

Is there a need for converged TV regulation?

The internet is changing the way we watch TV

Introduction

The TV distribution market is changing rapidly. This change is largely driven by consumers who, by using the internet, are finding new ways of accessing and viewing TV. Television is moving from traditional, linear broadcasting aimed at the passive viewer toward nonlinear, on-demand entertainment for the interactive viewer.

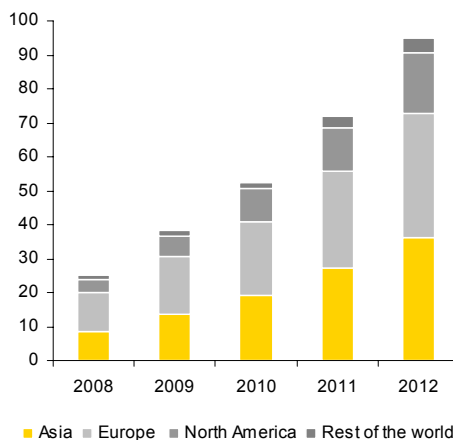
The value chain for TV broadcasting is changing as well. Many content owners are already making full TV episodes available for viewing via their own websites, complementing the traditional broadcasting platforms.

A parallel development is IPTV which is being launched by telcos in many countries around the world and has the potential to offer a number of new services that will surpass the internet TV viewing experience.

These developments are driving a rapid increase in traffic in communications networks, which in turn is raising capacity and quality issues and creating the need for investment to expand capacity.

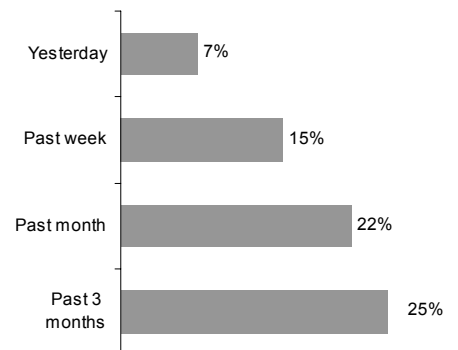
Historically, TV and telecommunications have typically been under the supervision of separate regulatory authorities in each country. Now that TV is also being delivered over communications networks and telephony over cable TV networks, the regulatory situation has become unclear.

Estimated IPTV subscribers worldwide (million)



Source: MRG, Inc. 2008

Percentage of 15-74 year olds in Sweden who watch internet TV, Q1 2008



Source: MediaVision

Internet TV

Watching full TV programs or video clips over the internet. Internet TV is delivered over an unmanaged network.

IPTV

IPTV delivers scheduled TV programs and video-on-demand (VoD) over a managed network using the internet protocol, enabling the quality of service (QoS) to be guaranteed. IPTV can be delivered over different managed networks (i.e. cable or telecom) and requires a set top box.

Mobile TV

Watching TV on a mobile device. Mobile TV can be divided into broadcast mobile TV and cellular mobile TV. Broadcast mobile TV uses broadcasting technology such as DVB-H, DMB or MediaFLO. Cellular mobile TV uses a cellular mobile network such as 3G or EV-DO.

Managed distribution

Distribution with a controlled quality of service, as opposed to a best-effort service definition.

Linear TV

A service where the viewer watches a program at the particular time it is offered on a particular channel.

Interactive TV

TV with interactive components, e.g., enabling viewers to watch a program when and where they wish.

What is TV?

Evolving business models and technologies make this a relevant question as the answer may define which regulations should apply to the new services.

Traditional broadcasting TV business models are built around a combination of income from advertising and subscription fees, and locking customers into a proprietary network. TV regulation is generally oriented to content and ownership rather than technologies and competition.

Viewers conditioned to the internet find internet TV very attractive, particularly because it is often free. For content owners, however, there are major issues relating to maintaining control over their material and QoS while securing the income required to stay in business.

Managed TV distribution should be very attractive to content owners as it provides the means to guarantee QoS, manage relationships with customers and secure revenues. This is driving telcos to deploy IPTV and cable TV operators to digitalize their networks.

From a consumer and content provider viewpoint, the main frontier can thus be seen as being between internet TV and managed TV, rather than between, for example, IPTV and cable TV.

Looking ahead and presupposing massive investment in network infrastructure, these new forms of distribution are expected to lead to new services beyond today's entertainment-oriented offerings.

