

Case No: 75036  
Event No: 699250  
Decision No.: 299/14/COL

## EFTA SURVEILLANCE AUTHORITY DECISION

of 16 July 2014

to initiate the formal investigation procedure into potential aid through the lease of an optical fibre previously operated on behalf of NATO

(Iceland)

The EFTA Surveillance Authority (“the Authority”),

HAVING REGARD to the Agreement on the European Economic Area (“the EEA Agreement”), in particular to Article 61 and Protocol 26,

HAVING REGARD to the Agreement between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice (“the Surveillance and Court Agreement”), in particular to Article 24,

HAVING REGARD to Protocol 3 to the Surveillance and Court Agreement (“Protocol 3”), in particular to Article 1(2) of Part I and Articles 4(4) and 6 of Part II.

Whereas:

### I. FACTS

#### 1. Procedure

- (1) By letter dated 16 July 2010 (Event No. 565828), Míla ehf. (hereinafter referred to as “Míla” or “the complainant”) lodged a complaint with the EFTA Surveillance Authority (“the Authority”) concerning alleged unlawful state aid granted by the Ministry for Foreign Affairs in Iceland through leases for the use and operation of two optical fibres which were previously operated by the North Atlantic Treaty Organisation (NATO).
- (2) By letter dated 30 August 2010 (Event No. 567175), the Authority requested the Icelandic authorities to provide all information and observations relevant for the Authority to determine whether or not the measures complained of involved state aid within the meaning of Article 61 of the EEA Agreement and, in the event that the measures were to be considered to involve state aid, whether they might nevertheless qualify for an exemption from the general prohibition of state aid. The Icelandic authorities responded to this request by way of two letters, dated 28 September 2010 (Event No. 571101) and 3 December 2010 (Event No. 579784).

- (3) The Authority subsequently engaged in further correspondence with both the complainant and the Icelandic authorities. At the request of the complainant, the Authority's representative attended a meeting with the complainant in Reykjavik on 10 June 2011, where the complainant explained further its views regarding the complaint. By letter dated 6 September 2011 (Event No. 608312), the complainant submitted further information to substantiate its claim regarding the allegation of state aid.
- (4) At the complainant's request, a teleconference took place on 13 October 2011. Following this contact, the Authority received, by letter of 16 December 2011 (Event No. 619096), supplementary information from the complainant regarding certain aspects of the complaint.
- (5) By letter dated 5 June 2012 (Event No. 641906) the complainant submitted further information in relation to the complaint.
- (6) By letter of 16 July 2012 (Event No. 641937), the Authority requested certain additional information from the Icelandic authorities and invited them to comment on the further information which the Authority had received from the complainant. By letter dated 10 September 2012 (Event No. 646364), the Icelandic authorities responded to this request.
- (7) On 24 September 2012, the Authority received further information from the complainant by letter dated 19 September 2012 (Event No. 647465).
- (8) By emails of 16 November 2012 (Event No. 653651) and 19 November 2012 (Event No. 653722), the Icelandic authorities provided further clarification regarding the ownership of the three optical fibres initially reserved for defence purposes.
- (9) On 21 November 2012, the Authority adopted Decision 410/12/COL concluding that the lease by the Defence Agency of the Ministry for Foreign Affairs in Iceland with Og fjarskipti hf. (currently Fjarskipti hf., but hereinafter referred to as "Vodafone Iceland" or "Vodafone")<sup>1</sup> of 1 February 2010 for the use and operation of an optical fibre did not involve state aid within the meaning of Article 61 of the EEA Agreement.
- (10) On 19 February 2013, Míla lodged an application to the EFTA Court for the annulment of that Decision. By its judgment of 27 January 2014 in Case E-1/13, the EFTA Court annulled the Authority's Decision.<sup>2</sup>

## **2. Description of the measure: Contract based on a tender for the lease of NATO optical fibres**

- (11) On 15 August 2007, the Icelandic Government fully took over the operation of the Radar Agency (*Ratsjárstofnun*)<sup>3</sup>, which had until that time been operated under the auspices of the

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<sup>1</sup> Vodafone Iceland (Fjarskipti hf.) is an Icelandic telecommunications company, providing fixed telephony, mobile and data transmission services in Iceland. Vodafone is currently the second largest telecom operator in Iceland, following the incumbent Skipti hf. and its subsidiaries Síminn and Míla. The company carries the Vodafone brand and trademark. However, the Vodafone Group owns no interest in the company, but rather franchises the brand and associated advertising styles to Fjarskipti. Fjarskipti was previously owned by the Icelandic Teymi Group. The Teymi Group was later split up, and Fjarskipti went through a financial restructuring process. In December 2012, Fjarskipti was listed on the Icelandic Stock Exchange.

<sup>2</sup> Case E-1/13 *Míla ehf. v EFTA Surveillance Authority*, judgment delivered on 27.1.2014 [not yet reported].

<sup>3</sup> With the entry into force of the Defence Act No. 34/2008 on 31 May 2008, the Radar Agency was closed. Certain functions of the Radar Agency were taken over by the Defence Agency (*Varnarmálastofnun*). By Act

US authorities. The Radar Agency had previously operated three optical fibres in the approximately 1 800 km long, eight-fibre optical cable circling Iceland and its North-West region.<sup>4</sup> This opened up opportunities for the Icelandic Government to put one or more of the three fibres to another use.

- (12) On 31 August 2007, the Ministry for Foreign Affairs established a working group for the purpose of drawing up proposals for streamlining the operation and utilisation of the NATO optical fibres. The working group was asked to carry out its tasks on the basis of the following objectives: a) to lower the costs related to the operation and maintenance of the fibres; b) to improve public access to high speed connection, in particular in the rural areas of Iceland; and c) to encourage competition in data transmission on the domestic market.
- (13) After an examination, the working group came to the conclusion that these objectives would best be served through a call for tender for a lease of two of the three fibres, while one fibre would be used solely for the Icelandic Air Defence System (IADS) and for secure governmental telecommunications. The working group took the view that a call for tender would be the most feasible way to receive a favourable offer from the telecommunication companies and at the same time promote competition and ensure improved information and communication services for consumers. Accordingly, the Icelandic Government concluded that the State Trading Centre (*Ríkiskaup*) should carry out a tender award procedure for the use and operation of the two fibres.<sup>5</sup>
- (14) The details of the invitation to tender were set out in the project description drafted by Ríkiskaup.<sup>6</sup> According to that document, Ríkiskaup, on behalf of the Defence Department of the Ministry for Foreign Affairs, invited tenders for the use and operation of two of the three optical fibres to be leased out to two unrelated parties, with the intention of negotiating a lease for the duration of ten years.
- (15) As concerns the rental charge, the invitation to tender sets a minimum price, which was described in the following manner: *“The rental charge must, as a minimum, cover the cost of operation and maintenance of the optical fibres in order to secure the basis for the project. The said cost is estimated approximately 38.000.000 ISK per year for two fibres, corresponding to approximately 19.000.000 ISK per year for each fibre. Offers including a rental charge lower than the said amount will be rejected on operational grounds.”*<sup>7</sup>
- (16) The invitation to tender was announced in April 2008 and the date of opening of offers was 19 June 2008 at 11:00 a.m. This date was also the closing date for submitting offers.

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No. 98/2010, amending the Defence Act, the Defence Agency was closed on 1 January 2011 and certain functions taken over by other State agencies, including the Ministry for Foreign Affairs.

<sup>4</sup> The remaining five fibres are the property of Míla, the complainant.

<sup>5</sup> The Icelandic public procurement rules are laid down in Act No 84/2007. That Act implements the EU Public Procurement Directive into Icelandic law, i.e. Directive 2004/18/EC of the European Parliament and of the Council of 31 March 2004 on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts (OJ L 134, 30.4.2004, p. 114), incorporated as point 2 Annex XVI to the EEA Agreement by Joint Committee Decision No 68/2006 (oj 1 245, 7.9.2006, p. 22 and the EEA Supplement No 44, 7.9.2006, p. 18), e.i.f. 18.4.2007.

