



## References and beneficiaries of a state policy aimed at subsidizing Georgia's transition to digital broadcasting

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**Author:** Ucha Seturi

**Editor:** Giorgi Kldiashvili

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## Part I. Introduction

A state assistance policy related to digital broadcasting switchover implies measures taken in the following two main directions:<sup>1</sup> **towards end users**, who are in need of a state assistance both because of the social and physical conditions (financing special and other appliances that are adapted to their needs, information support, assistance during installation and fixing works etc) and **towards service providers and equipment importers** (broadcasters and network providers that shall carry out distribution of digital terrestrial signal, creation/modification of a network, importers and/or retail traders of equipment etc).

To ensure effective switchover to digital broadcasting it is necessary to take into consideration needs and problems faced by all groups of the society<sup>2</sup> and ensure they have access to digital broadcasting network. Without such access, simply turning off analogue broadcasting will result in isolation of certain groups of population<sup>3</sup>. Vulnerability of end users, apart from financial and physical condition related reasons, may be caused by lack of relevant skills and information.

It is extremely important to note that without active support and interference of the state<sup>4</sup> the market is not in a position to regulate this process and, as a result, the customers with low income will remain without terrestrial broadcasting like in all developing countries, while in low budget regions broadcasters that are aired free of charge and receive meaningless amounts from advertising income generated from free broadcasting, face either cable transmitting alternative or concentration and/or in worst case - bankruptcy threat even though that content might attract high public interest. The above issue is pretty problematic since distribution of a Public Broadcaster's content shall occur within either universal broadcasting service<sup>5</sup> or mandatory broadcasting financed by taxpayers, while commercial broadcasters are financed from advertising and other related activities.

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<sup>1</sup> Guide to the Digital Switchover. OSCE 2010

<sup>2</sup> The prospects for e-government on digital television. Barrie Gunter, 2004  
<http://www.emeraldinsight.com/journals.htm?articleid=864024&show=abstract>

<sup>3</sup> Supporting the most vulnerable consumers through digital switchover. Ofcom 2004

<sup>4</sup> Accessibility to broadcasting services for persons with disabilities BT Series Broadcasting service (television) . Report ITU-R BT.2207-1 (05/2011) [http://www.itu.int/dms\\_pub/itu-r/opb/rep/R-REP-BT.2207-1-2011-PDF-E.pdf](http://www.itu.int/dms_pub/itu-r/opb/rep/R-REP-BT.2207-1-2011-PDF-E.pdf)

<sup>5</sup> Guidelines for the transition from analogue to digital broadcasting. Itu 2012. [http://www.itu.int/ITU-T/tech/digital\\_broadcasting/project-dbasiapacific/Digital-Migration-Guidelines\\_EV6.pdf](http://www.itu.int/ITU-T/tech/digital_broadcasting/project-dbasiapacific/Digital-Migration-Guidelines_EV6.pdf)

Advertising market revenues are polarized and are spread among a few national broadcasters.

The infrastructure of terrestrial broadcasting network provider shall ensure diverse programming and availability of other related services on an end user's level. An end user shall receive such level of the service quality that will be defined by technical part of the policy document and will be regarded as a digital broadcasting with an acceptable quality.<sup>6</sup>

Majority of Georgian families will have to bear initial costs at the initial stage of digital broadcasting switchover, however in a long-term perspective a free high quality digital service will be available through a several TV sets located in a family that, due to increase of competition among services supplied through various platforms, will make cable and satellite service operators revise service fees and improve a service quality and terms.

As a result of implementing a state program on subsidizing purchase of digital broadcasting signal receiving appliances - receivers (a special digital appliance that facilitates receipt of a digital signal and its further processing/transformation into analogue signal – a major task of a receiver), terrestrial broadcasting and all directions of digital broadcasting will be fostered. To ensure competition among various technological platforms, the receivers that are subject to financing shall be neutral towards the network and be inter-compatible<sup>7</sup> and shall have an opportunity to engage in cable and satellite network (technologically neutral approach<sup>8</sup>), except in case of free digital terrestrial broadcasting signals.

A state policy assisting persons interested in digital broadcasting shall also cover those measures that will encourage well doing end users to switch to digital broadcasting at an early stage. Namely, identification of relevant activities shall be encouraged that is extremely important from the standpoint of digital broadcasting switchover facilitation. The state shall ensure aid to those who are above the poverty rate, since there is a threat that a high price of a digital signal receiving equipment may isolate them from this process.

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<sup>6</sup> Note: Setting minimal quality parameters will enable the state to control digital broadcasters' performance of licensing conditions at an end user's level

<sup>7</sup> European Union State Aid, public subsidies and analogue switch-off/digital switchover. Mark Wheelers. International Journal of Digital Television, February 2012

<sup>8</sup> *Idema E.* European Commission: Communication on the Transition from Analogue to Digital Broadcasting // IRIS 2003-10:4/5. See: <http://merlin.obs.coe.int/iris/2004/1/article7.en.html>

## Part II. Policy of subsidizing end users

State support of digital broadcasting switchover process and its financing shall cover the following directions:

- **Subsidizing persons beyond poverty level and related categories of end users during purchase of appliances (subsidizing digital terrestrial signal receiving equipment (receivers) and/or other methods of support);**
- **Measures aimed at financial stimulation of financially less vulnerable customers, who may become objects of digital services at an early stage of digital broadcasting switchover (stimulating persons with 70 001-200 000 points according to the Georgian Social Service Agency's "Uniform Database of Socially Vulnerable Families");**
- **Financing wide public information measures to ensure successful switchover to digital broadcasting (financing of information campaign and other activities);**
- **Subsidizing receivers for handicapped persons and lonely pensioners and financing their installation and instructing works<sup>9</sup>.**

### Measures to support end users

Economic state of population is one of the major problems of digital broadcasting switchover. A consumer shall purchase a relevant equipment (TV set) that is placed by a digital network or buy a special equipment to receive a digital signal.

Subsidizing of digital broadcasting receiving appliances for end user who are below poverty rate or related category may be carried out through the following ways:

- **Long-term (at least one year) targeted 0% interest rate loans to end users that shall be used to purchase technically neutral receivers (compatible with all main technological platforms) or integrated TV sets (aid may be allocated for financing of families beyond poverty rate; also given the short period of digital broadcasting switchover, to foster**

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<sup>9</sup> Note: According to importing data installation service provided at a consumer's address shall not exceed GEL 30, however we shall deem that it covers installation costs in Tbilisi and other large cities

the process, all other families may be included as well. In this case financing through 0% interest rate loans shall cover only receivers<sup>10</sup>;

- Award of targeted credits to private sector that will be ensured by the state <sup>11</sup>, and will be aimed at subsidizing only purchase of receivers and solely for those who have below 200 000 points;
- Award of name specific vouchers done by the state for the benefit of certain category of families based on data provided by the Social Service Agency of Georgia<sup>12</sup>.