The rollout and success of these new services will, to some extent, depend on the regulatory regime applied in each country.

The key question is what makes managed TV different from internet TV, and to what extent they should be covered by existing TV regulation

Key regulatory issues

There are several key issues to be addressed with respect to TV regulation in the context of internet and IPTV.

The first issue is creating an environment for all service providers where new technologies and services can be developed without unnecessary intervention. Current regulation tends to be technology based (e.g., separate for telecoms and terrestrial TV networks) and driven either by concerns about monopolies and economic efficiency or consumer protection. Simply viewing IPTV and similar services as a replacement for traditional linear TV is likely to limit development, while regulation of the internet (and thus internet TV) is considered difficult to implement and enforce.

As new features and services become available, however, consumers need to be aware that it will be possible to track their viewing habits and preferences in a way that has not been possible before. Advertisers see a huge potential in being able to tailor their messages and delivery methods. But to what extent will this be acceptable, or even legal?

Other regulatory issues we have identified that may affect the potential new services include:

Licensing

A key question is whether IPTV is akin to other broadcasting platforms and if licensing is therefore required at the network distribution level.

Network access

Access to incumbent operators' networks (telecoms or cable TV networks) is an absolute requirement for alternative service providers in order to offer advanced services such as IPTV.

Network neutrality

Network neutrality addresses the issue of whether network operators may prioritize traffic for certain services or customers. This is an important question for the provision of internet TV, for which quality of service today cannot be guaranteed.

National content requirements

Traditional TV services are often subject to national content requirements in order to promote locally produced content. The issue is whether all forms of TV should be subject to national content requirements or not.

Advertising

For traditional TV, clear advertising rules apply. They regulate, for example, the maximum number of advertising minutes per broadcast hour and prohibit the advertisement of certain products. The issue for regulators is whether all forms of TV should be covered by these regulations and how they would be applied.

Ownership

While foreign ownership of telecoms is commonplace in most countries, foreign ownership of media channels is often restricted.

Must carry

Some TV channels may be considered "must-carry," which means that broadcasters are required to include them in their channel portfolio. This typically applies to public service channels funded through license fees. A key question is whether or not new forms of TV distribution should be subject to these must carry obligations.

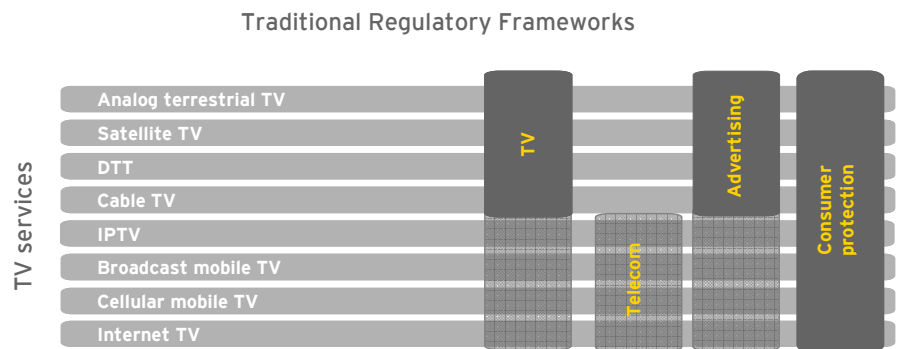
TV regulation going forward

Emerging converged regulatory bodies

Traditionally, regulatory frameworks have been technology focused, with separate regulations for telecom, cable and broadcast TV. As these services converge and develop, there are moves to create a regulatory framework that focuses on the services rather than the underlying technologies.