<sup>6</sup> Project No. 14477. Optical Fibres. Ministry for Foreign Affairs. April 2008.

<sup>7</sup> Point 1.2.4 of the description of Project No. 14477.

- (17) The assessment of offers was based on certain criteria, taking into account the objectives of the project. The following criteria determined the assessment of the offers:

Matter of Judgment	Percentage points
Stimulation of Competition	40
Rental Charge	15
Commencement of Services	10
Supply of Services	10
Number of network termination points	15
One Tariff throughout the Country	10

Table 1: Award criteria in the tender.

- (18) The outcome of the tender was that five offers were received from four independent undertakings, as summarised in Table 2 below. Two of the offers were variant offers:

Name of company	Leasing price offered	Award criteria: total points scored	
		Main offer	Variant offer <sup>8</sup>
Fjarski ehf.	20.000.000 ISK	92.18	
Vodafone	19.150.000 ISK	89.67	84.67
Hringiðan ehf.	24.006.900 ISK	88.60	
Gagnaveita Reykjavíkur	19.500.000 ISK		59.34

Table 2: Offers received in the tender.

- (19) The evaluation of received offers was made by Ríkiskaup, following an assessment conducted by the independent consulting firm *Mannvit*. According to information from Ríkiskaup and Mannvit, all four companies submitting bids were found to have met the required technical capacity to perform the project, as well as the general requirements set out in the invitation to tender regarding the personal and financial situation of the candidates for the project.<sup>9</sup>
- (20) The two companies scoring highest on the basis of the award criteria were Fjarski ehf. (92,18 points) and Vodafone (89,67 points).<sup>10</sup> Negotiations were entered into with those two companies. Due to the financial crisis in Iceland, which began to take hold in the fall of 2008, negotiations did not take place until late 2009 and were subsequently finalised early 2010.

<sup>8</sup> The proposal from Gagnaveita Reykjavíkur was classified as a variant offer, as it did not meet the minimum number of network termination points and the number of municipalities covered. One of the two offers from Vodafone is also a variant offer, as it does not foresee that Vodafone will use the same tariff throughout Iceland. Other items in the offers from Vodafone are the same, including the leasing price to be paid to the state.

<sup>9</sup> Mannvit made a reservation regarding the proposal from Hringiðan. According to that proposal, the project was to be performed by an undertaking to be founded by Hringiðan. Mannvit did not consider it possible to assess the capacity of this undertaking which at the time had not been established.

<sup>10</sup> See Table 1.

Fjarski ehf., however, decided to pull out of the project. A lease contract was therefore negotiated for only one of the two fibres, with Vodafone.

- (21) The contract, concluded on 1 February 2010 between Vodafone and the Icelandic Defence Agency (“*Varnarmálastofnun*”), provides for the use of an optical fibre belonging to the eight-fibre, 1800 km long optical cable circling Iceland, as set out in the description of Project No. 14477 by the Ministry for Foreign Affairs. The annual lease is set at ISK 19 150 000, indexed according to the building cost index. The term of the contract is 10 years.
- (22) The contract states that the fibre at issue was registered on NATO’s inventory list. Under Article 16 of the Defence Act No. 34/2008, the lessor was entitled, on behalf of the State and of NATO, to conclude a lease for the use of such facilities. However, in view of Iceland’s international commitments, it was necessary to include a clause authorising the lessor to take over the cited facilities without notice in times of war. Provisions to this effect are found in Article 8 of the contract.

### 3. The complaint

- (23) The complaint received by the Authority in July 2010 relates to the contract referred to above, concluded on the basis of the tender on 1 February 2010 between the Icelandic Defence Agency and the telecommunication operator Vodafone. The complainant claims that the awarded contract involves state aid in the form of a rent for the use of the optical fibre at a price significantly below what a market investor would have considered to be acceptable.
- (24) According to the invitation to tender, leases for the duration of ten years were to be negotiated, with a minimum consideration of ISK 19 million per year. The price charged for the rental of the fibres was intended to cover as a minimum the government’s operating costs. The complainant claims that by only charging for the operating costs of the fibres, the lessee was relieved of the financial burden normally incurred by companies in the same business and incurred by the complainant, in particular an appropriate contribution to fixed costs (*i.e.* the costs of construction, renewal and depreciation of the cable) and an adequate return on the capital investment.
- (25) On the amount of the alleged aid the complainant has provided the following details: “*The amount of the aid constitutes the difference between the rent charged by the state for the use of the cables, i.e., 19,150,000 – 20,000,000 ISK per year, and what a market investor would [have] deemed an acceptable rent, i.e. over 85 million ISK. The net present value of the total amount of the aid is ISK 464.2 million over the estimated twenty year lifetime of the fiber to each of the two companies, based on the rental price ISK 19,000,000 per year.*”<sup>11</sup>
- (26) The complainant has stated that there can be no doubt that a private investor would not accept ISK 19-20 million per year for the use of each of the two fibres, as that amount would fail to cover the costs of operating and renewing the cable, let alone the acceptable return which a market investor would normally expect from his investments.

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<sup>11</sup> The complainant’s assessment of the aid amount is based on a memorandum annexed to the complaint, containing Míla’s calculations of the value of the alleged subsidy. The calculations are based on Míla’s own costs of operating fibres in the same cable.

- (27) The complainant maintains that the method of evaluation of the submitted tenders, as set out in Table 1 above, effectively excluded Míla from the tendering process, as it was the only party operating in the market and was therefore by definition unable to acquire 40% of the points used in the selection evaluation, as these points were awarded for stimulation of competition. For Míla's potential bid to be successful, the rental price it offered would have had to be much higher than the bids from other parties.
- (28) Míla did not submit a bid in the tender. Apart from Míla's view that it was effectively excluded from the tender through the formulation of the award criteria, the reason for this, according to the complaint, was that Míla did not have any economic motive for taking part in the tender as it already had sufficient transmission capacity in its own fibres.
- (29) In its letter to the Authority of 6 September 2011, the complainant mentions briefly the debt relief of Teymi as an additional ground for the complaint. It is stated that Teymi, which was previously the parent company of Vodafone, had undergone financial restructuring in 2009 and had obtained a licence to seek composition with creditors. As part of the restructuring, ISK 31 billion of Teymi's debt was turned into share capital or written-off and the largest part of the restructuring cost was borne by the state-owned bank, Landsbankinn hf, which the complainant considered to entail state aid.<sup>12</sup>
- (30) By letter dated 19 September 2012, the complainant once more submitted further information regarding its allegation of state aid to Vodafone. On this occasion, the complainant drew attention to a new tariff by the undertaking *Orkufjaraskipti*<sup>13</sup> for the rent of a fibre optic cable.<sup>14</sup> The tariff specifies the rent for each fibre in a six-fibre optical cable in terms of monthly rent in ISK per kilometre in the cable.<sup>15</sup> By multiplying the tariff with the length of the cable, according to the lease with Vodafone, 1 850 km, the complainant concludes that the rent for a fibre of that length according to the tariff should be ISK 107 137 200 per year, whereas Vodafone pays ISK 19 000 000 per year. On this basis the complainant claims that the pricing according to the cost-based tariff is more than five times higher than the pricing according to the contract concluded with Vodafone, which a private investor would never have accepted as it was far below true market value, based on a cost analysis.

#### 4. Position of the Icelandic authorities

- (31) The Icelandic authorities submit that the leasing out of the NATO optical fibres does not constitute state aid, as the award of the contract does not confer any economic advantage upon the lessee which goes beyond market conditions, does not entail the use of state resources, and does not distort or threaten to distort competition. On the contrary, the lease and the tender procedure served to make infrastructure competition possible in the leased-line market where there was only one market player at the time. The Icelandic authorities

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<sup>12</sup> Reference is made to paragraph 34 of the Authority's Decision No. 410/12/COL for a more detailed outline of the debt relief of Teymi.

<sup>13</sup> Orkufjaraskipti is jointly owned by Landsvirkjun (the National Power Company) and Landsnet (operator of Iceland's electricity transmission grid). Orkufjaraskipti operates and maintains telecommunication infrastructure in Iceland for its owners.

