**DESI Report 2018**

*Telecoms chapter*

# LATVIA

## ***Market developments***

### 1. Competitive environment

Fixed voice and SMS services continue to decline while mobile voice services have slightly increased. Following a fixed-mobile substitutability analysis on the voice telecommunications market at retail level, the Latvian national regulatory authority (SPRK) concluded that fixed voice services are substitutable by mobile voice services and both should be considered as a part of the same market.

Mobile voice bundled with mobile data is the most common mobile services subscription. Other common bundles are fixed broadband/cable TV and fixed broadband/fixed voice. SPRK expects content to become more important in mobile bundles since MTG group and the third mobile operator, Bite, have the same owner (see below).

#### a. Fixed Markets

Affordability of fixed broadband in Latvia is comparable to the EU average[1].

| **Fixed broadband prices** | LV-2016 | LV-2017 | EU-2017 |
|---|---|---|---|
| Fixed broadband price index [values between 0-100] | 86 | 87 | 87 |

*Source: Commission Services based on Fixed Broadband Prices in Europe (Empirica). Digital Economy and Society Index 2018.*

Latvia is among the leading Member States in FTTH penetration. The share of vDSL, FTTH, and FTTB has slightly increased at the expense of DSL subscriptions. The proportion of subscriptions of speeds above 100 Mbps remains at 48% of all fixed subscriptions. Lattelecom's market share is still well above 50% but has slightly eroded.

| **Fixed broadband market shares** | LV-2016 | LV-2017 | EU-2017 |
|---|---|---|---|
| Incumbent market share in fixed broadband | 58.6% | 57.1% | 40.3% |
| **Technology market shares** | | | |
| DSL | 26.2% | 24.5% | 64.2% |
| Cable | 3.6% | 3.7% | 19.4% |
| FTTH/B | 62.4% | 63.2% | 12.9% |
| Other | 7.9% | 8.6% | 3.6% |

*Source: Communications Committee. Data as of July 2016 and July 2017.*

[1] The fixed broadband price index weights the cheapest retail offers from: standalone, double play (broadband+ TV, broadband + fixed telephone) and triple play (broadband+TV+fixed telephone) and three speeds categories - 12-30Mbps, 30-100 Mbps and +100Mbps-. This indicator presents values from 0 to 100 (which should not be read as prices) and the higher values, the better the country performs in terms of price.

There is no change in new entrants' access compared to 2016.

| **New entrants' DSL subscriptions by type of access (VDSL excluded)** | LV-2016 | LV-2017 | EU-2017 |
|---|---|---|---|
| Own network | - | - | 0.5% |
| Full LLU | - | - | 72.8% |
| Shared Access | 1.6% | 1.6% | 4.1% |
| Bitstream | 40.4% | 40.4% | 14.7% |
| Resale | 58.0% | 58.0% | 7.8% |

*Source: Communications Committee. Data as of July 2016 and July 2017.*

Overall, while fixed broadband coverage remains stable, operators note that fixed broadband take-up is slowly rising. The low overall fixed broadband coverage compared to most other EU Member States together with the very good fast and ultrafast broadband coverage reflect the digital divide in Latvia.

| **Coverage** | LV-2016 | LV-2017 | EU-2017 |
|---|---|---|---|
| Fixed broadband coverage (total) | 93% | 93% | 97% |
| Fixed broadband coverage (rural) | 83% | 82% | 92% |
| Fixed NGA coverage (total) | 91% | 91% | 80% |
| Fixed NGA coverage (rural) | 77% | 77% | 47% |
| Ultrafast coverage (total) | no data | 88% | 58% |
| 4G coverage (average of operators) | 91% | 98% | 91% |

*Source: Broadband Coverage Study (IHS and Point Topic). Data as of October 2016 and October 2017.*

Using mobile technology, mobile operators have entered the fixed broadband and TV markets which provide them with new sources of revenues. Where this is the case, mobile technology is used as a substitute to the fixed connection. The first mobile operator (LMT) offers TV on their mobile network. With the acquisition of MTG (see below), the third mobile operator, (Bite) bought TV content. Lattelecom also offers (internet) TV services and invests in its own content.