The following points shall be taken into consideration while discussing financing schemes at consumers' level:

- *Digital broadcasting switchover of consumers shall be ensured at its early stage within a short period to collect the so called minimal critical masses;*
- *Consumers, who are below the poverty rate and those with low income shall be provided with a real opportunity to purchase receivers or attract a co-financing for purchase of certain category of TV sets.*

The cost of digital network appliances (receivers) cuts down, nevertheless those costs are still pretty high for majority of population. Presumably the majority of end users will need to renew antennas and related cables that is also connected to certain costs.

According to 2012 data provided by the Georgian National Statistics Service – Sakstati,<sup>13</sup> **2.4 million people out of 4.5 million live in cities, while 2.1 million in rural area.** According to 2012 data provided by the Legal Entity of Private Law “Social Service Agency” **9.2% of total population of Georgia belong to the category – below the poverty rate, the living pension is received by 394 000 people, while about 800 000 people are pensioners of various categories,** out of whom handicapped persons and age pensioners might require material or non-material support at digital broadcasting switchover stage. Some factors that are not reflected in data provided by the National Statistics Service due to objective or subjective reasons lead us to think that the number of people below the

<sup>10</sup> Note: In case of purchase of TV sets, the limited amount of financing – 50% will be introduced, where a customer shall contribute 50% in advance

<sup>11</sup> “Analogue to Digital Television Broadcasting Switchover Strategy for the Republic of Croatia” [http://www.itu.int/ITU-D/tech/OLD\\_TND\\_WEBSITE/digital-broadcasting\\_OLD/Bulgaria\\_Assistance\\_Transition/Croatia/Strategija-DTV-ENG-final.pdf](http://www.itu.int/ITU-D/tech/OLD_TND_WEBSITE/digital-broadcasting_OLD/Bulgaria_Assistance_Transition/Croatia/Strategija-DTV-ENG-final.pdf)

<sup>12</sup> Note: The above approach is considered a best practice based on European practice and EBRD experts' recommendation, although noting conditions existing in countries, 0% rate loans broadly available to importers might increase terminal integration process

<sup>13</sup> Sakstati population data [http://www.geostat.ge/?action=page&p\\_id=151&lang=geo](http://www.geostat.ge/?action=page&p_id=151&lang=geo)

poverty rate is much more than 9.2, therefore planning of the assistance shall be verified on the basis of the data<sup>14</sup>.

### Quantity of consumers depending on terrestrial broadcasting

According to 2011 report of the Georgian National Communications Commission, the quantity of consumers of transit broadcasting operators (cable platform) for the end of the year 2011 was **171,641**, the growth indicator was equal to more than 20%. In case of preserving the growth rate that was registered in the first quarter the quantity of customers by 2013 might have increased up to **260 000**, that given the character of the service may be considered as a quantity of families. This service, according to the network ecosystem development<sup>15</sup>, is mainly provided to a city with population equal to approximately **600 000 families**. Cable broadcasting concentration of families in cities is approximately 43 %.

Based on analysis of data for those below the poverty rate, percentage of satellite dishes concentration in families scoring less than 200 000 points is as follows:

Score	Total quantity of families	Quantity of satellite dishes	Concentration indicator
Up to 57 000	180 000	13 000	7%
57 001-70 000	61 000	8 000	13%
70 001-100 000	156 000	22 000	14%
100 001 – 200 000	116 000	16 000	13%
200 001 and more	13 000	1 800	13%
Kvemo Kartli	46 000	10 000	21%
Adjara region	43 000	14 000	32%
Tbilisi	95 000	2 000	2%
Overall indicator	529 000	62 000	11%

<sup>14</sup> Note: There may be many families who despite tough social conditions and due to some reasons are not enrolled in this support program

<sup>15</sup> Electronic Communication Sector, Comparative Assessment. EBRD 2012  
<http://www.ebrd.com/downloads/legal/telecomms/georgia-2012.pdf>

The quantity of satellite dishes in certain regions significantly exceeds the quantity of TV sets, since certain families consisting of socially vulnerable population presumably possess two or more satellite receivers (dishes)<sup>16</sup>. In Georgian regions the concentration of satellite service receiving consumers is rather high due to lack of other technological platform alternatives.

Noting the above data, the quantity of satellite dishes across the country is very large. According to 2012 data provided by the Georgian National Statistics Service **approximately 2.4 million people (approximately 600 000 families) out of 4.5 million live in cities, while 2.1 million in rural area (approximately 525 000 families)**. The tables below, contain 10% as an indicator of concentration of families using satellite broadcasting services in cities. Based on that we may count that cities unite approximately 60 000 families that use satellite broadcasting services, while in regions the concentration indicator is equal to 25-30% and therefore some 150 000 families are covered in regions<sup>17</sup>.

Approximate concentration of families receiving television services through competing broadcasting network platforms is as follows:

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<sup>16</sup> Note: The above data raise many questions with regard to data reliability. The TV sets' concentration indicator may be much higher.

<sup>17</sup> Note: The data shall be verified since during the pre-election political processes in the country the artificial barrier to sales of satellite dishes has been abolished. The data may be much higher to reach up to 250 000.