<sup>14</sup> According to the complainant, the tariff entered into force on 1.8.2012, having been reviewed and accepted by the Post and Telecom Authority in Iceland following a regulatory procedure. By accepting the tariff, the Post and Telecom Authority has agreed that the tariff is based on a cost analysis.

<sup>15</sup> The monthly rent per kilometer varies from ISK 4.826 for fibre 1 to ISK 7.507 for fibre 6.

therefore take the view that the lease does not fulfil the conditions for constituting state aid within the meaning of Article 61(1) of the EEA Agreement.

- (32) In this regard the Icelandic authorities refer to a Memorandum of the Ministry for Foreign Affairs, dated 7 May 2008, on the proposed lease-out of NATO optical fibres. The Memorandum explains in general terms the proposed tender procedure, including the modalities of the invitation to tender and the criteria for the selection of eligible lessees from among the bidders. The objectives of the project were to lower the maintenance and operating costs of NATO's optical fibres, to increase public broadband access and to encourage competition in data transmission on the domestic market. The Icelandic authorities consider that the lease-out of the two fibres was a non-aid measure. They further note that the project would benefit the implementation of government policies regarding electronic communication services and information society. It would also make infrastructure competition possible in the leased-lines market in areas where there was no competition at the time, which in turn would lead to more competition in downstream markets such as the market for high-speed broadband connection.
- (33) In view of the complainant's contention that the fibre was owned by the Icelandic State and that the rental price should have included fixed costs related to the construction, renewal and write-down of the cables, the Icelandic authorities have provided clarifications on ownership and costs of construction. They note that it was NATO, and not the Icelandic State, which financed the installation of the cable. The cable was registered on the "inventory" list of the organisation, and three out of eight fibres were reserved for use related to the operations of the American forces in Iceland. *"At the time of the departure of the American forces from Iceland in 2006 and 2007, the Icelandic State took over the operation of the three fibres, as a so-called "host-nation, user-nation", on the basis of a written arrangement with NATO. That, however, did not result in the full transfer of ownership of the fibres. As a result, the following would apply: First, that Iceland still has the obligation to manage the fibres in accordance with NATO's "host-nation, user-nation" rules; second, if Iceland were to give up its role as a "host-nation, user-nation", another NATO country would have to take over that role; and third, the sale of the fibres could only take place with the approval by NATO and the selling price would have to be returned to the organisation."*<sup>16</sup>
- (34) The view of the Icelandic authorities is that properties such as the fibres at issue, of which Icelandic authorities have assumed operational management, are formally in the possession of NATO. This understanding is confirmed in the Icelandic Defence Act No. 34/2008<sup>17</sup> (*"Varnarmálalög"*), which entered into force in April 2008. According to the Icelandic authorities, *"[i]t is thus clear that the Icelandic State does not have the formal or exclusive ownership of the three fibres. It has therefore limited options for the disposal of the fibres. Furthermore, it is clear that the Icelandic State did not bear any cost involved in the instalment of the cables, and any costs that could potentially be contributed to the renewal or the write-down of the cables cannot be attributed to the Icelandic State. Moreover, NATO has not requested that the Icelandic State bear any such costs on the basis of its "host-nation,*

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<sup>16</sup> Letter of the Ministry of Finance to the Authority, dated 3.12.2010.

<sup>17</sup> Article 15 of the Act states that Icelandic authorities shall handle the operation, management and use of buildings and other properties located in Iceland and owned by NATO, in accordance with international obligations and the powers of Iceland as user and host state. The second paragraph of the same article refers to a list of the assets that the Icelandic authorities are responsible for, published in Notice 610/2010, where the three fibres are specifically mentioned in Annex IV (Item No. 8439).

*user-nation” role. For these reasons, there are no grounds that justify the inclusion of these costs in the lease price.”<sup>18</sup>*

- (35) Regarding the ownership of the three fibres, the Icelandic authorities have explained that an agreement was concluded on 25 July 1989 between the Icelandic government and the US government, on behalf of NATO, on the ownership, treatment, operation, maintenance of and access to three of the eight fibres of the fibre optics communication system, which were used exclusively by the US Forces in Iceland, on behalf of NATO. The agreement indicates the Icelandic State as the owner of the fibres.<sup>19</sup> An agreement between the Ministry for Foreign Affairs and Landssími Íslands hf., concluded on 27 March 2001, also indicates, by reference to the agreement from 1989, Iceland as the formal owner of the three fibres. However, this indication must, according to the Icelandic authorities, be seen in the context of the relations between Iceland and the US/NATO under the Defence Agreement of 1951 and Iceland’s Membership to NATO. The US, on behalf of NATO, financed the instalment of the three fibres in Iceland. The fibres were registered on the “inventory list” of NATO and were reserved for use related to the operations of the US forces in Iceland. The Icelandic State does not have the exclusive ownership of the three fibres. As long as the Defence Agreement between Iceland and the US is in force, the three fibres are a property of NATO. NATO has the priority rights to the use of the fibres. Any income from the rental of the fibres can only be used for the operation and maintenance of NATO’s assets.<sup>20</sup>
- (36) The maintenance and operation of the fibres are a part of Iceland’s obligations as a member of NATO and are not optional. According to the Icelandic authorities the complainant is not correct when claiming that since two of the fibres were in active use for the IADS system, the State needed to invest ISK 250 million to make one of the fibres available and free for use by the successful bidder. The intention was initially to lease out two fibres. The cost assessment for making both fibres free for commercial use was ISK 20-65 million. As one of the two successful bidders withdrew its offer at a later stage, only one fibre needed to be set free. The cost was therefore much lower than initially estimated and well below Vodafone’s annual rent for the fibre.
- (37) As to the question whether remuneration in the lease agreement is acceptable, the Icelandic authorities point out that the agreement relieves the Icelandic State of costs related to the operation and maintenance of the fibres. This was indeed among the principal aims of the Government with this measure.
- (38) The use of an open call for tenders was considered to be the most appropriate means of establishing the price that a market investor would consider acceptable as remuneration for the use of the fibres, which in turn would ensure that any agreement made would not be subsidised by the State.

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<sup>18</sup> Letter of the Ministry of Finance to the Authority, dated 3.12.2010.

<sup>19</sup> The agreement states that (i) the three optical fibres were to be owned and operated by the Government of Iceland, (ii) the US, acting on behalf of NATO, was to pay NATO’s contribution toward construction expenses, up to a certain maximum amount, and (iii) the US, on behalf of NATO, shall have continued uninterrupted right of use of the fibres “*as long as the Defence Agreement of 1951 remains in effect, or for the life of the system, whichever occurs first*”.

<sup>20</sup> Email of the Ministry for Foreign Affairs to the EFTA Surveillance Authority of 16 November 2012. Reference is also made to paragraph 42 of the Authority’s Decision No. 410/12/COL, for further clarification on the ownership of the three fibres.



