AGCOM
Autorità per le garanzie nelle comunicazioni

Digital Terrestrial Television in Italy: state of the art and current regulatory issues

Sarajevo, 30 March 2006

Summary

- **Specificity of Italian broadcasting context**
- The regulatory model for transition
- The state of the art of DTT
- Main regulatory issues

Some country peculiarities

- **Overcrowded frequency spectrum**
  - A simulcast/switch-off transition model not viable
- **Very strong duopoly in the terrestrial market**
  - Incumbent terrestrial broadcasters first perception of DTT as a threat rather than an opportunity
- **Large number of local broadcasters**
  - Small-medium enterprises not ready to face the challenges of digital transition

Regulatory objectives to be achieved

- **Transition to be led by terrestrial incumbent operators**
  - In order to support the transition they have to maintain their leadership role
- **Create opportunities for alternative content providers:**
  - So to foster competition and pluralism
- **Free-to-air to be the dominant business model**:
  - DTT to be complementary to other digital platform
  - DTT to provide a universal service for TV in the digital age

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Key features of the regulatory model

Law 66 (2001) + AGCOM code (2001) + 2004 broadcasting act

- **Frequencies trading:** as it is the only way to rapidly allow the start up of DTT;
- **Fragmentation of the value chain:** Different authorization for network operator (manages the network and the frequencies) and content provider (the editor of the channels). It should encourage new editors to enter the TV business;
- **capacity managed by network operators**, free to establish their business model and the channels to carry on their multiplexes;
- **very early switch off date (2008):** as it is the **only real lever** to push the broadcaster to start up DTT and make investment in the network.

The transition to "all digital"

Transition driven by existing broadcasters

- Existing analogue broadcasters, may acquire infrastructure/frequencies through the "trading", and apply for DTT provisional authorization as network operators
  - The "experimental" authorization will be valid until switch off

- As of May 2004 those who have been authorized for experimentation may apply for a proper network operator licence.
  - Licence will be issued to those who have reached 50% population coverage
  - Terrestrial analogue broadcaster not applying for a licence as DTT network operator will lose their capacity after switch off

- After 2008 (switch-off) available capacity will be granted to existing licensees or other applicants.

The business model

Interaction between content providers and network operators left to market dynamics

- Capacity assigned “by multiplex” to network operators;
- Network operators negotiate with content providers and independent channels access to their broadcasting capacity;
- No threshold to ownership of networks;
- National networks can carry local content and local networks can carry national content;
- No indications/obligations as far as the revenue model is concerned.

Pluralism and competition

Special attention to “access rules” and concentration issues

- 40% of the capacity of RAI and Mediaset reserved to <u>independent content provider</u>
- 1/3 of total capacity reserved to local broadcasters
- **Media concentration rules on content editors:**
  - Same content provider cannot be granted authorization to broadcast more than 20% of digital television programmes
- **Rules to facilitate access to networks for independent content providers**
  - Access to be granted by network operator to independent content providers on FTND conditions
  - Should available capacity be <u>not adequate to guarantee access to all requests</u>, AGCOM has issued specific rules to guarantee access to independent content providers of “particular value”

Public Service Broadcaster

A leading role involving specific obligations for the PSB

- RAI has to acquire capacity through frequency trading as the other
- One multiplex is reserved for RAI after the switch off (law 66) for public service purposes
- 2004 broadcasting Act:
  - Obligation for the PBS (RAI) to invest in digital terrestrial television developing two multiplex:
    - 50% of the population by January 2004
    - 70% of the population by January 2005
  - Yet no additional financial resources are assigned to PSB for the development of DTT

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Active multiplexes and their coverage

	MUX A	71,50%
	MUX B	70%
MEDIASET	MUX 1	80%
	MUX 2	68,70%
MEDIA		78%
D FREE www.Dfree.tv		68,3

- **6 active national multiplexes carrying approximately 28 TV programs**
- **Coverage has by far exceeded the 50% of population required by the law**
- **Investments of broadcasters indicate their commitment to the new platform**