Diagram 1. Concentration of broadcasting consumers in cities

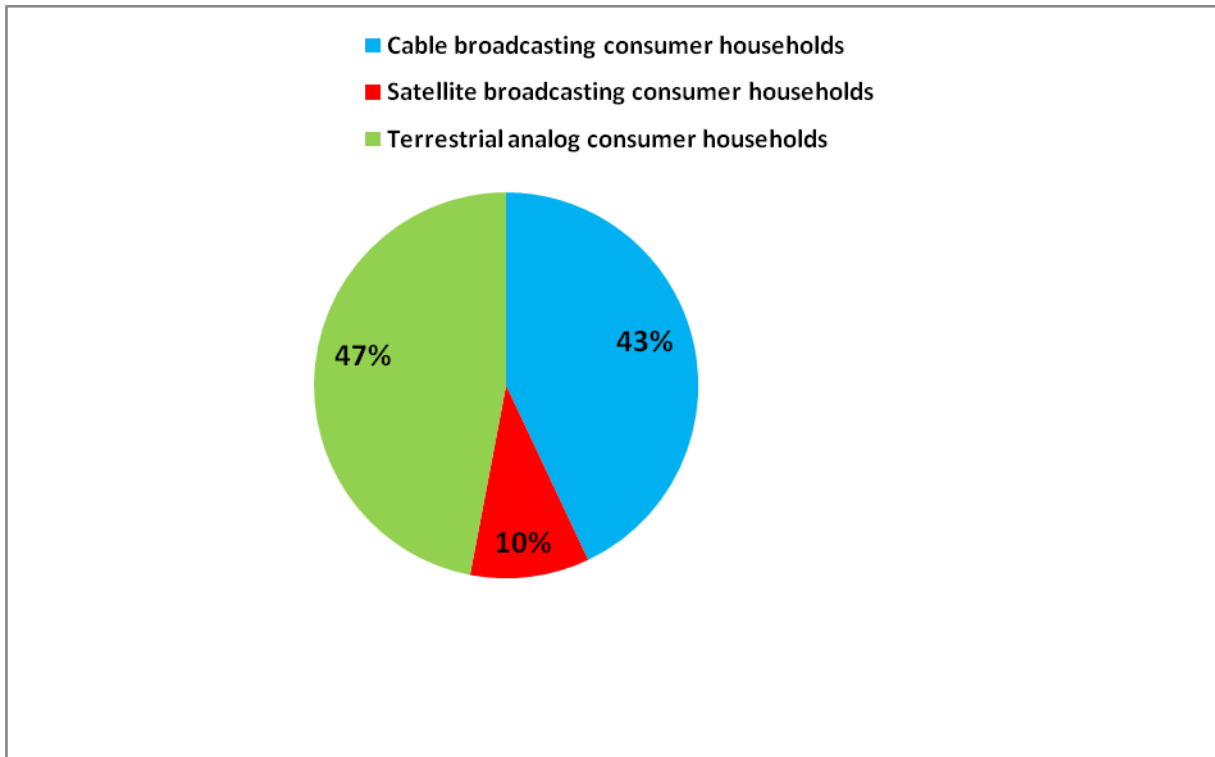
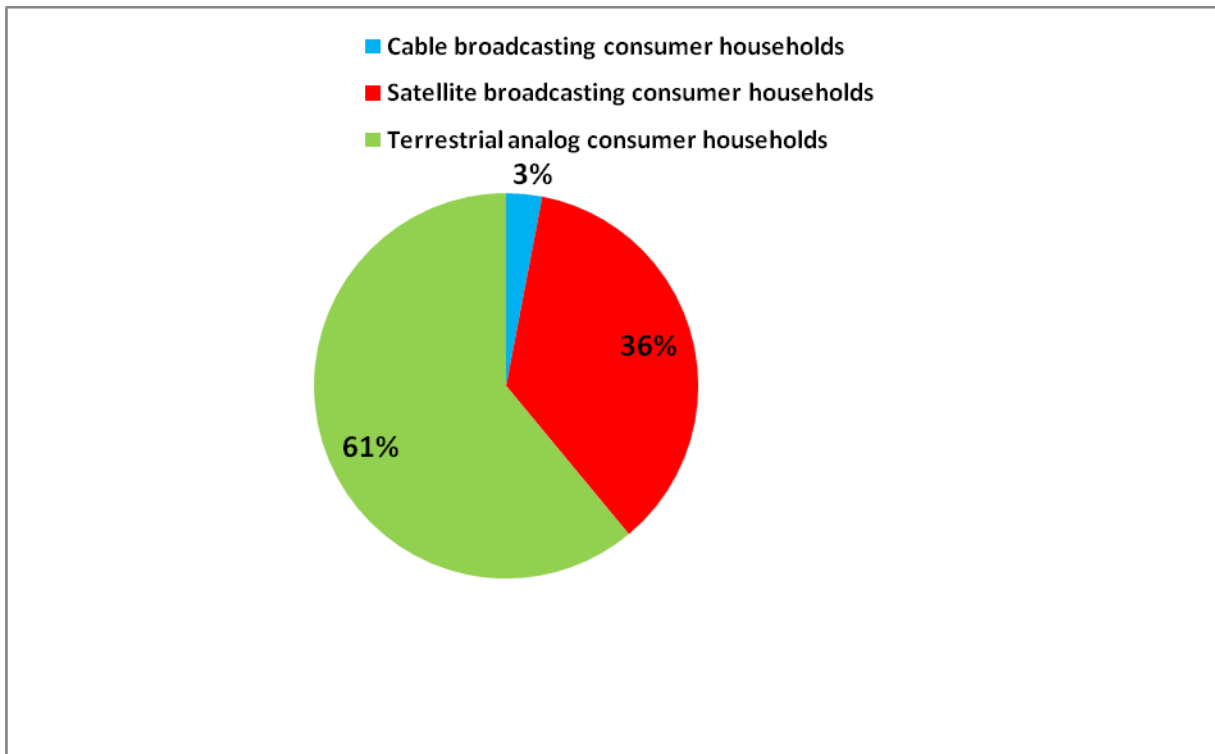


Diagram 2. Concentration of broadcasting consumers in regions



The above approximate data makes it clear that the majority of population in Georgian cities and regions depends on analogue broadcasting. High cost of cable television service and poorly developed network in regions as well as restricted program resource transmitted through satellite broadcasting and initial costs represent those factors that may influence consumers' choice in favor of free terrestrial broadcasting service (especially in case of alternative when families having two or more TV sets enjoy free broadcasting service)<sup>18</sup>.

### Model and approximate volume of direct subsidies provided to population

Based on data provided by the Ministry of Health Care and Social Security of Georgia for January 2013 and according to statistical data of families registered in database "Target social aid program", the quantity of families with less than 57 000 points is equal to 180 000, while there up to 90 000 lonely pensioners falling within the category.

Region	Do not exceed 57 000 points			
	Families	Lonely pensioners	Q-ty of families having TV sets	Q-ty of families who have satellite dishes
Tbilisi	30 683	14 507	2 586	271
Guria	6 689	3 339	1 256	306
Racha-Lechkhumi and Qvemo Svaneti	7 659	5 116	1 536	1 535
Kakheti	22 902	12 086	4 009	1 319
Imereti	38 375	19 920	4 150	1 770
Mtskheta-Mtianeti	8 352	5 372	1 278	973
Samerele-Zemo Svaneti	18 237	6 884	2 261	698
Samtskhe-Javakheti	4 015	2 551	815	825
Kvemo Qartli	10 716	5 380	1 495	1 386
Shida Qartli	23 000	11 293	4 543	984
Adjarian Autonomous Republic	9 782	2 865	1 065	2 959

<sup>18</sup> Digital Switchover in Broadcasting A BIPE Consulting Study for the European Commission (Directorate General Information Society) Final Report April 12, 2002

Zemo Apkhazeti	177	82	85	-
<b>Total</b>	<b>180 587</b>	<b>89 395</b>	<b>25 079</b>	<b>13 026</b>

As seen from the above table the indicator of TV sets' concentration in families below the poverty rate is rather low: Tbilisi (8.4%), Guria (20%), racha-Lechkhumi and Kvemo Svaneti (20%), Kakheti (17.4%), Imereti (10.8%), Mtskheta-Mtianeti (15.5%), Samegrelo-Zemo Svaneti (12%), Samtskhe-Javakheti (20%), Kvemo Qartli (13%), Shida Kartli (19%), Adjara (10%). Due to low indicator of TV sets' concentration and scarcity of that group's income, simply financing the receivers will serve no purpose. It is necessary that small screen TV sets integrated with a digital network are financed with receivers' voucher money<sup>19</sup>.

