

**The Future Digital Economy  
Digital Content – Creation, Distribution and Access**

**Organised jointly by the Italian Minister for Innovation and Technologies and the  
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**Presentation by Marco Tronchetti Provera, Vice President Confindustria / Chairman  
Telecom Italia**

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**Session 2: Broadband and digital content: Creativity, growth and employment**

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**Session 2: Broadband and digital content: Creativity, growth and employment**

Ladies and gentlemen, good-morning.

I would like to thank wholeheartedly Minister Stanca, and the OECD for organising this International Conference.

I would also like to praise the excellent work done by the OECD on digital content, its detailed analysis of emerging business models, its pointing at issues that are critical to the growth of broadband services and finally its policy considerations.

We are here to take stock of new business, new technological and policy approaches. The OECD is leading the way. As an example, we have all benefited from the outstanding OECD report on online music. To guide the industry and the OECD Member Governments forward, other independent OECD studies on content sectors, not yet covered, should be considered during these two days.

Moreover, speaking for the Italian industry, and having seen the fruits of the relationship of the OECD with the Italian public and private organizations, I would gladly welcome an even stronger and more constant interchange to develop more common work.

1. The rapid diffusion of broadband is bringing to our doors one of the greatest revolution in modern times. Broadband is fundamentally modifying the way we access information and content, and indeed our very lives. Broadband determines significant positive economic changes and may offer, to Italy and other European countries in similar structural conditions, an opportunity to enhance efficiency and productivity, and to expand their economies. Indeed, there is a widespread consensus that the positive performance of the US economy from the early nineties onwards has been strongly related to the large scale adoption of Information and Communication Technologies.

In the last few years, Italy experienced one of the fastest growth rates of broadband lines. Total DSL and fibre lines have increased by 215% between September 2003 and September 2005, reaching 6 million lines in the third quarter of 2005. This has not been only an Italian phenomenon: all European countries have known a similar trend. Currently, more than 50% of European households have Internet access and the number of broadband connections are now more than 50 million in 2005.

2. The benefits of broadband impact strongly on many economic sectors, not just on those directly related to the communication- world.

I would like to pick a few examples related to the communication industries which may be useful for further OECD assessment:

➤ Globally, the online revenues of digital record companies reached \$US 1.1 billion in 2005 showing a threefold increase on 2004 (\$US 380 million). Digital music (online and mobile) now represents approximately 6% of overall music sales.

On a European level:

➤ Games are a hot-seller in online services [in 2004, 16% of the total video game revenues are originated from online sales<sup>1</sup>]

➤ Online video is now picking up speed, with everyone betting on its value for the content industry and for the online distribution sector (in 2004, about 3% of total video revenues originated from online sales<sup>1</sup>).

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<sup>1</sup> EITO 2005.

- The recent important investments in fixed broadband (ADSL and fibre), UMTS, DTT - and now DVB-H - show that the Italian and the European communication industry are on the move and that a new innovation cycle has been started.
- Online advertisement (more targeted and measurable than traditional advertisement) is beginning to account for a sizable quota of the advertisement sector revenue.
- An entirely new broadband-related industry has been created by application providers, with large revenues: VoIP, search engines, video distribution, online transaction management<sup>2</sup>, online auctions.
- The changes are reaching even traditional content distribution sectors, like TV and cable broadcasting (interactivity, additional channels).

And, of course, Telecom Italia and its peers in the OECD countries benefit from the new business models based on broadband. As an example, offers of retail and wholesale connectivity are now enriched with additional services such as marketing, personalised advertising, real-time audience monitoring, customer support, billing, credit control and enhanced customer support.

3. What are the drivers that will influence the development of broadband? One of the drivers is the capacity to address and revise existing business models.

However, before talking about business models, allow me to say that I am fully aware of the fact that, despite some progress, there are still some open issues in the relationship between right holders and network providers.

Also, I firmly believe that the huge investments on infrastructure that have been made and will continue to be made by the network providers, will allow them and all the related industries to deliver diversified high-level quality services, which will improve the productivity of the industry, of the economy and ultimately of the lives of citizens. However, it must be clear that if we make investments there must be a way to remunerate them.