### b. Mobile market

Mobile operators note that market shares have remained relatively stable in the mobile market in 2017. LMT is closely followed by Tele 2, while Bite is the third operator. Independent MVNOs in Latvia occupy very small niche segments and have no meaningful impact on the mobile market. The Latvian authorities clarified that they would not approve the LMT-Lattelecom merger which had been envisaged for several years.

| **Mobile market** | LV-2016 | LV-2017 | EU-2017 |
|---|---|---|---|
| Market share of market leader | 37% | 38% | 35% |
| Market share of second largest operator | 35% | 35% | 28% |
| Number of MNOs | 4 | 4 | - |
| Number of MVNOs | 3 | 1 | - |
| Market share of MVNO (SIM cards) | - | - | - |

*Source: Communications Committee. Data as of October 2016 and October2017.*

The price of the least expensive mobile broadband offer for handset remained stable in February 2017 compared to February 2016. In contrast, the price of the least expensive mobile broadband offer for tablet and laptop increased by 29% between February 2017 and July 2017.

| **Mobile broadband prices [EUR/PPP]** | LV-2016 | LV-2017 | EU-2017 |
|---|---|---|---|
| Least expensive offer for handset (1 GB + 300 calls basket) | €14 | €14 | €24 |
| Least expensive offer for tablet and laptop (5 GB basket) | €7 | €9 | €17 |

*Source: Mobile Broadband Price Study (Van Dijk and Empirica). Prices expressed in EUR/PPP, VAT included. Data as of February 2016 and February (handset) 2017 - July (tablet-laptop) 2017.*

In 2017, the owner of Bite[2] bought MTG group, the main commercial TV channels' owner and operator in Latvia. The Competition authority imposed on Bite a wholesale access remedy to that content. Bite also bought Unistar, which holds rights to use 150 MHz in the 3.4-3.8 GHz band.

4G network deployment is nearing completion with all three major mobile operators having very high 4G coverage. 2G and 3G networks are maintained and continue to develop. There has so far been no plan for early 5G trials or deployments.

***Regulatory developments***

## 2. Supporting measures for deployment and investment in high-speed networks

### a. Spectrum

No change occurred in 2017 as regards the % of harmonised bands assigned in Latvia.

In 2017, the national radio frequency plan was amended with regard to Wireless Broadband (WBB): the 3.4-3.8 GHz band was rearranged into 8x50 MHz continuous blocks starting from January 2019, and LTE technology was allowed in the 450 MHz band (only CDMA was operated previously in that band). Usage rights were extended for two operators in the 2.1 GHz band.

In the 3.4-3.8 GHz band, six of the eight re-arranged 50 MHz-wide blocks were redistributed among existing rights holders. The two available blocks were auctioned on 27 November 2017 for use from January 2019. Following a change in the frequency plan, existing rights holders in that band were not allowed to participate in the auction. As a result, only one market player (a mobile operator) made a bid and acquired the two blocks at the starting price[3]. On 28 January 2018, the rights of use for one of the previously re-distributed 50 MHz-wide blocks (namely the 3550–3600 MHz block) expired and that block is available for auction. The auction is planned to be carried out by SPRK in autumn 2018.

The 700 MHz band is currently used for TV broadcasting by Lattelecom, whose rights of use expire in 2022. In addition, cross-border coordination with Russia and Belarus is ongoing. As a result, the WBB use of the 700 MHz band (including for 5G) in Latvia is planned for 2022. A working group has been set up by the Ministry of Transport for that purpose. In 2017, LTE tests were conducted in that band.

[2] Providence, an American pension fund.
[3] 250 000 EUR for each block.

5G deployments can be introduced in the 3.4-3.8 GHz band from 2019. However, some market players argue that the re-arranged assignments and recent auction within that band does not place them on equal footing. Appropriate frequency resources can be assigned already in 2018 for early 5G trials in some parts of the 24-27 GHz band ("26 GHz" band). Finally, Latvia is preparing regulatory measures and coordinating activities with neighbouring countries with the objective to repurpose, in the coming years, the 1.5 GHz band (or at least parts of it) for 5G needs.