The families and lonely pensioners with points between 57 001 and 70 001 shall fall within the same regime (61 405 and 25 126 respectively)

Region	57001-70000 points			
	Families	Lonely pensioners	Q-ty of families having a TV set	Q-ty of families having a satellite dish
Tbilisi	11 355	3 538	1 522	259
Guria	2 910	1 288	513	297
Racha-Lechkhumi and Kvemo Svaneti	1 378	853	136	455
Kakheti	7 097	3 358	1 058	794
Imereti	12 264	6 096	2 161	943
Mtskheta-Mtianeti	2 161	1 100	399	484
Samegrelo-Zemo Svaneti	6 463	2 270	734	423
Samtskhe-Javakheti	1 885	1 155	286	669
Kvemo Qartli	4 051	1 815	338	1 190
Shida Qartli	6 664	2 609	1 255	613
Adjarian Autonomous	5 168	1 044	434	2 044

<sup>19</sup> Note: This problem is pretty significant and they shall have an alternative to use a voucher for purchase of receivers or small screen integrated TV sets within one or two year 0% interest rate loan program;

Republic				
Zemo Apkhazeti	9	-	9	-
<b>Total</b>	<b>61 405</b>	<b>25 126</b>	<b>8 845</b>	<b>8 171</b>

Low rate support group (subsidizing 50% of receivers) shall comprise families scoring 70 001 – 200 000 points (approximately 339 000 families in total<sup>20</sup>) due to their income and financial state (that does not differ significantly from families having less than 70 000 points).

<b>70001-100000 points</b>			
Families	Lonely pensioners	Q-ty of families having TV sets	Q-ty of families having satellite dishes
23 996	6 182	9 038	556
8 266	2 709	2 877	872
2 083	783	511	788
17 931	6 407	7 580	2 143
28 243	10 830	9 101	2 686
4 445	1 360	1 607	980
19 289	6 181	6 418	1 408
8 761	3 941	4 464	2 298
16 500	5 282	6 360	4 249
12 244	2 922	4 030	1 384
15 185	2 247	4 040	5 308
5	-	4	-
<b>156 948</b>	<b>48 844</b>	<b>56 030</b>	<b>22 672</b>
<b>100001-200000 points</b>			
Families	Lonely pensioners	Q-ty of families having TV sets	Q-ty of families having satellite antennas
23 571	3 307	14 918	584
4 798	665	2 272	696
1 052	128	440	370
11 868	1 758	7 533	1 342
18 604	3 123	8 964	2 188
2 627	333	1 344	643

<sup>20</sup> Note: This category also implies families consisting of lonely pensioners.

12 965	2 494	4 969	1 684
8 975	1 173	5 987	2 068
13 619	1 852	7 551	3 051
7 103	754	3 874	778
11 391	998	4 441	3 471
2	-	2	-
<b>116 575</b>	<b>16 585</b>	<b>62 295</b>	<b>16 875</b>

DVB-T2 standard receivers (the so called set-top-boxes) of various quality and price are represented on the world market. The lowest available prices among receivers are in the range of USD 10-30<sup>21</sup> and depend on volume of the order, however noting the trend, support in the amount of not more than GEL 30 (for 100% category) shall be enough for financing this direction (this issue shall be further refined after consulting with equipment importers).

Point	Families	Total volume of support in GEL <sup>22</sup>
0-70 000	241 000	7 230 000
70 001-200 000	272 000	4 080 000
<b>Total</b>		<b>11 310 000</b>

To stimulate a digital broadcasting process and for purposes of providing a rating evaluation of persons beyond the poverty level, broadcasting terminals and related receiving appliances shall not be included in non-agricultural property category as a financing point indicator <sup>23</sup> by 2013.

It is equally important to consider interests of those persons during a digital broadcasting switchover process, whose integration in the process is burdened due to non-economic reasons. The problems of those persons are caused by various reasons (physical, sensory, perceptual and other problems) with special stress on age, adequate perception and

<sup>21</sup> Note: Based on the information required by IDFI from Chinese producers, prices in 2013 fluctuate in a range between USD 14 to 17. Although it is important whether those appliances are of a good quality and comply with Government's specifications

<sup>22</sup> Note: Receivers' financing amount is conditional and depends on market prices of receivers by the first half of 2014.

<sup>23</sup> Note: We think that this factor will somehow burden a digital broadcasting switchover process.

language barriers, as well as a lack of experience in using electrical appliances, geographical distances and various other factors<sup>24</sup>.

A lonely pensioners aid program shall, apart from equipment cost subsidies, comprise financing of installation works that is mentioned in the following table<sup>25</sup>:

Lonely pensioners' families	Cost of installation works/GEL	Total volume of support/GEL
179 950	30	5 398 500

During information campaign planning and implementation stages a particular stress shall be made on ethnical minorities related issues<sup>26</sup>.

### Subsidizing end users through award of vouchers

It is important that Georgian population realizes good of digital broadcasting as compared to other platforms (noting price, quality, receiving simplicity and other replacement indicators), that may lead the majority of population towards choosing this technological platform.

Norms for setting subsidy procedures shall be unambiguous, easily understandable and perceptual, transparent. The Government shall approve procedures regulating rules for award and purchase of free appliances during provision of a state support. All terminals shall be equipped with relevant marking and instruction made in Georgian and foreign languages.

<sup>24</sup> DIGITAL TERRESTRIAL TELEVISION (DTT) ACCESSIBILITY RECOMMENDATIONS. Instituto Nacional de Tecnologías de la Comunicación. 2009. [www.inteco.es/file/snb-6ZR2I2DaXKiMJlKT\\_g](http://www.inteco.es/file/snb-6ZR2I2DaXKiMJlKT_g)

<sup>25</sup> Note: Receivers' installation amount is conditional. According to one of the importers the installation cost within Tbilisi may even reach GEL 50;

<sup>26</sup> Guidelines for Digital TV equipment and services.

<http://www.universaldesign.ie/useandapply/ict/irishnationalitaccessibilityguidelines/digitaltvequipmentandservices/guidelinesfordigitaltvequipmentandservices>

To ensure simplicity of administration, equipment supply process and protect interests of retail sellers of the equipment, aid shall be provided according to relevant families through award of special name specific vouchers.

**End users shall have access to the following data during a voucher award process:**

1. Supply of information regarding digital, free and paid broadcasting and time of analogue broadcasting switch off;
2. Information about parameters of receivers and TV sets necessary to receive broadcasting service, as well as information about parameters and data of receiving antennas and their cables;
3. Information about special measures taken to satisfy needs of handicapped persons and those with special capacities.

**The following requirements are set for subsidizing end users:**

- A subsidizing policy shall be technologically neutral and shall not restrict competition;
- They shall be compatible with MPEG4 and DVB-T2 standards;
- The basis for a subsidy may only be a person's social condition<sup>27</sup>;
- Purchase of those receivers shall be subsidized that are as much inter-operable and interactive as possible<sup>28</sup>.

Georgia's digital broadcasting switchover policy document shall define an agency responsible for distribution of vouchers. To ensure openness of the process the universal database of voucher distribution shall reflect the time and information about the persons receivers are delivered to. Only those receivers with open software may be subject to subsidies.