- (39) In the opinion of the Icelandic authorities, as a result of the successful call for tenders the measures do not involve any type of state financing. On the contrary, the measures produce revenue for the State from leasing out fibres which the State would otherwise have had to continue to maintain through state resources. Furthermore the Icelandic authorities point out that the restrictions stemming from the ownership of NATO and NATO's priority of use during war times mean that the price may have been lower than if no such restriction had existed. This factor would have affected all the tenderers in the same way, and the market price had to adjust to that fact.<sup>21</sup>
- (40) In the context of the proceedings before the EFTA Court in Case E-1/13, the Icelandic authorities also provided the Authority with further details regarding the costs relating to the fibres. NATO originally invested in and paid the cost of the installation of the fibre optic cable. The amount available to the Government of Iceland as the host nation was approximately USD 21.5 million for the construction of the three fibres and related facilities and equipment. According to a maintenance agreement the Government of Iceland pays an annual amount of ISK 65,189,340. This is for the operation and maintenance at all times of three out of the eight fibres. Accordingly, 1/3 of the costs is allocated to the Vodafone fibre, i.e. ISK 21,729,780. Vodafone currently pays an annual lease of ISK 33.523.186 to the Government (subject to adjustments linked to the consumer price index).<sup>22</sup>
- (41) Furthermore, the Icelandic authorities are of the opinion that neither the application of the award criterion on stimulation of competition nor the alleged effective exclusion of an undertaking holding a monopoly position on the market can, as such, lead to the conclusion that the measure distorts competition or confers an advantage upon an undertaking. According to the Icelandic authorities, the Government was fully authorised to use multiple award criteria, and moreover the criteria were legitimate and pursued important objectives aimed at enhancing competition and ensuring good services to the general public.
- (42) Finally, the Icelandic authorities submit that, in the event that the Authority does consider the measure to constitute state aid, such aid could be considered to be compatible with Article 61(3) of the EEA Agreement, by reference to the objectives of the measure, including the objective of increasing public broadband access in assisted areas. In this regard, the Icelandic authorities also invite the Authority to assess whether such aid should be considered to constitute the financing of services of general economic interest (SGEI), as referred to in Chapter 2.2.2 of the Authority's Broadband Guidelines.<sup>23</sup>

## 5. The Authority's Decision No. 410/12/COL

- (43) On 21 November 2012 the Authority adopted Decision No. 410/12/COL concluding that the measure did not involve state aid within the meaning of Article 61(1) of the EEA Agreement. The Authority considered that the lease for the use and operation of the optical fibre did not

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<sup>21</sup> Written observations of the Icelandic Government of 02.07.2013 in Case E-1/13 *Mila ehf. v The EFTA Surveillance Authority*, p. 7.

<sup>22</sup> The maintenance service ensures the function of the fibre at all times, i.e. all monitoring and testing, repairs and technical support. Two of the fibres are now in use for NATO operations in Iceland. Major repairs of the cable are not included in the maintenance agreement. The relevant proportion (3/8) of such costs has been claimed from NATO on a case-by-case basis when they have occurred.

<sup>23</sup> The reference is to the Authority's broadband guidelines in force at the time when the complaint was submitted. By Decision No. 73/13/COL of 20 February 2013, the Authority adopted new broadband guidelines, available at: <http://www.eftasurv.int/state-aid/legal-framework/state-aid-guidelines/> [not yet published in the OJ].

involve state aid, as the lease contract was established by means of the use of an open tender capable of establishing market terms and therefore did not confer an economic advantage on Vodafone.

- (44) In that respect, the Authority firstly concluded that the bidding procedure was open and unconditional. Furthermore, the Authority took into account that the Icelandic authorities did not bear any cost involved in the installation of the cables and that NATO had not requested the Icelandic authorities to bear any cost on the basis of its “host-nation, user-nation” role. Accordingly, the terms of the tender regarding minimum costs to be covered were considered to be designed to ensure that as a minimum, the rental charge to be paid by successful bidders would cover the State’s own cost and therefore not involve a drain on state resources. Moreover, the Authority considered that the cost to the Icelandic State of releasing one fibre for commercial use was below the minimum price specified in the invitation to tender and below the rental charge in the contract with Vodafone. The Authority also pointed out that the contract includes a priority clause authorising the lessor to take over the fibre at any time if it considers it to be necessary under the terms of the Icelandic authorities’ commitments to NATO. Due to the above-mentioned reasons the Authority considered that there had not been any sacrifice of state resources.
- (45) Secondly, the Authority noted that five valid bids were received from four independent parties, all meeting the general and technical qualification requirements as set by Ríkiskaup, and that there was no evidence to suggest that the contestants did not actively compete for the project. The Authority considered that Míla was not formally excluded from participating in the tender procedure and noted that Míla had not made use of the opportunity available to it to submit a bid. Furthermore, the Authority pointed out that in order for Míla to submit a successful bid, it was not necessary for the company to achieve the highest points under the award criteria. Based on the project’s description, the intention was to lease out two of the three fibres to two unrelated parties. It would thus have been sufficient for Míla to achieve the second highest points. In any event, if Míla had submitted a successful bid, there would nevertheless have been a new entrant to the market which was dominated by Míla. Accordingly, the Authority did not find any grounds to doubt that the outcome of the bidding procedure was to be considered as representing the market price for the lease of the optical fibre.

## **6. EFTA Court Judgment in Case E-1/13**

- (46) On 27 January 2014, the EFTA Court annulled the Authority’s Decision No. 410/12/COL. The Court concluded that the Authority should have opened a formal investigation procedure, as the Authority had at its disposal information and evidence at the time which should, objectively, have raised doubts or serious difficulties regarding whether the lease agreement conferred an economic advantage on Vodafone.<sup>24</sup>
- (47) The Court considered that the Authority should have had doubts as to whether the price agreed as a result of the tender was a reflection of a true market price for the lease of such an asset. In particular, the Court held that the award criteria in the tender did not reflect what a private investor would consider relevant when tendering out a lease and that it was apparent that the Authority had not assessed all circumstances and consequences for the applicability

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<sup>24</sup> Paragraph 101 in EFTA Court Judgment in Case E-1/13 *Míla ehf. v EFTA Surveillance Authority*, 27.1.2014 [not yet reported].

of a market economy investor test. The award criteria other than price appeared to reflect public policy or regulatory considerations, which a private investor would not consider to be relevant, and the tender procedure did not use price or leasing charge as a sole or main award criterion. The EFTA Court furthermore considered that the Authority had not assessed the likelihood of NATO using its priority rights to make use of the fibre and the probability that NATO would use its right of reversal.

- (48) On the basis of *inter alia* the above, the Court concluded that there existed consistent and objective evidence that the Authority had not examined in a complete and sufficient manner whether the lease contract constituted state aid and, if so, whether the aid was compatible with the EEA Agreement.

## II. ASSESSMENT

### 1. The presence of state aid

#### 1.1 Introduction

(49) Article 61(1) of the EEA Agreement reads as follows:

*“Save as otherwise provided in this Agreement, any aid granted by EC Member States, EFTA States or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Contracting Parties, be incompatible with the functioning of this Agreement.”*

- (50) This implies that a measure constitutes state aid within the meaning of Article 61(1) of the EEA Agreement if the following conditions are cumulatively fulfilled: the measure (i) is granted by the State or through state resources; (ii) favours certain undertakings or the production of certain goods; (iii) is liable to distort competition and has an impact on trade between Contracting Parties.<sup>25</sup>
- (51) Prior to assessing whether the contract for the lease of the optical fibres constitutes state aid, the Authority will address the complainant’s submission that the debt relief of Teymi, the previous parent company of Vodafone, in relation to its financial restructuring in 2009, amounted to state aid.
- (52) The Icelandic authorities have provided information that the agreement of Teymi on composition with its creditors was concluded following a formal procedure provided for in the Act on Bankruptcy, etc. No. 21/1991. Under those legal provisions, composition with creditors is sought and concluded under court protection, aiming *inter alia* to ensure equal and non-discriminatory treatment of the claims of creditors covered by the agreement. The Authority has received no information to indicate that the conduct of Landsbankinn, as the creditor of Teymi, differed from that of other creditors or that the measures at issue were imputable to the State. On this basis, and given that the Authority has received no further information to substantiate the complainant’s claim in this regard, the Authority cannot see that this allegation has any bearing on the assessment in the present case regarding the leasing by the State of a NATO optical fibre to Vodafone. Moreover, it should be noted that in the judgment in Case E-1/13 this issue was not addressed by the Court, and nor was it raised by the applicant.
- (53) It needs to be established in the present case whether the Icelandic State, when leasing out the optical telecommunications fibres under its control, had accepted a price which was a reflection of the market price for such a leasing arrangement. In particular, it needs to be determined whether the Icelandic State acted only in a manner comparable to that of a private market operator seeking to maximise its income, or whether it at the same time also made its decision on the basis of considerations reflecting its regulatory function.
- (54) As to the regulatory issues that need to be examined, it should be borne in mind that the electronic communications sector, being of strategic importance for European growth and

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<sup>25</sup> According to settled case-law, classification as aid requires that all the conditions set out in the provision should be fulfilled, see Case C-142/87 *Belgium v Commission* (“*Tubemeuse*”) [1990] ECR I-959.

innovation in all economic sectors and having recently been liberalised, is faced with unique competition problems and remains subject to sectoral regulation. In those circumstances, it is commonly observed that EEA States, when disposing of assets or awarding licenses to special rights, seek to maximise the value of such assets while at the same time, where the sector continues to display monopolistic or oligopolistic features, also endeavour to promote competition and, in particular, seek to address incumbency advantages and dismantle entry barriers to markets.