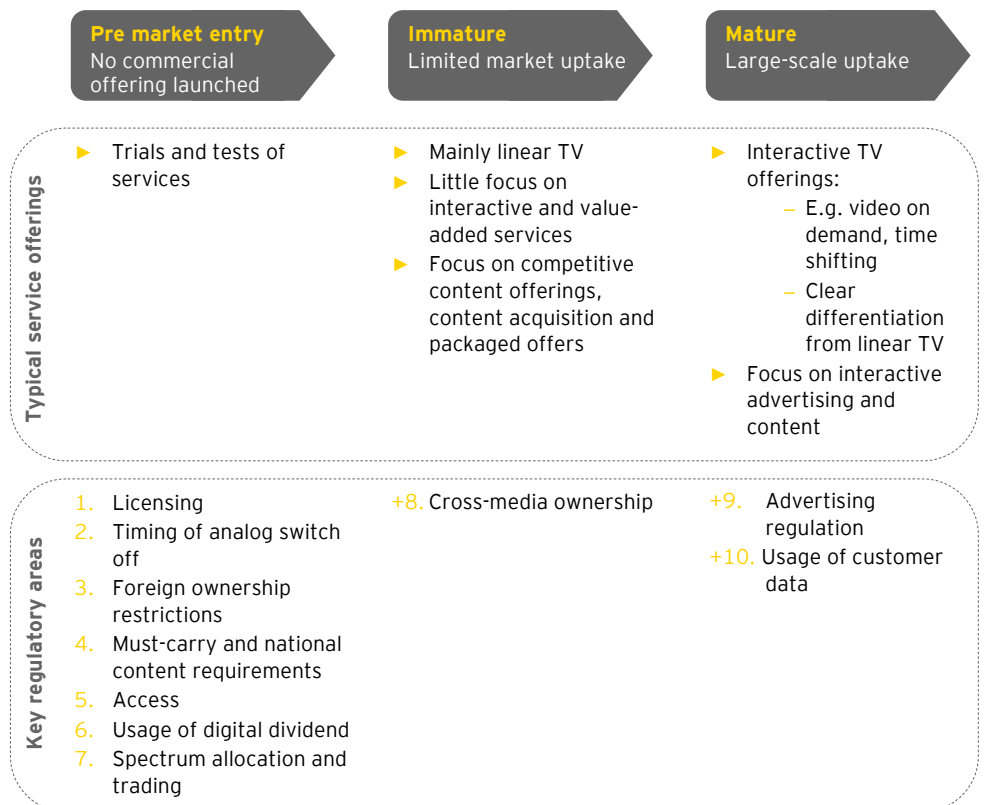
The EU is taking steps toward converged regulation with a directive that covers all media services, including audiovisual services (both scheduled and on-demand) which are defined as “mass media” and target mass audiences.

Traditionally, regulatory frameworks have been technology focused, creating silos



Market maturity

Regulation is rarely practiced before the need for it has become apparent and therefore the level of market development impacts the need for regulation. In the table below, we have charted the most important regulatory issues affecting IPTV at different levels of market development.



Future regulation and the consumer

- ▶ There is tremendous potential for the development and launch of new services as modern networks are rolled out. A key priority for consumers is ensuring that there are as few barriers as possible in this development.
- ▶ Consumers will also be impacted by integrity issues as the technology facilitates the collection, storage and usage of customer data, for example, in targeted advertising. Codes of conduct will need to be developed to keep up with the new services and avoid regulation.

Future regulation and the service provider

- ▶ Service providers seek a stable regulatory environment in order to invest in new services. This is especially the case for infrastructure owners who face major investment requirements to upgrade their networks to deliver the necessary capacity - be it over fixed or mobile, managed or unmanaged networks.
- ▶ Must-carry requirements will need to be reconsidered and perhaps even transformed into "right-to-carry" legislation.

Future regulation and the content industry

- ▶ A stable regulatory environment is also of key importance for content owners to allow them to access viewers via as many channels as possible.
- ▶ In this environment, content rights and methods for payment collection are even more important.

Future regulation and the regulator

- ▶ Regulators need to ensure consistency in a converging and rapidly changing environment, and avoid regulation that favors specific technologies or services. Moving from regulating technology to services is seen as a way of creating an environment where this is achieved.

Global mapping

In order to further the understanding of regulatory issues for TV in general and IPTV in particular, Ernst & Young has charted the regulatory situation in 24 countries around the globe. In doing so, we have sought to identify the regulatory position with respect to a total of 55 regulatory parameters. With the exception of Indonesia, IPTV services have either been commercially launched or are being tested in all the countries surveyed.



The survey's main conclusion is that it is still early days. According to our research, regulators in many countries are just beginning to address the issues raised. There are a few notable exceptions where at least some of the regulatory issues have been addressed. Japan, for example, is one of the few countries that have regulated unbundled access to fiber and IP networks, and in Canada, the strict must-carry regulations are also applied to IPTV. In Latin America, telcos are subject to restrictions on their offering of IPTV over telecommunications networks.

For further details of our global survey or the situation in a specific country, please see the list of Ernst & Young contacts on the next page.

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