After receiving of a voucher an authorized representative of the family shall, within 6 months from award of the right (voucher cashing term)<sup>29</sup>, visit a retail spot of a recommended receivers' seller<sup>30</sup> and require transfer of a terminal in the amount that has

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<sup>27</sup> S. Santamato and M. Salto (DG Competition) "State aid to digital decoders: proportionality is needed to meet common interest" Competition Policy Newsletter, 2006, European Commission.

<sup>28</sup> Note: parameters of a receiver shall not restrict an opportunity of a consumer to receive services of another network.

<sup>29</sup> Note: A period for granting receivers depends on a digital broadcasting switchover plan. Use of a voucher may possibly be allowed within 3 months from switching off an analogue broadcasting.

<sup>30</sup> Note: For end users' convenience the data shall be stored on an informative web page, it shall be renewed and supplied within telephone consulting services.

been envisioned for him/her and certain services to be provided at his place<sup>31</sup> (100% or 50% financing).

Only those digital receivers, purchased on a territory of Georgia, shall be financed.

A subsidizing voucher is a name specific and it may not be transferred (alienated) to another person. A name, a last name, an address, a personal number and deadline for its use shall be indicated in a voucher. A company selected by the state or a local receiver trading company shall ensure delivery of a voucher to lonely pensioners.

Upon publication (by a Ministry of Health Care and Social Protection) of a list of families subject to subsidizing a voucher may be issued to those persons, who are registered in a list and who were added to the list only based on a request provided by a particular person.

The Ministry of Finance of Georgia (or a special foundation) shall transfer money for an equipment to a retailer's account after the latter provides proof of delivery of digital appliances to a beneficiary as well as a voucher and claim for a transfer.

The standards of subsidized appliances shall be open and interactive to receive services of other operators. The term of a voucher's use shall be short due to shortage of a digital broadcasting switchover period. A selected multiplex operator shall be also engaged in an information campaign and provide end users with additional information regarding the planned or existing parameters of its network and a digital broadcasting switchover plan.

After completion of ongoing planning works by technical agencies, the so called "white", i.e. uncovered zones shall be identified, where due to economic considerations, end users shall be provided by satellite terminal equipment that is important both from the standpoint of ensuring universal broadcasting service accessibility and access to broadcasters' programs under must carry rules<sup>32</sup>.

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<sup>31</sup> Note: In case of lonely pensioners, supply of receivers and installation service shall be carried out at actual addresses..

<sup>32</sup> Coverage of the so called white zones shall occur through a satellite technology to be financed after complete switch off of analogue broadcasting in 2015.



### Part III. Subsidizing suppliers

The state shall realize importance of regional and local broadcasters in the process of building a democratic society, their role in ensuring media pluralism as well as importance of distributing the information transmitted by regional and local broadcasters and shall implement the following regulations.

A policy for subsidizing suppliers shall first of all aim at supporting broadcasters. To facilitate digital broadcasting switchover policy, it is also important to ensure support from broadcasting network operators and equipment importers/retailers.

It is important that the state policy for digital broadcasting switchover and relevant measures do not encourage strengthening of monopolistic position of certain groups. It is important to envision the EU recommendations in the state policy document and the Georgian legislation.

To facilitate digital broadcasting switchover process the term of an analogue broadcasting shall be restricted to **June 2015** and after that the above broadcasters will have to switch off their analogue transmitters.

Introduction and correct implementation of regional and local broadcasters' support model shall be regarded as one of the facilitating measures taken by the Government to ensure regional media pluralism. Regulation of access terms and tariffs of digital broadcasting multiplex operator's network to regional terminal elements shall be carried out in accordance with and similar to paragraph 3, Article 19 of the Law of Georgia on "Electronic Communications"<sup>33</sup>.

Terrestrial broadcasting televisions incur certain costs to transmit analogue signal, since they maintain infrastructure, transmitters (some of them own a television tower) and those costs in a long-term perspective seem to be economically unprofitable as compared to costs related to regional multiplexor access. During a period of digital broadcasting switchover through the Government's support, certain benefits shall be introduced for that category of broadcasters in case of a parallel broadcasting and they shall be offered

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<sup>33</sup> Note: At the initial stage of digital broadcasting switchover and based on the minimal interference principle, it is recommendable to allow market players to set access tariffs themselves although using a model approved by the Commission;

reasonable terms for distribution of content. Those broadcasters will have an opportunity to develop and avoid either “switch” to cable network, or concentration<sup>34</sup> or bankruptcy.

### Licensing related problems

Currently up to 40 broadcasters are operating in Georgia and they own a right to use a frequency spectrum and certain insignificant network resource as well. During the digital broadcasting switchover process, with purposes of protecting interests of regional and local televisions, a relevant multiplexor shall be provided with terminal spots to connect to terrestrial networks and distribute signals in particular local zones<sup>35</sup>.

On December 30, 2011 the Georgian National Communications Commission made a decision, under public administrative proceeding, concerning prolongation of validity terms of broadcasting licenses, namely:

Licensee	License Number	Broadcasting Zone	Frequency/ Capacity	Validity	Licensing Fee	Decision Number
NGO “For Open Abkhazia”	B62	Tsalenjikha and adjacent zone	Channel 38- /100VT	December 31, 2021	5 134	816 / 6
LLC „Imervizia“	B30	Chiatura	Channel 8/50 VT	December 31, 2021	14 875	817 / 6
LLC “Imperia”	B33	Akhaltzikhe	Channel 9 /100 VT	December 31, 2021	15,403	818/6
LLC “Argo”	B38	Zestaphoni and adjacent villages	102 mgh/250 VT	December 31, 2021	5,163	819/6
LLC “Broadcasting Company 9 <sup>th</sup> Wave”	B27	Poti	Channel 35/250 VT	December 31, 2021	31,173	821/6
LLC “Mega-TV”	B74	Khoni and adjacent territory (Samtredia, Kutaisi, Ozurgeti)	Channel 2 /500 VT	December 31, 2021	8,802	822/6
LLC “Odishi”	B60	Zugdidi	Channel	December	19,254	823/6

<sup>34</sup> A MAPPING STUDY OF MEDIA CONCENTRATION AND OWNERSHIP IN TEN EUROPEAN COUNTRIES, 2004. David Ward, Oliver Carsten Fueg.