- (55) In the case of the granting of access to scarce public resources in the form of radio frequencies (i.e. by way of auction of mobile telecom licenses), a field not unrelated to the case at hand, it can be recalled for the purpose of analogy that national authorities have simultaneously performed the roles of telecommunications regulators and managers of the public assets that constitute the wireless airwaves. Nevertheless, the General Court has confirmed the Commission's conclusion that provided certain conditions are met, granting such licenses free of charge or at a standard price to all operators does not involve state aid.<sup>26</sup>
- (56) However, the Icelandic authorities have consistently reasoned in the present case that they acted in line with the conduct of a market economy investor or vendor, and that the tender procedure secured a market price for the lease. Accordingly, it needs to be examined further whether that was indeed the case.
- (57) In the following chapters, the Authority will assess whether the contract between the Icelandic Defence Agency and Vodafone for the lease by the latter of an optical fibre previously operated on behalf of NATO involves state aid within the meaning of Article 61 of the EEA Agreement.

## 1.2 State resources

- (58) According to Article 61(1) of the EEA Agreement, a measure must be granted by the state or through state resources in order to constitute aid. In the present case, the complainant and the Icelandic authorities have expressed different views regarding the ownership of the optical fibres at issue. While the complainant considers them to be publicly owned, the Icelandic authorities have underlined that the property rights of the fibres lie with NATO, although the Government of Iceland has a wide-ranging right of use and other exploitation rights, according to arrangements made with NATO and the Government of the United States of America. According to the Icelandic authorities, the Icelandic Government is authorised to lease out the fibres and use the proceeds for their maintenance and other running costs.<sup>27</sup>
- (59) The precise origin of the resources is, however, not crucial provided that, before being directly or indirectly transferred to the beneficiaries, they were under public control and at the

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<sup>26</sup> In its judgment in case T-475/04, *Bouygues SA and Bouygues Télécom SA v Commission* [2007] ECR II-2097, the General Court upheld the Commission's decisions to reject a complaint alleging that state aid was involved in the granting of a mobile license, stating in paragraph 110, that: "*although the right to use the wireless space granted to the operators has an economic value, the amount payable as a fee can constitute State aid only if, all other things being equal, there is a difference between the price paid by each of the operators concerned [...] On the other hand, if the national authorities decide as a general principle that licenses will be awarded free of charge, or awarded by means of public auctions or awarded at a standard price, there is no aid element, provided these terms are applied to all the operators concerned without distinction.*"

<sup>27</sup> See Article 16 of the Icelandic Defence Act No 34/2008.

disposal of the national authorities,<sup>28</sup> even if they might not have been the property of the public authority.<sup>29</sup> Given that the important factor is not the origin of the resources but the degree of control of the public authority, the presence of state resources cannot be ruled out. Even if the optical fibres are not permanently held by the State, the fact that they remain under public control and thus at the disposal of the competent national authorities can be considered sufficient for them to be categorised as state resources.

- (60) The Authority's preliminary view is therefore that the lease of the optical fibre involves the transfer of state resources within the meaning of Article 61(1) of the EEA. Should the Icelandic authorities hold a different view, they are invited to comment.
- (61) The Authority must nevertheless address the fact that the Icelandic authorities have confirmed that the State does not have the exclusive ownership of the three fibres and as long as the Defence Agreement between Iceland and the US is in force, the three fibres are the property of NATO. NATO therefore has priority rights as regards the use of the fibres. The Authority takes the preliminary view that these ownership and potential usage restrictions could affect the rental charge that can be obtained for the fibres. However, the Authority has at this point in time received no assessment from the Icelandic authorities of the likelihood of NATO using its priority rights to make use of the fibres, nor the probability that NATO would use its right of revocation. In that respect the Authority requests the Icelandic authorities to submit their views and further information on the likelihood of such a scenario and the possible impact on the rental market price.

### 1.3 Advantage

#### 1.3.1 General

- (62) In order to constitute state aid within the meaning of Article 61(1) of the EEA Agreement, the measure must confer an advantage upon an undertaking. Undertakings are entities engaged in an economic activity, regardless of their legal status and the way in which they are financed.<sup>30</sup> Economic activities are activities consisting of offering goods or services on a market.<sup>31</sup>
- (63) The alleged beneficiary of the measure is Vodafone Iceland.<sup>32</sup> The company is active on the electronic communications market, providing fixed telephony, mobile and data transmission services in Iceland. Accordingly, any aid involved in the leasing by the State of the NATO optical fibre would be conferred upon an undertaking.
- (64) An advantage, within the meaning of Article 61(1) of the EEA, is any economic benefit which an undertaking would not have obtained under normal market conditions,<sup>33</sup> thus

<sup>28</sup> See, for example, Case C-206/06 *Essent Netwerk Noord* [2008] ECR I-5497, paragraph 70; Case C-83/98 *France v Ladbroke Racing and Commission* [2000] ECR I-3271, paragraph 50.

<sup>29</sup> Case T-358/94 *Air France v Commission* [1996] ECR II-2109, paragraphs 65-67.

<sup>30</sup> Case C-41/90 *Höfner and Elser v Macroton* [1991] ECR I-1979, paragraphs 21-23 and Case E-5/07 *Private Barnehagers Landsforbund v EFTA Surveillance Authority* [2008] Ct. Rep. 61, paragraph 78.

<sup>31</sup> Case C-222/04 *Ministero dell'Economica e delle Finanze v Cassa di Risparmio di Firenze SpA* [2006] ECR I-289, paragraph 108.

<sup>32</sup> While the complaint also refers to Fjarski ehf. as a beneficiary, the Icelandic authorities have confirmed that no contract was made with this company as it had withdrawn its offer. It is therefore clear that no aid has been granted to Fjarski ehf.

<sup>33</sup> Joined Cases C-314/12 P, C-215/12 P and C-223/12 P *Land Burgenland and Others v Commission*. [2013] ECR I-682.

placing it in a more favourable position than its competitors.<sup>34</sup> For it to constitute aid, the measure must confer on Vodafone advantages that relieve it of charges that would normally be borne from its budget. If the transaction was carried out under favourable terms, in the sense that Vodafone was paying a rental charge below market price, the company would be receiving an advantage within the meaning of the state aid rules. To examine this question closer the Authority must apply the “*private vendor test*”<sup>35</sup> whereby the conduct of states or public authorities when selling or leasing assets is compared to that of private economic operators.

### 1.3.2 *The private vendor test*

- (65) To assess whether a public authority has acted like a private economic operator, the European Courts have developed the “*market economy investor principle*”,<sup>36</sup> which in essence provides that state aid is granted whenever a state makes funds available to an undertaking which, in the normal course of events, would not be provided by a private investor applying ordinary commercial criteria and disregarding other considerations of a social, political or philanthropic nature.<sup>37</sup> A closely related concept is the private vendor test, the purpose of which is to assess whether a sale or leasing of assets carried out by a public body involves state aid, by examining whether a private vendor, under normal market conditions, could have obtained the same or a better price. In both cases the public authority must disregard public policy objectives and instead focus on the single objective of obtaining a market rate of return or profit on its investments and a market price for the sale or leasing of assets.<sup>38</sup>
- (66) The European Commission and the European Union Courts have come to regard an open, transparent and unconditional bidding procedure as an appropriate means to ensure that the sale or leasing by national authorities of assets is consistent with the private vendor test and that a fair market value has been paid for the goods and services in question. This is also reflected in the Authority’s guidelines on State aid elements in sales of land and buildings by public authorities<sup>39</sup> as well as in its decision-making practice. However, this does not automatically mean that the absence of an orderly bidding procedure justifies a presumption of state aid. Indeed, public procurement law and state aid law exist in parallel and there is no reason that the violation of, for example, a public procurement rule should automatically mean that state aid rules have been infringed.<sup>40</sup>

<sup>34</sup> See for instance case C-124/10 P *Commission v EDF* [not yet published], paragraph 90; case C-387/92 *Banco Exterior de España* [1994] ECR I-877, paragraph 14, and case C-6/97 *Italy v Commission* [1997] ECR I-2981 paragraph 16.