Launch of pay per view services

January 2005: pay-per-view services launched on DTT

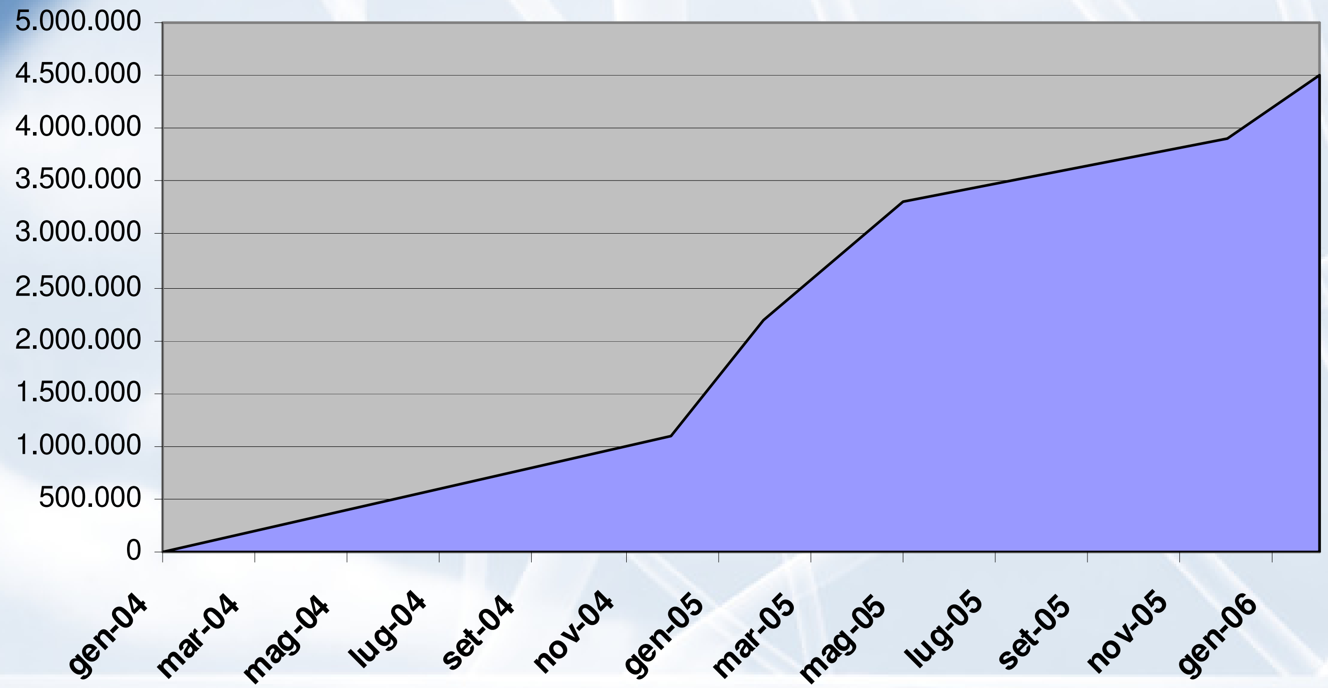
- Anonymous pre-paid card
- No customer management required
- 3-4 euro per event
- Soccer/boxing/car racing already available
- Mediaset is introducing also fiction/ live concerts and other entertainment

Great impact on DTT penetration curve

gen-04	dic-04	feb-05	mag-05	dic-05	feb-06
0	1.100.000	2.200.000	3.300.000	3.900.000	4.200.000