<http://www.mediamonitor.nl/dsresource?objectid=435&type=org>

<sup>35</sup> Delivering Regional DVB-T2 Services. [http://www.dvb.org/news\\_events/news/delivering-regional-dvb-t/index.xml](http://www.dvb.org/news_events/news/delivering-regional-dvb-t/index.xml)

			39/100 VT	31, 2021		
LLC “Borjomi”	B41	Borjomi and adjacent territory	Channel 7/50 VT	December 31, 2021	17,163	826/6
LLC “Guria”	B30	Ozurgeti and adjacent territory	21 <sup>st</sup> /50 VT	December 31, 2021	16,687	827/6
LLL”Rioni”	B73	Kutaisi and adjacent territory (Tskhaltubo, Khoni, Samtredia, Baghdati, Vani, Zestaphoni)	31 <sup>st</sup> /500VT	December 31, 2021	44,775	828/6
LLC “Tvali”	B68	Sagarejo	34 <sup>st</sup> /100VT	December 31, 2021	19,254	829/6
LLC “Zari”	B43	Samtredia	4 <sup>th</sup> /100 VT	December 31, 2021	23,105	830/6
LLC “Dia”	B31	Khashuri and adjacent territory	11 <sup>th</sup> /10VT	December 31, 2021	5,941	832/6
LLC “Channel 5”	B53	Bolnisi	5 <sup>th</sup> /20VT	December 31, 2021	11,552	833/6
LLC “Trialeti”	B56	Gori, Khashuri, Kareili, Kaspi and Tskhinvali regions	First/1 KVT	December 31, 2021	36,308	835/6
LLC “TV company Tbilisi”	B88	Tbilisi	Channel 58	December 31, 2021	48,411	836/6
Partnership “Kvetnadze and Company”	B34	Zestaphoni	44 <sup>th</sup> /50VT	December 31, 2021	14,303	837/6
LLC “First Stereo”	B19	Tbilisi	40 <sup>th</sup> /10KVT	December 31, 2021	57,213	839/6
LLC “Ekomi”	B40	Lagodekhi	9 <sup>th</sup> /10VT	December 31, 2021	1,980	840/6
LLC “Samegrelo”	B121	Zugdidi	21 <sup>st</sup> /200VT	December 31, 2021	7 793	51/6

According to all above decisions, based on a “Protocol on Revising Certain Parts of a Regional Treaty on European Radio Broadcasting Zone” (ST61)<sup>36</sup> and a regional agreement on “ Planning of Digital Terrestrial Radio Broadcasting Service in Islamic Republic of Iran”, by the date of Georgia’s switchover to digital broadcasting, the Commission has established that it is authorized to bring the issued licenses in conformity with the Georgian legislation and, according to subparagraph “a”, paragraph 1 of Article 45 of the Law of Georgia “On Broadcasting”, modify licenses, **recalculate licensing fee amount, during which a licensee shall not be authorized to require a compensation from the Commission, while it shall be obliged to carry out a broadcasting activity in accordance with the rules established by the Georgian legislation and following modified licensing terms as envisioned by the same paragraph.**

One of the basis for carrying out a modification related public administrative proceeding by the Georgian National Communications Commission on December 30, 2011 was separation of the country into 10 digital broadcasting zones, although licensing coverage areas according to modified decisions remained the same. The provision having similar content is not envisioned for other broadcasters.

Not to say anything about legislative basis of the said provision of December 30, 2011 decision of the Georgian National Communications Commission and its legitimacy (that shall be studied separately), 20 regional broadcasters listed in the table may appear, on the basis of the Commission’s decision, **in unequal conditions as compared to other national and local broadcasters** that shall be taken into consideration by the state while developing a policy document.

It is undisputable that the said persons shall have a state guarantee for the right to use a radio frequency spectrum within the validity term of their licenses, although licensing terms envision certain obligations in case of changing a radio frequency plan. **The amendments planned by the regulatory commission may restrict the above usage right.**

**An annual income of the majority of regional television companies is from 50 to 100 thousand GEL<sup>37</sup>.** Only a few relatively large regional and local broadcasters’ income is

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<sup>36</sup> ST61 Agreement, revised Geneva 2006 <http://www.itu.int/ITU-/terrestrial/broadcast/plans/st61/index.html>

<sup>37</sup> Note: Based on data provided by the Regional Broadcasters Association

somehow different, although even their revenues are much lower than those of Rustavi 2 or Imedi.<sup>38</sup>

Small size of income generated by regional and local broadcasters makes it impossible for them to carry out a parallel broadcasting and finance transmission of a signal in both analogue and digital mode that puts one of the main landmarks of digital broadcasting switchover – ensuring media pluralism, under hazard.

**Concurrence of broadcasting zones is as follows:**<sup>39</sup>

**A broadcasting zone Geo 249** (according to the former 21<sup>st</sup> broadcasting zone (Zugdidi), due to occupation of former broadcasting zone 24 (Sokhumi) and 25 (Chkhalta)).

**A broadcasting zone Geo 250** (mainly covers the broadcasting zone 21 (Zugdidi) and partially former broadcasting zone 18 (Mestia) and zone 20 (Poti))

**A broadcasting zone Geo 252** (covers mainly the former broadcasting zone 23 (Batumi); partly the former broadcasting zones 20 (Poti) and 22 (Ozurgeti))

**A broadcasting zone Geo 253** (covers mainly the former broadcasting zone 19 (Kutaisi), completely the former broadcasting zone 15 (Tkibuli) and 17 (Tsageri), partially covers the former broadcasting zones 14 (Chiatura), 16 (Oni), 18 (Mestia), 20 (Poti), 21 (Zugdidi), and 22 (Ozurgeti))

**A broadcasting zone Geo 255** (covers mainly and completely the former zones 13 (Akhalsikhe), 12 (Akhalkalaki), partially the former zones 9 (Borjomi), 22 (Ozurgeti) and 23 (Batumi))

**A broadcasting zone Geo 256** (mainly and completely covers the former broadcasting zone 8 (Gori) and most of the former broadcasting zone 9 (Borjomi), also partially the former first (Tbilisi) broadcasting zone, the former broadcasting zones 5 (Dusheti), 6 (Stepantsminda), 14 (Chiatura), 16 (Oni) and 19 (Kutaisi))

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<sup>38</sup> The Georgian advertising market “International Transparency – Georgia” December 2011

<sup>39</sup> 2011 report of the Georgian National Communications Commission

A **broadcasting zone Geo 257** (mainly covers the former broadcasting zone 5 (Dusheti), completely zone 7 (Barisakho), partially zone 6 (Stepantsminda), 2 (Kvareli) and 4 (Tianeti))

A **broadcasting zone Geo 258** (mainly covers the former broadcasting zone 11 (Dmanisi), most of the zone 10 (Bolnisi) and partially zone 1 (Tbilisi) and the former zone 12 (Akhalkalaki), as well as Rustavi, Marneuli and Gardabani

A **broadcasting zone Geo 259** (mainly covers the former broadcasting zone 1 (Tbilisi), most of the former broadcasting zone 4 (Tianeti), partially the former broadcasting zones 2 (Kvareli), 3 (Sagarejo) and 10 (Bolnisi))<sup>40</sup>

A **broadcasting zone Geo 261** (mainly covers the former broadcasting zone 2 (Kvareli) and most of the former broadcasting zone 3 (Sagarejo)).



It is noteworthy that digital zones do not envision and are not based on territorial setting and in some cases divide a few regions in half. Territorial setting in turn is in direct connection to editorial policy. That is why it is important that the National

<sup>40</sup> Note: This zone also comprises Rustavi zone and Marneuli and Gardabani regions

Communications Commission takes note of local broadcasters' legitimate interests during digital broadcasting switchover process so that the programs of those broadcasters are accessible for currently existing broadcasting zones (that envision the territorial setting of the country). It is also important that the Commission permits access of those channels to the bordering broadcasting zone in a simplified way. It is also possible to leave a choice with a broadcaster to decide in which digital zone it prefers to broadcast<sup>41</sup>.