The table below shows the number of permits for operating base stations for public mobile communications issued by the Electronic Communications Office (VAS ES) in the relevant WBB frequency bands. All permits respect technological neutrality.

| Frequency band | 450 MHz | 800 MHz | 900 MHz | 1.8 GHz | 2.1 GHz | 2.3 GHz | 2.6 GHz | Total |
|---|---|---|---|---|---|---|---|---|
| Dec. 2016 | 178 | 1421 | 2982 | 1628 | 2078 | 28 | 323 | 8638 |
| Nov 2017 | 177 | 1856 | 3204 | 1878 | 2179 | 29 | 423 | 9746 |

*Source: Electronic Communications Office (VAS ES).*

Spectrum sharing and trading is allowed subject to SPRK clearance if certain conditions are met. If the rights of use the spectrum are acquired in an auction, trade/lease is allowed with some restrictions.

Decision (EU) 2015/750[4] is still not implemented. As soon as coordination agreements with Russia and Belarus are signed, Latvia will amend the national radio frequency plan and make the 1.5 GHz band available for mobile/fixed communications networks, in line with that Decision. Negotiations on these agreements continued in 2017.

### b. National and EU investment in broadband

The 'middle mile project'[5], launched in 2012 and co-financed by EU structural funds to connect rural areas to the national backbone infrastructure, has entered its second phase. Like the first phase of the project, the second phase is implemented by the Latvian State Radio and Television Centre (LVRTC)[6]. LVRTC owns the infrastructure built by the project and is not allowed to provide retail services.

In 2017, a public procurement process led to the conclusion of four general agreements on the design and construction of optical network infrastructure for a total amount of 32 million euros. In summer 2017, the design work for the optical network infrastructure to be built in the second phase was launched; the actual construction work of the second phase is planned to start in spring 2018. It will focus on the remaining 221 white areas identified in 2014-2015. It is foreseen that, by 2020, approximately 2 200 km of optical cable and at least 220 optical

[4] Commission Implementing Decision (EU) 2015/750 of 8 May 2015 on the harmonisation of the 1452-1492 MHz frequency band for terrestrial systems capable of providing electronic communications services in the Union (OJ L 119, 12.5.2015, p. 27–31)

[5] Project "*State aid SA.33324 – Latvia Next generation network for rural areas" (C (2011)7699)*, also known as the SAP project. During the first phase of this project (2012-2015), 1418 km of cable ducts, 1813 km of optical cable were laid and 177 access points were built in white areas.

[6] State Joint Stock Company "Latvian State Radio and Television Centre".

network access points will have been built. Telecoms operators have the opportunity to create a local loop with a data transmission speed of at least 30 Mbits/sec (the "last mile") utilising the new network for offering retail services to end users. Lattelecom has so far been the main user of the infrastructure deployed.

However, it seems that private investment in the last mile does not occur in all places. Some stakeholders expressed dissatisfaction with a recent change in the tariff scheme for the use of the deployed infrastructure. A study will be launched by the Ministry of Finance in collaboration with the Ministry of Transport to assess the situation and propose solutions where needed to close the last mile gap, including further state aid schemes and regulatory measures. The delivery of "fixed" services in homes via the mobile technology by mobile operators contributes to closing the gap in some rural areas where fixed investment in the "last mile" does not take place.

### c. Implementation of the Broadband Cost Reduction Directive

Latvia notified full transposition of the Broadband Cost Reduction Directive 2014/61/EU[7] in July 2017.

Pursuant to national law on private property, access to some multi-flat buildings by network operators needs permission by all individual owners in the building; according to some market players, this makes the access to those buildings very difficult or even impossible to obtain in practice, so that in such cases the new provisions related to in-building access are of little use and effect according to them.

The Dispute Settlement Body (DSB) foreseen in the Directive is the national regulator (SPRK). It has not resolved any dispute in relation to the application of the Directive yet.

Some stakeholders also complain about the high cost of initiating a dispute with the DSB in relation to these new rules (€5 000), and about the high fees asked by municipalities to access public buildings (outside of the scope of the Directive).

## 3. Regulatory function

In 2017, SPRK's decisions to deregulate the wholesale fixed call origination market[8] and the retail fixed national voice telecommunications market[9] came into force. This did not have a major impact on the market. Several very small operators entered the retail voice telecommunications market, but their impact has been negligible. The activity in fixed wholesale markets remains very low. An obligation to announce to the customer the retail off-net tariff of a call was imposed if the tariff exceeds a certain level. As a result, the few exorbitant retail off-net tariffs that remained in Latvia are expected to disappear.