<sup>35</sup> For the application of the “*private vendor test*”, see Joined Cases C-314/12 P, C-215/12 P and C-223/12 P *Land Burgenland and Others v Commission* cited above.

<sup>36</sup> See, for instance, T-2/96 and T-97/96 *Neue Maxhütte Stahlwerke and Lech-Stahlwerke v Commission* [1999] ECR II-17, paragraph 104 and Joined Cases T-228/99 and T-233/99 *Westdeutsche Landesbank Girozentrale and Land Nordrhein-Westfalen v Commission* [2003] ECR II-435.

<sup>37</sup> See for example, the Opinion of Advocate-General Jacobs in Joined Cases C-278/92, C-279/92 and C-280/92 *Kingdom of Spain v Commission* [1994] ECR I-4103, paragraph 28. See also Case 40/85 *Belgium v Commission (Boch)* [1986] ECR 2321, at paragraph 13; Case C-301/87 *France v Commission (Boussac)* [1990] ECR I-307, paragraphs 39-40, and Case C-303/88 *Italy v Commission (Lanerossi)* [1991] ECR I-1433, paragraph 24.

<sup>38</sup> See Joined Cases C-314/12 P, C-215/12 P and C-223/12 P *Land Burgenland and Others v Commission*, cited above.

<sup>39</sup> Available on the Authority’s website at: <http://www.eftasurv.int/state-aid/legal-framework/state-aid-guidelines/>.

<sup>40</sup> Case T-442/03 *SIC v Commission* [2008] ECR II-1161, paragraph 147. By analogy, see Case C-225/91 *Matra v Commission* [1993] ECR I-3203, paragraph 44.

- (67) Compliance with market conditions, and whether the rental charge corresponds to market price, can be established through certain proxies. In the case at hand, the organisation of an open, transparent, non-discriminatory and unconditional tender procedure could be seen as such a proxy. However, as stated in the *Land Burgenland* case and cited in paragraph 97 of the EFTA Court Judgment in Case E-1/13, “*where a public authority proceeds to sell an undertaking belonging to it by way of an open, transparent and unconditional tender procedure, it can be presumed that the market price corresponds to the highest offer, provided that it is established, first, that the offer is binding and credible and, secondly, that the consideration of economic factors other than the price is not justified.*”<sup>41</sup> In the Authority’s view, the same principle applies in the case of leasing of assets. A private operator leasing his assets would normally try to obtain the best offer with an emphasis on price, and, for example, not consider elements that would relate to the intended use of such assets, unless they might affect the value of the assets after the lease period. Therefore, assuming that the said pre-conditions are met, it can be presumed that the market price is the highest price which a private operator acting under normal competitive conditions is ready to pay for the use of the assets in question.<sup>42</sup>
- (68) It follows from the above that a conditional sale or lease of assets may involve state aid, even when it is effected through a competitive procedure. This occurs when obligations imposed on the buyer result in a lower price. The kind of obligations which have such an effect are those that are imposed for the pursuit of public policy objectives, and thus make operations more costly. Such obligations would normally not be imposed by a private operator because they reduce the maximum amount of revenue that can be obtained from the sale or lease of the asset.

### 1.3.3 *The tender process and the award criteria*

- (69) In light of the above considerations, the Authority must examine whether the tender procedure and the award criteria were adequate and well-suited to establish a market price. In order to verify this, the Authority must consider whether the State, when preparing the tender and establishing the award criteria, acted as a private operator, or whether public policy and regulatory considerations were more prevalent.
- (70) According to the Icelandic authorities, the objectives of the tender process were to lower maintenance and operating costs of NATO’s optical fibres, to encourage competition in data transmission on the domestic market, and to increase public broadband access, in particular in rural areas in Iceland.
- (71) In their view, these objectives would best be served through a call for tender for a lease of two of the three fibres. A call for tenders was considered to be the most feasible way to receive a favourable offer from the telecommunication companies and at the same time promote competition and improve information and communication services for consumers.
- (72) Ríkiskaup, on behalf of the Defence Department of the Ministry for Foreign Affairs, invited tenders for the use and operation of two of the three optical fibres to be leased out to two unrelated parties, with the intention of negotiating a lease for the duration of ten years.

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<sup>41</sup> See Joined Cases C-214/12 P, C-215/12 P and C-223/12 P *Land Burgenland v European Commission*, cited above, paragraph 94.

<sup>42</sup> See for example Case C-390/98 *Banks* [2001] ECR I-6117, paragraph 77 and Case C-277/00 *Germany v Commission* [2004] ECR I-3925, paragraph 80.



- (73) The outcome of the tender procedure was that five offers were received from four independent undertakings, as summarised in Table 2, above. All four companies submitting bids were found to meet the requirements of technical capacity to perform the project as well as the general requirements set out in the tender for the personal and financial situation of the candidates for the project.
- (74) The assessment of offers was based on certain criteria, taking into account the objectives of the project.<sup>43</sup> On this basis, Fjarski ehf. obtained the highest score (92.18) and Vodafone the second highest (89.67), Hringiðan was in third place (88.60) and Gagnaveita Reykjavíkur in fourth place (59.34).
- (75) According to the Icelandic authorities, the Government was fully authorised to use multiple award criteria. Moreover, in their view, the criteria were legitimate and pursued important objectives.<sup>44</sup> These objectives could be achieved simultaneously without compromising the main objective: to obtain a market price for the lease-out of the two fibres and in that way minimise the State's costs regarding those fibres.
- (76) The Icelandic authorities have underlined the special monopolistic conditions in the relevant market, where Míla was the only operator at the time of the invitation to tender. They submit that the tender process would, in the way it was construed, make infrastructure competition possible in the leased-lines market in areas where there was no competition at the time. This would in turn lead to more competition in downstream markets such as the market for high-speed broadband connection. The project would accordingly benefit the implementation of government policies regarding electronic communication services and information society.
- (77) The introduction of an award criterion of the kind applied in this case, where “stimulation of competition” was given most weight (40 percentage points) while price was only accorded 15 out of 100 points, was clearly designed to enhance competition in a monopolistic market. From the State's point of view, the achievement of that objective can be valuable in its own right, as it may imply savings on future expenditure on public policies aimed to promote public access to high-speed telecommunications in remote areas.
- (78) Míla was not formally excluded from participating in the tender procedure but it did not make use of the opportunity available to it to submit a bid. In this regard, Míla has stated that it did not have a motive to submit a bid, as it already had sufficient capacity on its own fibres.
- (79) On the other hand, according to the complainant (Míla), the Icelandic Government sacrificed significant revenue by, in its view, both effectively excluding Míla from the tender process and by setting out a low minimum price for the rent of the fibres in the invitation to tender. Furthermore, according to the complainant, the Icelandic authorities: “*should have been aware that there were only two ‘real’ potential bidders for the fibres, and they would, knowing that themselves, only bid the minimum or an amount around that figure.*”
- (80) There are therefore conflicting views in the case at hand. The Icelandic authorities maintain that normal public procurement rules were followed, that the invitation to tender was well-publicised and that participation was open to all parties meeting the general, financial and technical requirements. They submit that the criteria for selecting bids were applied to all potential bidders in the same way. In this way, equal treatment and fair competition was

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<sup>43</sup> See Table 1 above.

