CONSEIL SUPÉRIEUR DE L'AUDIOVISUEL

Multiplatform access
and enhanced competition
The French experience so far

OECD ROUNDTABLE
ON COMMUNICATIONS CONVERGENCE
LONDON

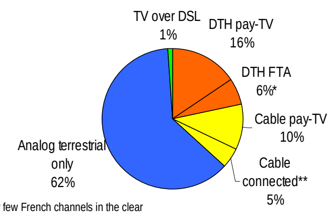
Arnaud DECKER
Head of Research
June 3rd - 2005

The "terrestrial legacy"

Multichannel growth has been slow …

- More than 60% television households (TVHH) access to only 6 channels.
- Only 26 to 28% access to a *true* multichannel offer (> 15 channels).
- ➢ France lags behind most OECD countries (UK : 63% ; Germany > 95%).

Means of TV reception in France - as at year end 2004 -
(approx. 23,8 M TVHH)



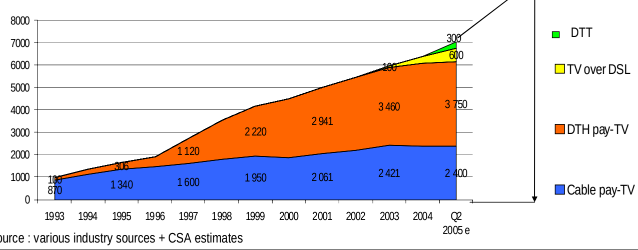
Direct to home Free to air : very few French channels in the clear
Cable connected : « antenna service » which means less than 15 channels
Source : CSA estimates

Towards digital multichannel

- 2 new platforms just launched
  - TV over DSL started at the end of 2003.
  - Digital terrestrial television (DTT) launched 2 months ago.
- They are experiencing rapid growth.
- + DVB-H trials on the agenda

Towards a 50%+ multichannel penetration in 2009 ?

Multichannel TV households in France – '000 -



Source : various industry sources + CSA estimates

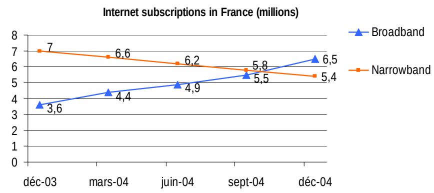
Towards digital multichannel : DTT

- After a 4 year process, digital terrestrial TV launched on March 31 - 2005
  - 18 FTA channels :
    - ✓ 7 simulcast of existing terrestrial channels (incl. Canal+ in the clear windows)
    - ✓ 11 other channels, of which 8 new channels
  - Distinctive factors of success :
    - ✓ a *true* free to air multichannel offer
    - ✓ plug and play in most cases
  - 300 K adaptators sold within first month, despite a limited technical coverage (35%). > 1 M expected within year 1
- What's next ?
  - Within 6 to 12 months : launch of the pay-TV offer (in MPEG4)
    - ✓ 11 channels, incl. the two competing premium channels Canal+ and TPS Star
  - + local channels
  - + new services still being debated (HDTV, TV over the mobile)

Towards digital multichannel : TV over DSL

Success factors :

- Market potential :
  - High penetration of fixed telephony in France
  - ✓ Massive migration to broadband (6 M subscriptions in only 4 years)
  - ✓ Around 30% of the DSL subscribers are presently TV addressable (2/3 middle term)
- Dynamic competition between telcos : LLU, attractive multiplay offers, etc.
- ➢ A significant potential for TV over DSL



Source : ART

TV over DSL

- 3 different telecom operators propose DSL TV offers : France Telecom, the incumbent and two challengers, Free and the newly merged Neuf-Cégétel.
- An estimated 600 K DSL TV sub base as of Q2 2005 (reception on the TV set)
- With 2 distinct business models

Business model # 1 : Free

- = An "all you can eat" triple play offer through a single box ("Freebox")
  - Broadband
  - Telephony (VoB)
  - TV (> 90 « FTA » channels)

  For 29,99 € a month
- Approx. 500 K TV connected customers
- ... of which 100 K subscribe to at least one pay-TV offer on top of the basic bundle :
  - Whether on an à la carte basis ...
  - ... or a Canal+ Group package