[7] Directive 2014/61/EU of the European Parliament and of the Council of 15 May 2014 on measures to reduce the cost of deploying high-speed electronic communications networks (OJ L 155, 23.5.2014, p. 1–14).
[8] Market 2 of the 2007 Commission Recommendation on relevant markets.
[9] Market 1 of the 2007 Commission Recommendation on relevant markets.

In 2017 SPRK reviewed Markets 1 and 2 (Fixed and Mobile Termination Markets). FTR and MTR caps were updated based on a benchmark of rates set by those countries that have implemented the recommended BU-LRIC model. SPRK distinguishes again the FTR and MTR caps for the calls originating in EU/EEA and for the calls originating in non-EEA countries due to much higher FTRs and MTRs in several non-EEA countries bordering Latvia. The regulated levels of MTRs and FTRs are broadly accepted by the market.

The SMP operator must provide local loop unbundling for FTTH (P2P or GPON) and FTTB infrastructure. LLU must be provided to other operators on conditions equal to self-service. In case of GPON, the SMP operator must provide VULA with characteristics and parameters equivalent to physical unbundling. There is limited take up of dark fibre and Bitstream access. The take up of regulated access products altogether remains low. Infrastructure-based competition prevails in Latvia. One market player signalled its interest to enter the fixed market but finds the wholesale fixed prices too high to do so.

Existing and future bundles have limited impact on the regulatory approach of SPRK.

The review of regulatory decisions on Markets 3a and 3b (wholesale local and central access provided at a fixed location) will take place in 2018, and Market 4 (wholesale high quality access provided at a fixed location) afterwards.

In 2017, no change was made to the national numbering plan. However, SPRK supports the introduction of a special range for M2M/IoT numbering in view of the risk of mobile number exhaustion in the medium term (3-4 years). The responsible authority for the numbering plan is the Ministry of Environmental Protection and Regional Development.

SPRK did not have to settle any disputes between undertakings in 2017. In 2017, two decisions by SPRK to impose administrative penalties for the provision of electronic communications services without registration were appealed. The Court dismissed the appeals.

## 4. Consumer matters

In 2017[10], SPRK and the Consumer Rights Protection Centre (CRPC) respectively received 74 and 73 consumer complaints regarding electronic communications services. Altogether the key issues were related to bills and tariffs (including roaming and tariffs in fixed network), terms of contracts and quality of service.

An Internet tariffs comparison tool is available at www.gudriem.lv.

[10] Until the end of October 2017.

### a. Roaming

According to SPRK, there has not been any compliance issue as regards the implementation of the new Roam-Like-At-Home (RLAH) rules[11] in Latvia, and no operator applied for the sustainability derogation. SPRK estimates that retail mobile prices have increased by 20-30% in 2017, from a very low level. This price increase is visible on the least expensive offer for laptop and tablet (5 GB, from €7 in February 2016 to €9 in July 2017[12]). In many cases, the price increase was accompanied by higher volumes of data. The Competition authority has been conducting a preliminary enquiry about the price increase[13].

Following RLAH, two of the three mobile operators in Latvia now include international calls in national volumes as the distinction between EU roaming calls and international calls to the EU was a source of confusion and dissatisfaction for mobile users.

Roaming consumption by Latvian travellers increased tremendously under RLAH. Latvian subscribers consumed 3.6 times more voice and 12.5 times more data roaming services when travelling in the EU in summer 2017 compared to summer 2016[14]. The share of Latvian consumers using mobile data while travelling in the EU more than doubled after 15 June 2017, while the share of those never using mobile data while travelling in the EU dropped[15].

### b. Net neutrality

There are no self-regulatory initiatives in Latvia. SPRK has not detected any breaches of the EU net neutrality rules[16]. It surveyed operators on traffic management and no particular issue arose. Only one mobile operator offers zero rated services which have been assessed as compliant with EU rules by SPRK. According to SPRK, end users are generally satisfied with the service quality.

The Latvian Electronic communications law and General Authorisation rules define the information that should be included in electronic communications contracts. No additional information on the transparency measures has been introduced.