<sup>44</sup> See paragraph (70).

ensured. The complainant, on the other hand, maintains that the method of selection laid down in the tender was flawed and that the price or leasing charge criterion was accorded an insignificant weight (15%). Therefore, according to the complainant, it cannot be ruled out that bids with higher rental prices could have been received, or that other bidders would have participated in the tender, had the award criteria been designed in a different manner.

- (81) The EFTA Court in Case E-1/13 held that the award criteria other than price appeared to reflect public policy or regulatory considerations, which a private investor would not consider to be relevant, as the tender procedure in question did not use price or leasing charge as a sole or main award criterion.
- (82) According to the information provided by the Icelandic authorities, Míla was, at the time of the invitation to tender, the only operator in the relevant market. Accordingly, the points awarded for stimulation of competition were not available to that operator. They were, on the other hand, automatically awarded to other potential operators. The preliminary view of the Authority is therefore that the criterion on stimulation of competition favoured the entry of new market players, and that at the same time, it was to the disadvantage of the incumbent operator.
- (83) The private vendor test sets the principle that as a main rule the market price corresponds to the highest price which a private operator acting under normal competitive conditions is ready to pay. However, this principle is not without exception. The possible exceptions relate, firstly, to instances where it can be established that the offer in question is not binding or credible, or not comparable to a lower offer. Secondly, as stated in the *Land Burgenland* case, paragraph 94, the presumption is subject to the reservation that “*the consideration of economic factors other than the price is not justified.*” An example of such an exception can be found in Case T-244/08, *Konsum Nord v Commission*, where the General Court annulled a decision of the Commission in which it had found that a municipality in Sweden had granted incompatible aid to a supermarket chain by selling it a piece of land at a price below the price offered by its competitor.<sup>45</sup> This case-law is admittedly not directly applicable to the case at hand, given that Míla did not submit a bid. As has been explained above, the background to the award criteria in the present case, in particular the disputed criterion on promotion of competition, was the monopolistic feature of the relevant market, which was dominated by the incumbent provider, Míla. However, the Authority questions in the present case whether there are particular factors or special circumstances other than price that could render it justifiable with respect to the concept of state aid to include award criteria that are to the disadvantage of certain potential bidders and might entail a risk that higher offers are not received. Should the Icelandic authorities hold a different view, they are invited to comment.

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<sup>45</sup> Judgment of the General Court in Case T-244/08, *Konsum Nord ekonomisk förening v European Commission* (not yet reported). In January 2008, the Commission found in Decision No 2008/366/EC that the transaction in which Konsum Jämtland, a supermarket chain, bought a piece of land for a new supermarket from the municipality of Jämtland in the village of Åre, constituted unlawful state aid contrary to Article 107(1) of the Treaty on the Functioning of the European Union. The municipality of Jämtland sold the property to Konsum Jämtland in October 2005, for an amount of SEK 2 million, despite the fact that a competitor of Konsum Jämtland, Lidl, had offered to pay SEK 6.6 million for the property. The Decision was appealed and in December 2011 the General Court issued a judgment in which it found that the Decision should be annulled. The General Court stated that the Commission made an error of assessment when it found that the higher bid from Lidl was comparable with the price ultimately paid for the property. It thus found that the price paid in the actual transaction should be given preference, considering that it established a market value and that it was incorrect that the market value should be established based solely on the higher bid without considering the particular circumstances invoked by the Swedish authorities.

- (84) The Authority observes that when establishing a market price, the tender procedure must give rise to a sufficient level of competition to be qualified as a competitive tender process. As can be seen in Table 2, five bids were received from four independent undertakings, but the rental prices offered by the contestants were similar (19.150.000 – 24.006.900 ISK per year). Nevertheless, the two bids that were accepted (from Fjarski and Vodafone) did not include the highest price offered, and Vodafone scored the second highest points with its bid despite offering the lowest price. This gives an indication of Vodafone’s performance with respect to the other selection criteria that were not explicitly price-related. It would therefore appear that the criteria established by the Icelandic authorities also reflected public policy or regulatory considerations. At present the Authority accordingly has doubts as to whether the award criteria were sufficiently well-suited to obtain the market price for the lease of the fibres. In particular, the evaluation of bids appears to have been partly based on criteria which a similarly situated private operator may not have considered relevant when tendering out the lease for such facilities.
- (85) Bearing in mind the above, the Authority has doubts regarding the tender procedure, especially how the award criteria were determined and applied. Accordingly, the Authority is not at this stage convinced that the tender procedure, with the disputed selection criteria, provided a reliable proxy for establishing a market price. Therefore, the Authority has doubts as to whether the Icelandic authorities acted as a private vendor would have done when establishing a tender to award a contract for the lease of the fibres.
- (86) In view of the above, the Authority has doubts whether the contract between the Icelandic Defence Agency and Vodafone for the lease by the latter of an optical fibre was concluded on market terms and cannot exclude that an advantage may have been granted in favour of Vodafone. Accordingly, the Icelandic authorities are requested to comment on these issues and submit the relevant evidence.
- (87) If the Icelandic authorities take the view that the selection criteria other than price appear to reflect public policy and regulatory considerations and “... *do not appear to be criteria that a similarly situated private operator would consider relevant when tendering out a lease*”,<sup>46</sup> they are requested to submit an independent expert evaluation of the market price of the rental charge that is consistent with the state aid provisions of the EEA Agreement.<sup>47</sup>

#### 1.4 Selectivity

- (88) In order for a measure to involve state aid it must be selective, in that it favours “*certain undertakings or the production of certain goods*”. The contested contract is made between the Icelandic Defence Agency and Vodafone (Og fjarskipti). Thus, Vodafone is the only potential beneficiary. Other telecommunication companies have not concluded similar contracts with the Icelandic State. Accordingly, the alleged advantage under assessment in this Decision would be a selective advantage, as it only concerns one particular undertaking.
- (89) It is therefore the Authority’s preliminary view that it cannot be excluded that a selective economic advantage was granted to Vodafone.

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<sup>46</sup> Paragraph 99 in the EFTA Court’s judgment in Case E-1/13.

<sup>47</sup> See the Authority’s State Aid Guidelines on state aid elements in sales of land and buildings by public Authorities, available on the Authority’s website at: <http://www.eftasurv.int/state-aid/legal-framework/state-aid-guidelines/>.

### 1.5 Distortion of competition and effect on trade between Contracting Parties

- (90) In order to qualify as state aid within the meaning of its Article 61(1), the measure must be liable to distort competition and affect trade between the Contracting Parties to the EEA Agreement. According to settled case-law, the mere fact that a measure strengthens the position of an undertaking compared with other undertakings competing in intra-EEA trade is considered to be sufficient in order to conclude that the measure is likely to distort competition and affect trade between the Contracting Parties.<sup>48</sup>
- (91) In the present case, the parties disagree on the question of distortion of competition. The complainant takes the view that as a result of the tender procedure followed by the Icelandic authorities, and the rental charge agreed with Vodafone below the level of “full costs” as known by the complainant as an owner and operator of parallel fibres, competition in the relevant market was distorted. The Icelandic State, on the other hand, considers that a measure ensuring the entry of a new market participant to a market with only one player cannot by definition involve a distortion of competition, as there was no existing competition on the relevant market before the tender. Competition in the relevant market has therefore not changed for the worse as a result of the tender. On the contrary, according to the Icelandic authorities, competition has been promoted.
- (92) The Authority is not obliged to establish the real effects of the aid on the market, but is only required to show that the aid is liable to distort competition and affect trade, indeed “*where State financial aid strengthens the position of an undertaking as compared with other undertakings competing in intra-Community trade, the latter must be regarded as affected by the aid*”,<sup>49</sup> irrespective of whether or not it was in a dominant market position. Public support is liable to distort competition even if it does not help the recipient undertaking to expand and gain market shares. It is sufficient that the aid allows it to maintain a stronger competitive position than it would have had if the aid had not been provided.
- (93) Finally, according to established case-law, there is no threshold or percentage below which it may be considered that trade between Contracting Parties is not affected. The relatively small amount of aid or the relatively small size of the undertaking which receives it does thus not as such exclude the possibility that trade between Contracting Parties might be affected.<sup>50</sup> The fact that Vodafone Iceland is relatively small on the EEA telecommunication market therefore does not rule out a distortion of competition, or the threat thereof. As previously noted, the Authority has doubts whether the tender procedure in this case could be considered to provide a reliable proxy for establishing that the lease was in line with market conditions and that a market price was paid for the lease of the fibre. Moreover, Vodafone would operate its broadband network infrastructure in a market which can be entered directly or through financial involvement by participants from other EEA States.
- (94) The Authority therefore has doubts as to whether it can be excluded that the measure is liable to distort competition and affect trade within the EEA. The Icelandic authorities are invited to comment and submit relevant evidence on these points.

