shall be observed in implementation of this project:

- The institutional framework should be completed with the establishment of CRA *de facto* by the 1 July 2000 at the latest. Responsible entity is the Ministry of Transport and Communications;

- The CRA when established shall provide necessary support in organising logistics of staff training and twinning package.

- Lithuania reviews the fees charged for licences and other administrative activities so as to ensure that they recover the full cost of running the regulatory body and that, in particular, they make provision for the eventual replacement of equipment that is necessary to the regulatory and administrative function regardless of how it was originally financed.
<table>
<thead>
<tr>
<th>Project Title</th>
<th>Wider Objective</th>
<th>Immediate Objectives</th>
<th>Outputs</th>
<th>Inputs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Draft and to enforce secondary legislation on licensing rules and procedures, interconnection, tariffs regulation, leased lines, quality of services and USO provision in compliance with the Community law; Establish independent regulatory agency for telecommunications and post and to set up transparent telecommunications and post regulatory and licensing regime.</td>
<td>Establish and train CRA Draft about 30 acts of secondary legislation</td>
<td>Established CRA and trained staff Drafted about 30 acts of secondary legislation</td>
<td>2 year PAA in CRA plus approximately 100 person months of STA inputs Creation of internal framework assisted by local experts Investment in essential equipment</td>
</tr>
<tr>
<td></td>
<td>Institutional and legal environment for regulation of competitive telecommunications market in compliance with the Community legislation implemented</td>
<td>Establish in the 2nd quarter of 2000. Draft acts of secondary legislation and enforce them by the end of the project.</td>
<td>Established by the mid of 2000. Acts started to enforce since the beginning of 2000</td>
<td></td>
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</table>
## Detailed Implementation Chart for the Project

### Annex 2

<table>
<thead>
<tr>
<th>Detailed Project Implementation</th>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>J</td>
<td>J</td>
<td>J</td>
<td>J</td>
</tr>
<tr>
<td>Launch Twinning Request to Member States (after Management Committee – June 2000)</td>
<td></td>
<td>A</td>
<td>S</td>
<td>O</td>
<td>N</td>
</tr>
<tr>
<td>Selection of Member State(s) for Twinning</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Elaboration of Twinning Covenant</td>
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<td>Submit Twinning Covenant to the Commission &amp; Steering Committee for Approval</td>
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<td>X</td>
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<td>- Tenders Launched</td>
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<td>- Contracts Signature</td>
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<tr>
<td>- Equipment delivered/installed</td>
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<td>x</td>
<td>x</td>
</tr>
<tr>
<td>- Equipment/training</td>
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**Cumulative Contracting and Disbursement Schedule for the Project (MEUR)**

Support for the establishment of the Communications Regulatory Authority in the Republic of Lithuania with associated investment for the modernisation of its technical and radio monitoring basis

**Cumulative Quarterly Contracting Schedule (MEUR)**

<table>
<thead>
<tr>
<th>Project</th>
<th>4Q/00</th>
<th>1Q/01</th>
<th>2Q/01</th>
<th>3Q/01</th>
<th>4Q/01</th>
<th>1Q/02</th>
<th>2Q/02</th>
<th>3Q/02</th>
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<tbody>
<tr>
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<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
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<td>1.0</td>
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<tr>
<td>Technical assistance</td>
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<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
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<td>0.5</td>
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<tr>
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<td>1.3</td>
<td>1.3</td>
<td>1.3</td>
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<td>1.3</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1.6</strong></td>
<td><strong>1.6</strong></td>
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<td><strong>2.8</strong></td>
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<td><strong>2.8</strong></td>
<td><strong>2.8</strong></td>
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**Cumulative Quarterly Disbursement Schedule (MEUR)**

<table>
<thead>
<tr>
<th>Project</th>
<th>4Q/00</th>
<th>1Q/01</th>
<th>2Q/01</th>
<th>3Q/01</th>
<th>4Q/01</th>
<th>1Q/02</th>
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<tbody>
<tr>
<td>Twinning</td>
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<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
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<td>Technical assistance</td>
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<td><strong>2.8</strong></td>
<td><strong>2.8</strong></td>
<td><strong>2.8</strong></td>
</tr>
</tbody>
</table>
Annex 4

Reference to Feasibility/pre-Feasibility Studies

The Lithuanian Ministry of Transport and Communications carried out the following feasibility studies:

1. Creation of Communications Regulatory Service with the transfer of existing SRFS functions;

The following studies were carried out by outside consulting:

1. Establishment of Communications Regulatory Authority in Lithuania - study carried out by Arthur Andersen Consulting (Denmark)
Annex 5

List of Relevant Laws and Regulations

Currently the legal framework in the field of telecommunications is established in Lithuania by these major laws:

- Law on Press and Mass Media (1996);
- Law on Telecommunications (1998);

Additionally, in the near future it is planned to complement (replace 1995 Regulations on Licensing) the above legal framework by development of following legislative acts:

- Regulations for the Licensing of Telecommunications Activities (4th quarter, 1999);
- Regulations for the Provision of Universal Telecommunications Services (4th quarter, 1999);
- Compensation Procedures for Telecommunications Services Working at a Loss (4th quarter, 2000);
- Procedures of the Joint Use of Conduits, Cable Ducts, Collectors, Towers and Poles by Telecommunications Operators (4th quarter, 2000);
- Telecommunications Services Quality Requirements (4th quarter, 2001);
- Terms and Tariffs of the Interconnection of Telecommunications Networks (4th quarter, 2002);
- Procedure of Settling Disputes Concerning the Interconnection of Telecommunications Networks and a Joint use of Telecommunications Facilities (4th quarter, 2001);
- National Numbering Plan (4th quarter, 2002).
Overview of CRA

Given the rapid development of new technologies and business it is extremely important to create favourable conditions in the telecommunications market for the functioning of telecommunications operators. The administrative bodies of telecommunications (the ministry and an independent regulator) have to ensure that the operators of telecommunications are not discriminated against and have equal opportunities to conclude agreements on the connection of telecommunications network and participate when solving disputes with regard to network connections, common utilisation of infrastructure, etc. On the other hand, the administrative bodies have to ensure that the telecommunications services received by the consumers are of good quality; therefore, the role of the regulator is of vital importance.

Therefore, the first item on the list of short-term priorities is the establishment of the Communications Regulatory Authority (CRA). It is intended to work independently under the Government of the Republic of Lithuania in accordance with the Law of the Republic of Lithuania on Telecommunications (1998) and provisions of the National Acquis Adoption Programme.

The Law on Telecommunications adopted in June 1998 foresee a two-staged management regime, carried out by two bodies: independent CRA and Ministry of Transport and Communications. The Government of the Republic of Lithuania and the Ministry of Transport and Communications are responsible for establishing the National Telecommunications Policy and enactment of necessary legislation as well as for the fulfilment of international obligations of the state.

CRA’s responsibilities shall include:

a) Drafting and approving regulations for the construction, use and protection of telecommunications networks, general terms and conditions of agreements on the interconnection of telecommunications networks, procedures for the settlement of disputes between telecommunications operators concerning interconnection of telecommunications networks, as well as rules and regulations establishing the procedure for a joint use of conduits, cable ducts, exchanges, towers and poles by telecommunications operators;

b) Establishing procedures and terms and conditions for granting authorisations to engage in un-licensable telecommunications activities and to issue the authorisations, to monitor compliance with the licence terms and conditions;

c) Establishing the maximum limit of telecommunication services prices and tariffs;

d) Granting authorisations for manufacturing and use of equipment and devices and their sale, for the import and use of radio transmission and radio monitoring equipment and devices;

e) Drafting obligatory requirements for equipment and devices, terminal equipment, for the connection of terminal equipment to the public telecommunications network and for the interconnection of telecommunications networks;

f) Representing the Republic of Lithuania in international organisations on the issues of Radio Regulations, to prepare plans for the development of radio communication and statutory acts on the regulation of radio communication, to carry out international radio frequency co-ordination;

g) Preparing and submitting to the Government for its approval the National Radio Frequency Allocation Table, develop and implement the strategy for the use of radio frequencies in Lithuania;

h) Preparing, together with the Radio and Television Commission, and submitting to the Government for its approval the strategy and the strategic plan of allocation of radio frequencies for broadcasting and transmitting radio and television programmes. This plan shall also include the development of telecommunications networks intended for broadcasting of radio and television programmes;

i) Preparing, controlling and supervising the National Telecommunications Numbering Plan;
j) Approving regulations for provision of telecommunications services, and a model agreement between telecommunications services providers and users;

k) Settling disputes between telecommunications operators concerning the interconnection of telecommunications networks and a joint use of conduits, cable ducts, collectors, towers and poles.

**CRA establishment concept**

In previous sections it was described that the CRA should be established as soon as possible, in order to provide timely regulatory solutions and enforcement for liberalisation and further development of the telecommunications market in Lithuania. It is therefore proposed that the CRA would be established through expansion of existing structure of the State Radio Frequency Service (SRFS). This would allow not to lose a momentum in those areas where SRFS currently has a necessary human resources, expertise and facilities. The additional expansion of SRFS structure would only be then necessary for the "new regulatory activities, foreseen in the Telecommunications Law (1998). At the same time, the existing in SRFS general support units (accounting, IT support, house keeping, etc.) should also require but minor additional investments to be capable support expanded CRA structure.