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[11] Regulation (EU) No 531/2012 of the European Parliament and of the Council of 13 June 2012 on roaming on public mobile communications networks within the Union (OJ L 172, 30.6.2012, p. 10), as amended by Regulation (EU) 2015/2120 and Regulation (EU) 2017/920.

[12] In EUR/PPP, VAT included. The 2017 price of the least expensive offer for handset (1 GB + 300 calls basket), unchanged compared to 2016, is from February 2017, i.e. prior to RLAH.

[13] The enquiry was still ongoing at the time of drafting this chapter.

[14] Figures compare Q3/2017 with Q3/2016 retail roaming volumes according to the BEREC International Roaming Benchmark Report, April 2017-Septembre 2017, published on 14 March 2018.

[15] 24% of Latvian roamers used mobile data while roaming in the EU after 15 June 2017, compared to 11% before that date. In contrast, 35% of Latvian roamers never used mobile data after 15 June 2017, compared to 50% before that date. Source: Flash Eurobarometer 454 on the end of roaming charges within the EU, 27 September 2017.

[16] Regulation (EU) 2015/2120 of the European Parliament and of the Council of 25 November 2015 laying down measures concerning open internet access and amending Directive 2002/22/EC on universal service and users' rights relating to electronic communications networks and services and Regulation (EU) No 531/2012 on roaming on public mobile communications networks within the Union (OJ L 310, 26.11.2015, p. 1).

SPRK has its own internet measurement tool called “ITEST”, which allows consumers to measure their internet speed and other internet quality parameters. Although measurements performed by consumers are for informational purposes only, consumers can submit a complaint to their ISP in case the measurement results do not comply with values stated in the contract. If the consumer is unsatisfied with the answer given by the ISP, a complaint can be filed to SPRK which will perform the measurement and settle the case. SPRK and Latvian ISPs consider ITEST monitoring mechanism as certified.

Concerning the minimum Quality of Service SPRK set requirements in national legislation several years ago. The Latvian General Authorisation rules stipulates that the minimum guaranteed speed of connection (uploading and downloading) shall be not less than 80% of the maximum speed of connection indicated in the contract.

Some operators note that the number of public institutions and administrations entitled to order them to block certain websites with a wide discretion tends to increase over time. According to them this might be at odds with net neutrality rules. Operators also contest the efficiency and effectiveness of such measures.

According to the Latvian Administrative Violations Code section 1586, in case ISP infringe the requirements related to data transmission speed and data caps, as well in case of non-inclusion of the required information in the contracts, SPRK may give a warning or impose a fine for non-compliance with the legislation

### c. 112

In 2017, no amendments were made to national legislation concerning 112. The handset-based caller location (Advanced Mobile Location, AML) has not been deployed yet, but AML tests were conducted in 2017. First statistics show that in 62% of the cases the location was identified in a range of 0 to 30 m and in 20% of the cases in a range of 30 m to 2 km. In 18% of the cases, the location was not identified. AML is expected to be deployed in 2018.

End users with disabilities can access the emergency services by sending an SMS. When receiving an SMS, the 112 Call Centre checks if the phone number is that of a person registered on the list of deaf people or people with hearing disability maintained by the Latvian Association of the Deaf. If the phone number is registered, the 112 dispatcher answers with a SMS; if not, the 112 dispatcher answers with a call.

### d. Universal service

Since the beginning of 2017 the directories and directory enquiry services have been removed from the scope of the universal service obligations[17][18]. There are currently no discussions concerning a possible inclusion of broadband provision in the universal service obligations.

[17] Directive 2002/22/EC of the European Parliament and of the Council of 7 March 2002 on universal service and users' rights relating to electronic communications networks and services (OJ L 108, 24.4.2002, p. 51).
[18] The public payphones have been excluded from the scope of universal service since 1 January 2014.

## 5. Conclusion

Latvia has been among the EU front-runners in fibre and 4G deployment. However, bridging the digital divide remains a real challenge for the country to be decidedly further tackled. The recent rules transposing the Broadband Cost Reduction Directive should contribute to serve that purpose in practice. In addition, in order to keep up with its fast pace of connectivity developments in the future, Latvia should make sure that appropriate spectrum is timely available to all relevant market players for early 5G trials and deployment. In case shortage of available numbering resources is ascertained, the national numbering plan may need to be adapted to allow for the expected development of M2M/IoT services.