**Information about Market Assessment - Connectivity Vouchers**

The currently applicable EU Broadband Guidelines date from 2013 and do not contain specific rules regarding connectivity vouchers.

Guidance on how to ensure compatibility of a demand side voucher scheme can only be obtained from the upcoming Broadband Guidelines. Further guidance can be found in a [decision](https://ec.europa.eu/competition/state_aid/cases1/202202/SA_57496_9043347E-0000-C26F-89FF-45AAA1EE1757_102_1.pdf) adopted by the Commission regarding a voucher scheme implemented in Italy.

Reference must be made in particular to para. 198 of the upcoming Broadband Guidelines which concerns the risk that a voucher scheme may unduly distort competition. To limit this risk, Member States must carry out a market assessment which should include the following points:

1. Identification of the providers present in the area able to provide the eligible connection speeds envisioned by the voucher.

What is asked here:

List the operators in the intervention areas capable of reliably providing 1 Gbps download and 250 Mbps upload speeds.

An explanation on the kind of service each operator is able to provide, including technology used and envisaged, an explanation on their capacity to provide the speeds foreseen in the voucher scheme and how they reach this capacity, i.e. with their own networks or via wholesale agreements, in which case further explanations regarding access conditions will have to be provided.

There are four providers in the intervention areas: Cyta (the incumbent), Cablenet, Primetel and epic. All four providers can use the voucher scheme to reliably provide 1 Gbps download and 250 Mbps upload speeds. In specific, Cyta will use its own network and the alternative operators can either use their own fibre networks and in areas that they do not cover they will be able to provide services via the commercial agreement that they have signed with Cyta.

In specific, the commercial agreement entails a minimum of three connection points (1 in each geographical area) covering the entire national territory. Each geographical area connection requires two services- ethernet access (1 or 10 Gbps) and IP network capacity. The IP network capacity is calculated by multiplying the number of end users of the alternative operator that is connected in the specific geographical area at the transmission rate of the connected product and then a contention ratio of 1:10 is applied to the result (dividing the result by the number ten). Moreover, alternative operators can request to define the IP Network capacity on their own. The traffic characteristics of the commercial agreement includes a single Q-VLAN for all services with no capability for QoS differentiation (voice, internet, TV) and multicast service. As per the alternative network operators, the commercial agreement will be used to complement their own fiber networks.

You should know:

For the purposes of the scheme, a list of these operators will also have to be included in an online registry accessible to the public.

1. Calculation of the market share of these providers in the fixed broadband market in the intervention areas .

What is asked here:

List the market shares of each provider [in the fixed broadband market in the intervention areas]. This will allow the Commission to see whether there is effective competition on the market (numerous operators around the same market shares) or whether an operator could be dominant on the market. In EU Competition law an operator is presumed to be dominant if it holds a market share of 50% or more. Please note however that depending on the dynamics of the market concerned, a company with a market share of more than 50% could be held not to be dominant and that an operator with a market share of less than 50% could be found to be dominant.

How to calculate market shares:[[1]](#footnote-2)

Market shares for each supplier can be calculated on the basis of their sales of the relevant products in the relevant area. In practice, the total market size and market shares are often available from market sources, i.e. companies' estimates, studies commissioned from industry consultants and/or trade associations. When this is not the case, or when available estimates are not reliable, the Commission will usually ask each supplier in the relevant market to provide its own sales in order to calculate total market size and market shares.

If sales are usually the reference to calculate market shares, there are nevertheless other indications that, depending on the specific products or industry in question, can offer useful information such as, in particular, capacity, the number of players in bidding markets.

As a rule of thumb, both volume sales and value sales provide useful information. In cases of differentiated products, sales in value and their associated market share will usually be considered to better reflect the relative position and strength of each supplier.

You should know:

Among these operators, where an operator is vertically integrated and has a retail market share above 25%, in order to be included in the voucher scheme, that provider must offer, on the corresponding wholesale access market, to any electronic communication services providers at least one wholesale access product able to ensure that the access-seeker will be able to reliably provide the eligible services, under open, transparent and non-discriminatory conditions.