4. Going back to business models, I would like to raise the following five issues which I believe need to be addressed:

To start with, let me note that the development of broadband and of related technologies makes it possible for new actors (such as application providers) to deliver online services that in some cases (such as VOIP) compete directly with services provided by telecom operators. The problem is that these new actors, whose emergence we all welcome, are totally unregulated, while telecom operators have to pay for the development of infrastructure either through their own investment or by paying for access to somebody else's infrastructure. This issue is now actively debated in the United States and is emerging in Europe as well. It will have to be addressed.

As a second issue, if the digital business models continue to "appear", as cautiously mentioned by OECD, tilted towards the content owners, the overall industry may not reach the desired effects in the transition to a digital distribution. I understand that traditional business models tend to be defended but we have to consider how this affects the growth of the digital economy.

As an example of this, I think that companies that will be able to capture the off-market trends and transfer them to an on-market world such as **legitimate Peer-To-Peer business models** will be able to enjoy the benefits of the new industry.

**5. A third issue is that of Digital Rights Management** systems which should ensure the protection of the legitimate content owners. However, we cannot hide from the fact that, if we want DRM systems to be accepted by society, they will have to be more flexible, more user-oriented.

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<sup>2</sup> PayPal, sistema di pagamento on-line

6. A fourth point: the current resistance to modify the **film release windows** system certainly favours the existing film distribution mechanism but prevents the emergence of the online film delivery and forecloses the possibility for content owners from creating new revenue streams. I also believe that a more open policy towards online distribution could contribute to reducing **online piracy**.

7. The fifth point: **another key driver of the new online industry is the availability of content on all platforms (fixed, mobile, TV)**.

And this is true for ALL content:

- not just the commercial premium and non-premium content made available online;
- it also applies to Public Sector Information that may improve the quality of service to citizens and simplify administrative procedures...
- ...and to private online content created by users for their own consumption or to reach an audience that they could have never reached before.

8. Most importantly, the new digital distribution channels can offer, at very low marginal cost, content that is not normally distributed through physical channels due to its storage costs. Physical distribution is based on the rationale of the “Top Ten” leading titles in music, films or books. In contrast, digital distribution can generate the so-called “long-tail effect” by pushing a diversified offer with no boundaries, and thereby contributing to a more inclusive society and fostering cultural diversity. I do not think that the effects of the long-tail would be limited to commerce. I can imagine ourselves in a few years from now living in a “content access democracy” where the archives of world history are made available to all.

The online music stores, for instance, offer 30 times as many songs as the world’s largest physical distributors. Between 20 and 25% of Rhapsody, Amazon or Netflix<sup>3</sup> sales are made of music, books or video that are not available offline in retail stores<sup>4</sup>. And there is a huge stock of films that will never make it to the physical retail stores, unless the Long-Tail effect makes it available to all those who can access the Internet.

9. However, I want to state that to achieve, in an unfettered way, the full potential of broadband services and their beneficial effects on the economy, regulation must not hamper the novelty and the speed at which the technology generates new business.

10. Regulation may effectively address and correct future market distortions only in a slowly developing industrial panorama. This is why I would be wary of any attempt to transfer the rules of the traditional broadcasting world to the new, fast online interactive on-demand services.

I am referring to the debate on the review of the European Directive on “Television without Frontiers”. The Directive was drafted to regulate the broadcasting sector when it had already had the time to consolidate its business models and its value chains. It would not be appropriate to transfer its regulatory approach to the interactive online business. I would advocate that a “light” regulatory<sup>3</sup> approach be preferred.

11. If we manage to address all these issues, I truly believe that the combination of the Internet network and of more and more bandwidth will create for everybody a FORUM – in the Roman perception – where people meet, communicate and share ideas but can also buy and sell all sorts of content, search for information and services.

Let me conclude by saying that all these changes are bringing forward both a world of opportunities and fresh problems. We should not address these problems in a defensive manner but, rather, pro-actively.

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<sup>3</sup> DVD rental that distributes physically DVDs from an online catalogue.

<sup>4</sup> The Long Tail by Chris Anderson, ChangeThis, December 13, 2004.

It is in our common interest that the resources that we have all invested produce the greatest benefits to all parties involved, and everyone is involved.

These benefits should not be stopped by backward policies or business decisions that look to the past rather than to the future.

Thank you.