

Gigabit vouchers for citizens and companies – turning Germany into a Gigabit Country

1. Why do we need vouchers when migrating from copper and vectoring to real fibre connections (FTTB/H)?

- **The objective:** Widespread gigabit access networks are the foundation for the digitisation of society, economy and administration in Germany. Connecting white spots with fibre is not enough. We also need to include connections with copper-based vectoring connections. Enhancing the fibre roll-out into buildings and homes (FTTB/H) is the highest priority.
- **The risk:** The necessary deployment, particularly in rural areas, is hardly economically feasible without targeted funding on the demand side. Today, the lack of demand is responsible for curbing fibre deployment. Many municipalities are aware of this problem. It slows down both the deployment and the digitalisation process.
- **The funding outset:** Funding broadband deployment without considering the local demand is not always efficient. Investments into deployment use the already scarce drilling and civil engineering capacities in areas with little or no demand. Hence, these capacities are then missing in areas with real demand.
- **The new solution:** Vouchers will help to increase the demand. They will help determining when the excavators need to be scheduled for fibre deployment, to connect buildings and customers most efficiently. Deployment areas will in turn become more attractive. Previously economically unviable areas will become profitable as soon as more citizens and companies ask for fibre connections. Complementary, there will always be areas in which the existing broadband funding will remain necessary. A report from the Leibnitz Centre for European Economic Research (ZEW) and JUCONOMY Lawyers on behalf of the associations BREKO and VATM (from September 2019) has confirmed that it is economically viable and legitimate to stimulate demand with vouchers. The German Monopoly Commission and the Federal Ministry of Economics and Technology have been proposing an appropriate solution and assessment of funding options for some time.
- **The investment competition:** Vouchers do not distort competition but allow companies to achieve economic feasibility. Citizens and companies can only redeem the voucher after proving the completion of a fibre-to-the-house connection or a contract conclusion (similar to scrapping premium or e-mobility). Hence, investors will see increased demand when they successfully pre-market and deploy effectively. This approach will stimulate the competition in the deployment, but not control nor distort it.
- **Inefficient double expansion:** This is not supported by the allocation of vouchers. Vouchers are competition neutral.
- **Customer competition:** An Open Access obligation ensures best the selection of innovative service providers.
- **Dispersion loss:** Gigabit areas covered with FTTB/H, HFC/Docsis 3.1 or HFC networks that can be upgraded with relatively little effort are not within the funding scope due to limited funds. Therefore, dispersion losses are kept to a minimum.

- **Citizen-friendly online processing:** A recognised central institution should be responsible for the coordination (e.g. BAFA or KfW). This has worked well for the scrapping premium and the solar subsidy scheme.

2. The incentive tool is composed of three vouchers:

- **Connection voucher:** the homeowner receives **500 euros** for approval and construction of a fibre house connection (house stitch).

- **Contract voucher:** the customer receives **EUR 500** for concluding a contract with a minimum bandwidth of more than 250 Mbit/s based on broadband connections that reliably provide a bandwidth of at least 1 Gbit/s.

- **Inhouse voucher:** the owner of an apartment building receives **EUR 150** per housing unit connected if the old copper cables are replaced by fibre.

3. Results of the report by ZEW and JUCONOMY Lawyers on behalf of BREKO and VATM on the economic feasibility and legal admissibility of vouchers (from September 2019)

BREKO and VATM have commissioned the renowned Leibnitz Centre for European Economic Research (ZEW) in Mannheim and JUCONOMY Lawyers to examine both questions.

Key messages of the economic part - ZEW:

- The willingness to pay on the demand side is often too low to allow area-wide deployment in an economically viable manner.
- Funding the demand side will result in a better use of the infrastructure from a regulatory and a social-welfare perspective. It is thus paramount and advisable.
- Vouchers systems are a solution-based approach. They are in line with the economic principle that each political objective (deployment and use) requires at least one economic policy instrument.
- The deadweight effect and other market distortions are minimised. Simultaneously, it allows to identify the target audience and to set the funding area's temporal, monetary and geographic conditions, which maximises effectiveness.
- The positive economic effects of funding the demand side predominate. However, funding the demand side cannot and should not replace traditional funding, but would rather lead to a more efficient distribution of state funding.

Key messages of the legal part – JUCONOMY:

- in Germany, voucher funding - as proposed by the associations - is subject to notification and approval by the EU;
- the funding conditions comply with EU rules;
- vouchers create an important incentive effect;
- only bandwidth connections that reliably provide at least 1 Gbit/s will receive funding;
- the voucher amount fits with the proposed framework;
- there are no disproportionate deadweight effects or dispersion losses and unnecessary distortions of competition are avoided;
- voucher design can consider the criteria established by the Monopoly Commission;
- the impact of vouchers on the distortion of competition is monitored;
- the allocation of vouchers to the end customer ensures transparency.