1. Analysis of whether the scheme may confer a disproportionate advantage on some providers to the detriment of others possibly reinforcing (local) market dominance.

This assessment is necessary because distortions of competition are likely to be enhanced if one provider has too much market power. Where the provider is already dominant on a market, the aid measure may reinforce this dominance by further weakening the competitive constraint that competitors can exert.

What is asked here:

Based on the list of operators and their respective market shares, answer the following questions:

1. Is there a sufficient number of actively competing service providers in the Cypriot fixed broadband market?
2. From our understanding, there is an incumbent operator in Cyprus, that owns the broadband infrastructure. Is it bound by wholesale access obligations laid down in domestic regulations that allow other operators to provide similar services to those provided by the network operator?

As a reminder:

Wholesale access enables third-party operators to compete with the incumbent operator (when the latter is also present at the retail level), thereby strengthening choice and competition in the areas concerned by the measure while at the same time avoiding the creation of regional service monopolies.

1. Does the Measure benefit all services providers capable of offering eligible connection speeds, regardless of whether they offer the service using their own network or by accessing the network of other operators?

All players are active at both fixed and mobile markets providing a wide range of communication services combining fixed, broadband, mobile and TV services with a clear commercial strategy focusing on bundling. As of the end of 2021, state-owned incumbent Cyta holds the largest market share in fixed telephony, broadband and IPTV/CableTV, followed by Cablenet who is operating an alternative cable infrastructure, Primetel and EPIC. While in fixed telephony Cyta’s market share keeps eroding, in broadband and TV shares are rather stable with Cyta slowly decreasing until 2019, but slowly increasing in 2020 and stabilising in 2021.

The broadband market in Cyprus is rather saturated as, according to the latest data, at the end of 2021 93.4% of Cypriot households have broadband connections with only 2.6% yearly growth. Based on the Broadband Coverage in Europe 2020 Survey, Cyprus achieved complete fixed broadband coverage at a national and rural level already in 2012 and by mid-2019 achieved comprehensive NGA coverage. Cable networks based on DOCSIS 3.0 were available in most urban areas, covering 57.4% of Cypriot households, but Cablenet has not launched DOCSIS 3.1, while it uses FTTH in the areas of new deployments.

The mix of fixed broadband subscribers by speed has naturally evolved towards higher speeds, particularly during the last year, as a combination of the increased availability of FTTH at affordable prices and the significant demand for higher bandwidth due to COVID lockdowns. The dominant access technology is xDSL followed by Cable and fast growing adoption of FTTH.

In 2018, Cyta announced a ten-year €100 million investment plan to cover 200.000 premises with FTTH. Following Cyta’s announcement, all three operators expressed interest in co-investments, but discussions did not lead to any agreement. In 2019, Cyta, started to deploy a G-PON fibre-to-the-home (FTTH) network aiming to complete 60% of the project within 4 years. According to a recent announcement, the implementation timeframe was considerably reduced and the 200.000 premises target is expected to be completed by 2023. Cyta already offers, through both retail and wholesale, a range of services with speeds up to 1 Gbps. Cablenet has announced that all new installations will be fibre-based. It deployed a FTTH access network in Dali-a suburb of Nicosia- and is currently deploying in Pafos (2021). EPIC deployed a pilot FTTH project in Akropolis and plans to deploy their own extensive fibre network. Epic recently assured a 19 m€ loan from EIB to develop a 1.600Km fiber network to offer FTTH services in urban and rural areas .

As already mentioned there are four competing service providers in the fixed broadband market in Cyprus. All four providers are developing their own fibre networks with the incumbent planning to cover almost 90% of the premises by 2026. For the alternative operators their fibre network deployments coverage is expected to range from 25% to 36% until 2026. Therefore we expect all providers to make usage of the voucher scheme and that it will act as an accelerant for the alternative network operators (ANOs) plans for fibre network deployment stimulating even further the network competition. Moreover, the ANOs have signed a commercial agreement with Cyta since 2020, that they are already using, that gives them access to its fibre network and therefore we expect them to use it in order to reach end-users that are not covered by their own networks.