We think that the local licensing zones shall be revised based on the Georgian landscape peculiarities within the zones, while digital zones located in the Southern part of the country maybe changed only as a result of revision with a neighboring state. We also deem it possible that in internal (non-bordering) zones the Georgian National Communications Commission may release small broadcasters from obligation to completely (up to 80%) cover the new broadcasting zone. Also in internal zones, if a local small broadcaster fails to switch to digital broadcasting by 2015, it is recommendable to allow it to continue analogue broadcasting<sup>42</sup>.

### Measures to support regional broadcasters

With respect to financing broadcasters and digital broadcasting network operators the Council of Ministers of the EU recommends the member states to reflect in their regulations economic and legal issues that will aim at ensuring media pluralism, also ensure opportunity for public access to high quality programs that will be broadly available at media market<sup>43</sup>. The state shall protect and if necessary take special measures to guard media pluralism. In the context of the new technologies related challenges, the digital broadcasting switchover process will be burdened without reliable and relevant financial regulation. In the context of new challenges the states shall ensure optimal financial support of the Public Broadcasters to solve issues raised before them.

During the digital broadcasting switchover period, to encourage regional and local broadcasters, a preferential or zero level regulation fee shall be adopted in relation to income generated by them while distributing a signal in zones defined by their licenses.

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<sup>41</sup> Note: Information provided by the Regional Broadcasters Association.

<sup>42</sup> Note: The US practice, however this measure will burden the switchover process.

<sup>43</sup> Recommendation R (2003)9 of the Committee of Ministers to Member States on measures to promote the democratic and social contribution of digital broadcasting.

They may also be released from taxes only in cases of parallel broadcasting and transition period of digital broadcasting switchover that will to certain extent compensate a liquidated license validity period after the year 2015. A concession agreement<sup>44</sup> between a state and a licensee may be concluded in lieu of analogue licenses.

The second very important supportive measure for the state will be a tight regulation (first of all tariffs) of terms of regional access to digital broadcasting network<sup>45</sup>, while transparency, cost orientation and access related obligations shall be first of all established at a regional and local level, since once of the most important issues at digital broadcasting switchover stage is regulation of broadcasting network's access to relevant resources and elements<sup>46</sup>. Access of regional and local broadcasters shall occur in regional access spots that shall be organized by an operator selected by the regulatory commission based on a contest. Geographic location of an access point in relation to relevant elements of multiplex operator's network shall be established in accordance with the requirement and not based on digital zones, per will of a network operator.

The digital broadcasting switchover process requires significant expenses from digital broadcasting network operators as well. Noting the market conditions, it is necessary to carry out additional stimulating activities to ensure affordable tariffs for access to regional and local private broadcasters' multiplexors. A direct subsidizing system may be introduced to purchase certain transmitting equipment. Another option is to reduce or abolish a broadcasting license fee for network operators distributing free broadcasting (only for transitional period). Those measures will make the digital broadcasting switchover process faster and cheaper.

The so called EC DVB-T decision<sup>47</sup> defines the list of those measures that are acceptable while migrating to digital broadcasting. Support of content producers and network operators shall be carried out in a way not to cause a wrong attitude towards technological neutrality and from a competition restriction standpoint (that may be acceptable only in

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<sup>44</sup> Ict regulation toolkit. 7.1.1 Concessions and Licence Agreements

<http://www.ictregulationtoolkit.org/en/Section.691.html>

<sup>45</sup> PUBLIC CONSULTATION DOCUMENT ON ESTABLISHMENT OF COST BASED TRANSMISSION FEE FOR DIGITAL TERRESTRIAL TELEVISION (DTT) CHARGED BY MULTIPLEX OPERATORS TO CONTENT SERVICE PROVIDERS. 2012. [http://www.tcra.go.tz/consultative\\_docs/pcd\\_mux\\_cbf\\_2012.pdf](http://www.tcra.go.tz/consultative_docs/pcd_mux_cbf_2012.pdf)

<sup>46</sup> Digital terrestrial television-commercial issues of multiplex operation. 1995. **Gee, A.B. Thorp, J.P.**

<sup>47</sup> Commission rules subsidy for digital terrestrial television (DVB-T) in Berlin-Brandenburg illegal . Christof SCHOSER. 2006. [http://ec.europa.eu/competition/publications/cpn/2006\\_1\\_93.pdf](http://ec.europa.eu/competition/publications/cpn/2006_1_93.pdf)



case of necessity). We think that the following activities shall be carried out to support broadcasters/broadcasting providers:

- Financing digital broadcasting technologies, interactive program studies and infrastructure research projects;
- Introduction of subsidies for broadcasters to compensate additional costs during a digital broadcasting switchover period;
- Finance a transmitting network construction in zones, where initial and further analysis proves that a relevant digital coverage will not be available;
- Compensate financial assistance to those broadcasters, who have legitimate objective grounds to refuse their licenses prior to their expiration date.

A three step approach<sup>48</sup> has been used in **Finland** to relieve the broadcasters from the so called “investment load”. First of all the licensing fee for analogue broadcasters has been cut by 50%, while digital broadcasters have been released from obligation to pay that fee until September 1, 2010 (digital broadcasting has been put in place since 2001 and analogue has been switched off since 2007). Secondly, the state has increased a licensing fee payable by viewers (13%) since 2004<sup>49</sup> that has been steadily growing during the broadcasting period parallel to digital switchover (up to 2007). The same increase model has been introduced to fill the digital broadcasting switchover foundation in **Austria** has been financing other directions as well.

The EU has analyzed the 2004 regulation<sup>50</sup> adopted by the Great Britain (Ofcom) when analogue licenses have been changed to digital broadcasting licenses. The EU has established that the above measure has been necessary for a licensing process and aims at bringing licensing fees in conformity with market value of frequencies and has nothing to do with releasing from obligation to pay licensing fees.

According to the Law of Georgia “On Free Trade and Competition” the state support is an individual decision made in favor of an economic agent that covers: **release from paying taxes, reduction or adjournment of taxes**, debt forgiveness, debt restructuring, **loan with profitable conditions**, transfer of operation assets, **providing monetary support, profit guarantee and granting other exclusive rights**.

<sup>48</sup> Recommendations of the Institute for Development of Freedom of Information (IDFI) “On Defining State Strategy Related to Digital Broadcasting Support”, January 2013

<sup>49</sup> Österlund-Karinkanta M. Finland: Higher Television Licence Fees in Finland as of 1 January 2005 <http://merlin.obs.coe.int/iris/2004/9/article18.en.html>

<sup>50</sup> A Guide to Digital Television and Digital Switchover”, 1 October 2004 edition, Ofcom (UK)

The same article underlines that the state support does not envision issuing licenses an/or permits.