The proposed organisational structure of CRA is depicted below in Fig. 1. It may be seen from that chart that many of the proposed CRA units already exist within the SRFS. However, it is those missing units that would require significant investment in order to build them and fill up with necessary expertise quickly. Among the most important "new" units would be:

a) "Networks and Telecom Services" - unit that would undertake responsibility for matters related to the network interconnection, network access, numbering and similar matters;

b) "Terminal Equipment" - unit that would have to transform the existing type approval procedure for telecommunications terminal equipment into new liberalised environment. The important section within this unit would have to handle the procedures related to implementing and maintenance of the new regime under the R&TTE Directive;

c) "Market Surveillance" - unit that would undertake the responsibility for the law enforcement and market surveillance activities. It would include inspectorate and technical sections.

Two other existing units would require expansion:

a) "Legal Affairs" - because of expected increase of cases requiring legal advise or intervention;

b) "Monitoring" - because existing fixed installations are clearly not sufficient and require modernisation.

**Budget and staffing of CRA**

The problem of budgetary structure, that would be appropriate for financing the activities of the CRA, was realised immediately after the adoption of Telecommunications Law (1998) and was discussed within the Lithuanian governmental structures ever since. The reason for this uncertainty was that the Telecommunications Law (1998) explicitly mentions that the CRA "shall be financed from the State Budget". However the attempts to allocate necessary funds within the State Budget were not successful because of its existing deficit.

That is why it was decided to ask PHARE for co-financing of initial set-up costs. At the same time, the decision was adopted to change the financing model for CRA maintenance costs from State supported to self-financed. This means, that the running costs of CRA would be financed from licence fees, collected from licensees of telecommunication services and users of radio spectrum. This decision was aligned with the previously mentioned decision to base the CRA on the existing structure of SRFS, because the SRFS is currently self-financed from the licensing fees. Therefore, the expansion of SRFS into CRA would not only mean that the existing organisational structure would be preserved, but also that financing mechanisms would remain the same. However, the
Ministry decided that the licensing fees should be reviewed in this light, in order to make them more balanced and transparent to users. Following this decision the independent finance consulting firm was contracted at the end of January 2000, and tasked with preparation of the new tariffs. The draft shall be prepared by the end of April 2000, when it will be forwarded to the MTC as well as to the Competition Council of the Republic of Lithuania for their approval.

It was also believed that similar benefits would be derived from chosen CRA establishment concept in regard of staffing of future CRA. Currently the SRFS employs staff of 108 (more than half of them have various University Degrees) and it is therefore planned to re-employ them all fully in the new CRA. Additional staffing would only be needed for the aforementioned "new" areas of activities. It seems currently that only some 10-15 people would have to be employed additionally, but this is with understanding, that some of the existing SRFS staff would be re-assigned to the new sections. This may be done because some of the existing activities (e.g. type approval, importation control, etc.) would be abolished under the new liberalised regime.

**Action plan for establishment of CRA**

Implementing the above-described schemes of CRA establishment, the MTC has prepared projects for necessary amendments to the Telecommunications Law (1998), the Law on Enterprises and also some other related secondary legislation, that would allow creation of the CRA, based on existing in the SRFS self-financing mechanisms. These amendments are now being circulated to other relevant governmental institutions for comments.

It is intended to adopt these amendments to existing legislation by the Government and Parliament in March/April timeframe. This would effectively remove any remaining barriers to establishment of the CRA, based on a new concept.

Since the concept of CRA establishment is based on the expansion of existing SRFS structure, therefore the remaining time between April and July seems to be fully adequate for solving the remaining minor logistical problems.

So the plan of CRA establishment is devised by the MTC as follows:

- 1 June 2000 - the Director and the Board of the CRA is assigned and tasked with preparation of formal transition of SRFS staff, budgetary and other assets to the new CRA;
- 1 July 2000 - *de facto* establishment of the CRA.

**Postal Services**

MTC also foresees that after its establishment the CRA will be charged with certain regulatory responsibilities in the field of postal services (with a Postal Division numbering approximately 5 persons). It is believed that the transfer of these functions to a single independent regulatory authority would bring significant benefits to the postal sector.

However, since the CRA did not exist at the time when the recently adopted Law on Posts (1999) was drafted and approved by Seimas, the Law does not mention CRA explicitly, leaving the allocation of postal regulatory functions for settlement by Government Decree (assumed to be delivered in June 2000).

In the area of postal services, the Law on Posts will be amended in year 2000, to ensure full compliance with Directive 97/96/EC.
Fig. 1. Proposed organisational structure of CRA

(annex 7)

grey boxes indicate units that currently exist within the SRFS

Diagram of organisational structure:

- Director
- Board
- Radio communications Department
  - Frequency Planning
  - Radio Station Licensing
  - Broadcasting Services
    - Radio Monitoring
      - Fixed
      - Mobile
- Telecommunications Regulation Department
  - Network Licensing
    - Networks and Telecom Services
    - Terminal Equipment
      - RTTE Processing Unit
    - Market Surveillance
      - Inspectorate
      - Technical facilities / labs
- Administrative Support Units
  - Financial / Accounting
  - Legal Affairs
  - Media Relations
  - Strategic Planning
  - Record Keeping and IT Services
  - House Keeping