1. Is there a need to implement the scheme?

What is asked here:

Comparison work between the intervention areas of the scheme with the situation in other areas of Cyprus or with the situation in other Member States.

There are two types of possible explanations for the intervention with a connectivity voucher scheme: Either the areas that will benefit from the voucher scheme share certain characteristics that justify that the take-up of demand to date has not been as good as elsewhere in Cyprus. Or – and this option seems in principle more plausible –the current situation regarding the take-up of connectivity in Cyprus and the structure of the Cypriot market in comparison with the development in other EU Member States is such that it requires a public intervention via the voucher scheme to enhance the take-up and use of fixed services. In such a case, an explanation has to be provided regarding the reasons why the voucher scheme is necessary to incentivise demand.

Questions to answer:

An introductory section should include the increased need for higher speeds for user in light of increased telework, video conferencing, e-education, etc…

Then, it should be justified why the scheme is needed to improve take-up in the intervention areas in particular.

1. the position of Cyprus in DESI, ie in comparison to other Member States, and the explanation of this ranking
2. is there a difference within areas of Cyprus
3. why is the take up so low in these areas compared to others
4. The grounds the relatively high retain prices in Cyprus, which hamper up-take.

As per the latest DESI report available Cyprus, despite the improvement it has shown compare to the previous report, is still lacking in VHCN coverage compared to the EU average (26% vs 59%). Furthermore, it scores really low in the Broadband Price Index (42 vs 69 EU average) and in the at least 100 Mbps take up (3% vs 34% EU average) and at least 1 Gbps take-up (< 0.01% vs 1.3% EU average). The lagging is due to a great extend in the operators initial unwillingness in deploying VHCN network due to the small size of the market that resulted in a late starting point. Currently all operators are deploying their own networks but given the unstable financial environment they might be tempted to put on hold their plans. The voucher scheme is expected to alleviate such concerns and to accelerate even further their deployment plans pushing both supply and demand side in a manner that will bridge the gap that Cyprus is now facing in the various DESI indicators.

Cyprus is amongst the three most expensive countries in the EU, with fixed broadband prices considerably higher than the EU average. In baskets that include fixed broadband access the difference is relatively small at low speeds, but increases rapidly as the speed increases. This excessive price premium, negatively affected take-up of 100+ Mbps services. It should be noted that, in 2021, there was a considerable decrease in prices for fiber-based services charged by the incumbent. It is noticeable that prices for similar speeds offered on FTTH are much lower than the ones offered on VDSL, providing strong incentive for the transition from copper to fiber.

Fiber is currently deployed in urban areas so there is no indication for any difference between urban and rural areas. Generally speaking, the demand for VHCN services is higher in urban areas than in rural areas due to ageing population.

Additional input necessary:

As the scheme is planned to last for more than two years - which is the duration benefiting from a positive presumption (see para. 200 of the upcoming Broadband Guidelines) - it would be useful in the market assessment to include elements supporting the need for a longer duration (slow moving demand, etc…).

1. **Optional** input- trends in take-up by households may also be assessed to conclude on the opportunity to implement the voucher scheme.

What is asked here:

Are there any particular trends in take-up (from the households) that could help determine whether/why the scheme should be implemented?

As a reminder:

Only if a market failure exits, state aid can be granted. Thus even if this last input is optional, it would help in demonstrating the presence of a market failure.

A pilot Voucher Scheme subsidizing the subscriptions of 100+ Mbps was implemented by the DEC during 2019-20 aimed to make prices more affordable. A 30% subsidy for a 12-month period with upper limit of 30 € per month was allocated to more than 3,000 users. Although the Scheme had a limited budget of 0.8 m€ and, thus, it could have no significant impact on take-up, it clearly showed that the excessive price premium for high speed broadband services is a major factor affecting demand and if lowered it could improve take-up.

(see evaluation report attached)

1. Commission Notice on the definition of relevant market for the purposes of Community competition law, paragraphs 53-55. [↑](#footnote-ref-2)