Mediaset alone has sold 1.6 mln cards in 2005 generating 80 mln €

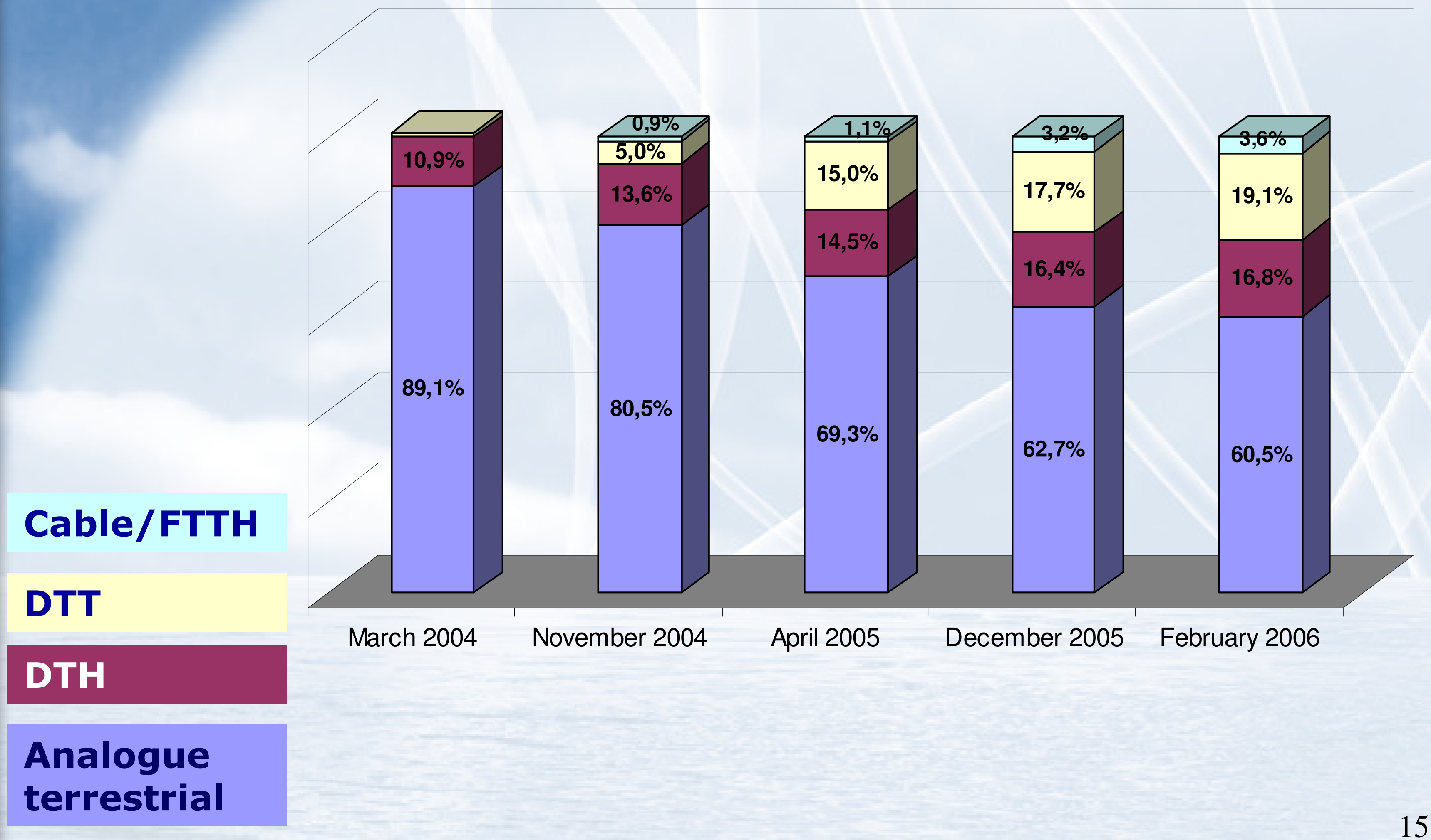
Growth of DTT penetration



Key factors:

- **Subsidies to families to purchase receiver (150€ / 70€)**
- **Attractive content: premium sport content is definitely a driver**
- **Top-up TV business model: FTA + PPV**

Evolution of TV reception patterns



Trends and current issues (1/2)

Consolidation of existing network operators

- Mediaset and Telecom Italia have acquired a second multiplex; mediaset is acquiring a third one
- New players have entered the market:
  - "L'espresso" group has acquired a national analogue network (Rete A) to enter the broadcasting business and become a network operator

content and business models

- Mediaset has acquired pre-emption broadcasting rights for soccer championship starting 2007 for DTT and other platforms
- PPV : originally limited to soccer is now used for other kind of content (including big brother): DTT may become in the next future the major platform for distribution of PPV events.