According to the above legislation the state support may be provided by the state, the body representing the Government of the autonomous republic and/or local self-governance, non-commercial legal entity, legal entity of public law, an enterprise with more than 50% share belonging to the state or intermediary economic agent acting in the name of the state that exercises direct or indirect authority with purposes of providing a state support.

In cooperation with Competition and Procurement Agency the state support that does not significantly restrict competition and does not create a threat of significant restriction of competition and that is provided with the following purposes: a) to develop a certain economic activity; b) to develop a certain economic sector, may be approved.

The following activities are permissible and do not require the Agency's approval: a social aid provided to an individual (subsidizing receivers); a state aid provided with respect to the regional development of the country; a decision concerning reduction or restructuring of a tax made by the Government of Georgia; forgiveness of a state debt or suspension of a provisional remedy.<sup>51</sup>

### Criteria for supporting regional televisions

The criteria defined in the EU Functioning Directive shall be applied to regional broadcasters during the digital broadcasting switchover.

The criteria for submission of the support application are as follows:

- **Regional status** – a broadcaster shall carry out activities in digital zone or its part, which has a regional status and it shall be concentrated on production of a regional content (for instance regional news, ongoing events, cultural and other events).
- **Viability of a company** – the financing shall only be made available for preserving viability of the existing activity. Regional broadcasters shall submit a detailed financial report and justification that their data for the last two years create the above problems. The business plan for the upcoming year shall be submitted along with the application.

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<sup>51</sup> According to the Law of Georgia “On Free Trade and Competition”

- **Technical expedience** – While submitting the financing request, regional broadcasters shall ensure that the presented technical direction aimed at distribution of a digital signal, is of a vital importance and the costs are planned effectively and accurately.
- **Financing period**- The financing shall be available only in 2014-2015 prior to complete digital switchover in the country, i.e. prior to the first alternative access opportunity in a particular region. This period shall provide an opportunity for regional broadcasters to accept assistance in accordance with their broadcasting zone (following a technical test plan of the digital broadcasting switchover).
- **Signal distribution** – The financing shall cover either construction of own programming (if a relevant licensing regime is permitted, although previously existing licenses used to cover smaller area than 10 digital zones) or network related distribution costs in its broadcasting zone (that shall be defined within the issued licenses).
- **Free access** – The signals of those broadcasters shall be accessible through free and open receivers. When they represent an access to a particular TV tower and receivers or network facilities, their signals shall be freely accessible in a program list.
- **Assistance period** – Regional broadcasters that have started activities towards digital broadcasting switchover in 2013-2015 (June 17) shall be authorized to enjoy that assistance.

The maximum amount of assistance provided to regional broadcasters depends on expenses related to parallel broadcasting.<sup>52</sup> The aid may cover capital costs and certain operational expenses related to digital switchover (including transmitting equipment, related equipment, any installation, application and additional transmitters' costs). The financing shall be accessible until 2015 (although this date may be prolonged noting the market condition by the end of the year). The financing shall not envision internal studio costs, employees of the stations, administration and overhead expenses.

A broad line network related assistance may be provided in case it is necessary for distributing a signal through connecting to terrestrial transmitting network. Regional broadcasters shall present relevant justification regarding such necessity and size of the audience.

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<sup>52</sup> Note: The amount of financing depends on costs incurred by a particular regional or local broadcaster.

## Recommendations

- To facilitate broadcasters' quick transition to digital broadcasting, **the regulation fee may be reduced**, while the companies, which supply both analogues and digital services, may be completely released from that fee. Regional and local broadcasters shall enjoy reduction or abolishment of VAT at digital broadcasting switchover stage;
- **Additional costs of broadcasters shall be compensated** – The goal of this type of financing rests with compensation of additional costs incurred by broadcasters during migration to digital broadcasting, namely those costs that arise in a transitional period. Ongoing costs are not subject to financing. Short term financing periods (from 6 to 12 months per each region) are envisioned in the digital broadcasting switchover concept, therefore the total financing period is restricted with that term. The state may issue subsidies to state and commercial broadcasters to compensate additional costs to be incurred by those persons within a parallel broadcasting period. The above assistance shall be provided through valuation of objective criteria and based on their collation. Similarly, reasonable compensation shall be provided to broadcasters, which reject frequency licenses prior to expiration of their term to facilitate the digital broadcasting switchover process;
- **Network development subsidies** – Support of broadcasters and network operators is very important in countries with underdeveloped and overloaded infrastructure. At the same time public broadcasters and network providers are deprived of an opportunity and finances to make significant investments, especially in a transitional period, when costs are doubled. A state may, within universal broadcasting foundation, finance infrastructure development (transport network) in regions with insufficient distribution of a television signal;
- Financial assistance shall be provided in a **transparent manner**, if necessary following a proportionality principle: a state assistance shall not assign a priority to any particular technology and cable and satellite platforms shall be considered in parallel (unless a justified decision is made concerning subsidizing of a certain direction);
- Assistance shall be provided to solve temporary problems that have arisen during a switchover process;
- Beneficiaries shall be selected according to initially defined accurate criteria;
- A beneficiary shall verify that there is a need for a co-financing.

### Concession and licensing agreements

A concession agreement has been used particularly actively in sectors that are characterized by high political risks of regulation. A concession agreement shall represent an encouraging and alternative scenario for analogue license holders during a digital broadcasting switchover period, noting broadcasters' interests. The terms shall be planned in a way not to damage interests of licensees and protect them from governmental influences.

Existing analogue license holders may be provided with certain frequencies or a frequency for digital broadcasting and joint use. Those frequencies shall be provided in lieu of the existing licensed frequencies and after 2015 the state will "exchange" those frequencies to digital jointly usable frequencies for analogue frequency licensees' benefit. Prior to transfer of a relevant frequency all necessary documents (a project, a plan, terms, area) shall be submitted within a concession agreement, including a document evidencing financial support of a project that will raise no questions regarding construction of a broadcaster's network and transmitting of a signal.

Within a concession agreement the state shall offer licensees, in lieu of analogue licenses, to distribute their programs through a multiplex operator distributing a Public Broadcaster's content on an analogue license validity territory.

The above issues may also be regulated by licensing agreements on the basis of the Law of Georgia "On Broadcasting" and the Law of Georgia "On Electronic Communications". The licenses for use of frequency spectrum define that in case of certain circumstances some terms may be revised within the licensing agreement. It seems to be a correct approach to hold negotiations not with the National Communications Commission but rather between the Ministry of Economy and Sustainable Development and a licensee. In case a licensee does not agree with an alternative version, it shall be obliged to switch off analogue transmitter after June 2015. This direction may be considered as a part of a financial direction, as a state support category.

### Supporting importers

Temporary release of equipment and TV sets' importers from customs fees and VAT only in this part and through a transitional period may be considered as one of the measures that will simplify digital broadcasting switchover process. Only those digital receivers purchased on the territory of Georgia shall be financed.

In exceptional cases the National Communications Commission or the Ministry of Economy and Sustainable Development of Georgia (or the Ministry of Finance of Georgia) shall act as a state guarantor for equipment importers in part of those costs that are necessary to incur to subsidize end users' terminals.