<sup>48</sup> Case E-6/98 *Norway v EFTA Surveillance Authority* [1999] Ct. Rep. 76, paragraph 59; Case 730/79 *Philip Morris v Commission* [1980] ECR 2671, paragraph 11, where it is stated that “*When State financial aid strengthens the position of an undertaking compared with other undertakings competing in intra-Community trade the latter must be regarded as affected by that aid*”.

<sup>49</sup> Case T-288/07 *Friulia Venezia Giulia*, [2001] ECR II-1619, paragraph 41.

<sup>50</sup> See Case T-55/99 *CETL* [2000] ECR II-3207, paragraph 89 and Case C-280/00 *Altmark Trans* [2003] ECR I-7747, paragraph 81.

## 1.6 Conclusion on the presence of state aid

- (95) With reference to the above considerations the Authority cannot, at this stage and based on its preliminary assessment, exclude that the measure under assessment may involve state aid within the meaning of Article 61(1) of the EEA Agreement. Under these conditions, it is thus necessary to consider whether the measure can be found to be compatible with the functioning of the EEA Agreement.

## 2. Procedural requirements

- (96) Pursuant to Article 1(3) of Part I of Protocol 3, *“the EFTA Surveillance Authority shall be informed, in sufficient time to enable it to submit its comments, of any plans to grant or alter aid (...). The State concerned shall not put its proposed measures into effect until the procedure has resulted in a final decision”*.
- (97) The Icelandic authorities did not notify to the Authority the lease of the optical fibre to Vodafone. Moreover, the Icelandic authorities have, by concluding an agreement with Vodafone for the lease of the fibre, put the measure into effect before the Authority has adopted a final decision. The Authority therefore concludes that the Icelandic authorities have not respected their obligations pursuant to Article 1(3) of Part I of Protocol 3. The granting of any aid involved might therefore be unlawful.

## 3. Assessment of compatibility

- (98) Support measures caught by Article 61(1) of the EEA Agreement are generally incompatible with the functioning of the EEA Agreement, unless they qualify for a derogation under Article 61(2) or (3) or Article 59(2) of the EEA Agreement.
- (99) The derogation in Article 61(2) of the EEA Agreement is not applicable to the aid in question, which is not designed to achieve any of the aims listed in this provision.
- (100) On the basis of Article 61(3)(c) of the EEA Agreement *“aid to facilitate the development of certain economic activities or of certain economic areas”* may be considered to be compatible with the functioning of the EEA Agreement, where such aid does not affect trading conditions and competition in the EEA to the extent that is considered to be contrary to the common interest.
- (101) However, the Icelandic authorities have not at this stage put forward sufficient arguments demonstrating that the potential state aid involved could be considered compatible with Article 61(3) of the EEA. The Icelandic authorities have referred to the objective of the measure to increase public broadband access in assisted areas, but have provided no further evidence to justify such arguments. Nevertheless, for the purpose of analogy, the Authority can recall the principles of compatibility in the current Broadband guidelines.<sup>51</sup> Paragraph 74 of the guidelines sets out the necessary conditions that must be fulfilled in order to demonstrate the proportionality of the measure in question. These include, in paragraph 74(c), the use of a competitive selection process and, in paragraph 74(d), the selection of the

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<sup>51</sup> See the Authority’s State Aid Guidelines, the Application of state aid rules in relation to rapid deployment of broadband networks, available on the Authority’s website at: <http://www.eftasurv.int/state-aid/legal-framework/state-aid-guidelines/>.

most economically advantageous offer. Provided all relevant conditions are met, the measure may be found to be compatible with the functioning of the EEA Agreement.

- (102) The Icelandic authorities have also submitted that if the Authority were to view the lease of the fibres to constitute state aid, then it would qualify as a compensation for a service of general economic interest under Article 59(2) EEA. However, based on the information at hand the Authority cannot at this stage conclude on the compatibility of the measure on this basis. The Authority therefore invites the Icelandic authorities to provide further information in that regard.
- (103) Consequently, following its preliminary assessment, the Authority has doubts at this stage as to whether the lease of the optical fibres is compatible with the EEA Agreement under Article 61(3)(c) thereof. The Authority therefore invites the Icelandic authorities to provide arguments and evidence to demonstrate that the lease could be considered to be compatible with Article 61 of the EEA Agreement.

#### **4. Opening of the formal investigation procedure**

- (104) Based on the information submitted by the complainant and the Icelandic authorities, the Authority, after carrying out the preliminary assessment, cannot exclude the possibility that the measure under assessment constitutes state aid within the meaning of Article 61(1) of the EEA Agreement. Furthermore, for the reasons set out above, the Authority has doubts as regards the compatibility of the potential state aid with the functioning of the EEA Agreement
- (105) Consequently, and in accordance Article 4(4) of Part II of Protocol 3, the Authority is obliged to initiate the formal investigation procedure provided for in Article 1(2) of Part I of Protocol 3.
- (106) The decision to open a formal investigation procedure is without prejudice to the final decision of the Authority, which may conclude that the measure in question is compatible with the functioning of the EEA Agreement, or that it does not constitute state aid.
- (107) Accordingly, the Authority, acting under the procedure laid down in Article 1(2) of Part I of Protocol 3, invites the Icelandic authorities to submit their comments within one month of the date of receipt of this Decision.
- (108) The Authority requests the Icelandic authorities to provide, within one month of receipt of this decision, all documents, information and data needed for assessment of the compatibility with the EEA Agreement of the lease of the optical fibre to Vodafone.
- (109) The opening of the procedure will also enable interested third parties to comment on the questions raised and on the impact of the project on relevant markets.
- (110) The Authority requests the Icelandic authorities to forward a copy of this decision to the potential aid recipient of the aid immediately.
- (111) The Authority must remind the Icelandic authorities that, according to Article 14 of Part II of Protocol 3, any incompatible aid unlawfully granted to the beneficiaries will have to be recovered, unless (exceptionally) this recovery would be contrary to a general principle of EEA law.

(112) Attention is drawn to the fact that the Authority will inform interested parties by publishing this Decision and a meaningful summary of it in the Official Journal of the European Union. It will also inform interested parties, by publication of a notice in the EEA Supplement to the Official Journal of the European Union. All interested parties will be invited to submit their comments within one month of the date of such publication.

(113)

**HAS ADOPTED THIS DECISION:**

*Article 1*

The contract concluded on 1 February 2010 by the Icelandic Defence Agency with Og fjarskipti (Vodafone Iceland) for the lease by the latter of an optical fibre previously operated on behalf of NATO may involve state aid within the meaning of Article 61(1) of the EEA Agreement.

*Article 2*

The formal investigation procedure provided for in Article 1(2) of Part I and Article 4(4) of Part II of Protocol 3 is opened into the aid referred to in Article 1 of this Decision.

*Article 3*

The Icelandic authorities are invited, pursuant to Article 6(1) of Part II of Protocol 3, to submit their comments on the opening of the formal investigation procedure within one month from the notification of this Decision.

*Article 4*

The Icelandic authorities are requested to provide within one month from notification of this Decision, all documents, information and data needed for assessment of the compatibility of the aid measure.

*Article 5*

This Decision is addressed to Iceland.

*Article 6*

Only the English language version of this Decision is authentic.

Decision made in Brussels, on 16 July 2014.

*For the EFTA Surveillance Authority*

Oda Helen Sletnes  
*President*

Helga Jónsdóttir  
*College Member*