Trends and current issues (2/2)

New services

- H3G mobile telecom operator is acquiring frequencies to launch a mobile TV offer using DVBH technology
- DVB-H: an extension of DVB-T technology that allows broadcasting service to mobile equipment.
- Mobile operators see it as a complement to the unicast services delivered on the UMTS platform
- Business model will be based on the distribution of pay-tv packages: simulcast of existing traditional channels plus ad hoc content

- Low cost of these services will likely push a mass adoption in the next few years.

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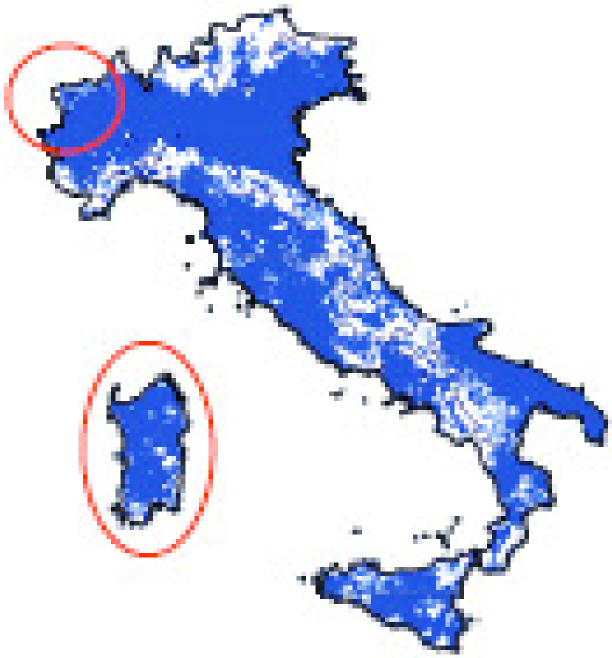
➡ **Major regulatory challenges in the next future**

Switch off

“Island” switch off model: Sardinia and Val d’Aosta will be the first regions to become all-digital in July of this year



- subsidies to encourage the adoption of DTT have been maintained for the two regions
- Local broadcasters may be an issue

Implementation of frequencies plan

Issues:

- current network architecture is not compatible with the original frequency plan as it is the result of the frequency trading;
- interference problems and very different coverage of existing DTT networks

AGCOM role

Definition of the implementation program of the digital plan

- **relocation of mast and sites according to the plan**
- **reorganization and rationalization of the frequencies used**

Digital dividend and new services

Issues:

Some of the spectrum released after switch off might be used for advanced services different from traditional TV

- **Mobile television (DVB-H)**
- **High definition TV**

AGCOM has launched a consultation process and is getting ready to issue regulation to allow start up of mobile TV services. Regulation will concern:

- allocation of capacity;

- licensing instruments and obligations of the licensees

- pluralism and media concentration issues

Pluralism and competition

Transition to DTT may not naturally lead to a balanced market structure:

- **major competitive concern: as network operator RAI and Mediaset are a gatekeeper for independent content providers seeking access to the terrestrial platform**

AGCOM role:

Facilitate <u>access to DTT networks for independent content providers</u> thus creating a pluralistic and fully competitive market.

- **40% of RAI, Mediaset and Telecom Italia capacity reserved to independent content providers**
- **AGCOM will issue additional criteria according to which independent content providers will be selected**

Electronic Program Guide

Lack of a single EPG due to multiplicity of network operators:

- **each network op. has its own EPG including only channels carried on their mux**

AGCOM role

- **Monitor respect of access rules to EPG established by the new regulatory framework**
- **possibly encourage the creation of an independent service provider offering a common EPG service in the interest of the final users and the market operators**