Business model # 2 : MaLigne TV

- = A kind of kiosque proposing a variety of services
- The customer has to pay a monthly fee for the access to TV and video services on top of his internet broadband subscription.
  - Pay-TV packages provided by pay-TV leaders TPS and CanalSatellite which retain the customer relationship
  - VOD
  - [no VoB]
- Dual play bundles recently developed and prices decreased
- > 130 K pay-TV subscribers

Recent changes in the legal framework / the role of CSA

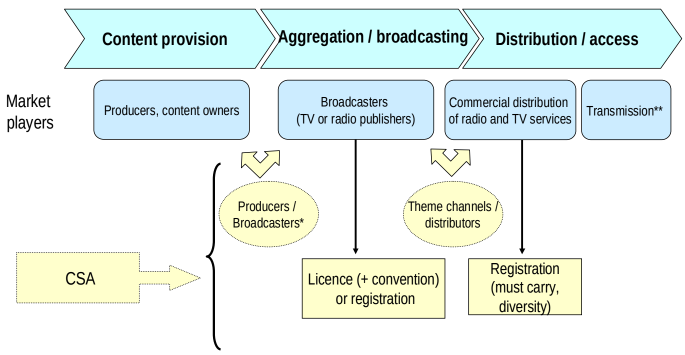
A clear cut between content (CSA) and transmission networks regulation (ARCEP)

2 major changes (implementation of Telecom directives)

- The law on the « trust in the digital economy » of june 2004 gives a definition of TV and radio services
- The law on electronic communications and audiovisual services (July 9th, 2004) :
  - Extends to new platforms the regime presently applicable to cable & sat services
  - Simplifies the regime of the services. Depending on the budget of the service has whether to negotiate a convention with the CSA or present a simple registration (<150 K€)
  - Exception : terrestrial

➢ A clearer / stronger role for CSA ; extended to the controle of TV and radio services on the new platforms

The role of CSA



* Through the quota regime and cultural diversity principles

** Network regulation = ARCEP, French Telecom and Post regulation authority

Pending issues about DSL TV : access to the consumer

- Consumers' access to the platforms, because of geographical or economic limitations or uncertainties
  - The risk of a "digital fracture"
    - Cities with 3 to 4 competing platforms, versus the countryside with ?
  - But recent announcements and legal innovations give reasons for hope
    - New plans by France Telecom for bigger and faster DSL investments
    - Implication of local authorities in network dev. is now authorised (municipalities, local councils,...) + backing of big financial institutions

  ➢ As a result : a large majority of the French households could be DSL TV addressable short term

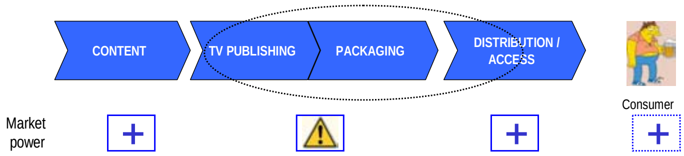
Pending issues : access to content

- The access to content, whether basic or premium, by the various platforms
  - The TV market is highly concentrated
  - Main players Canal+ and TF1 are vertically integrated
  - TF1 and M6 - leaders of commercial TV and active in pay-TV distribution (TPS) refuse to "give away" their signal to alternative distribution platforms - such as Free - which they consider as competitors in the business of pay-TV distribution.
- The same problem may develop in the field of TV to the mobile
- CSA position :
  - ✓ Big national FTA networks benefit from a scarce resource and gather 90% of the TV audience. Their digital version should be available to everyone on accessible and affordable terms.

➢ An access, i.e. a competition issue

➢ A barrier to multiplatform access growth ?

Players : tensions on the value chain ?



- Who's got the best and most plastic content ?
- Who's in charge of the customer management (gatekeeping) ?
- Which weapons for the middlemen ?
  - Exclusivities
  - Same business model on the new platforms (bouquet)
  - Aggregation and marketing know-how
- The consumer has more choice, hence more power.

Pending issues and challenges for the regulator

- Market
  - Uncertainties about the evolution of the business models, in a price-sensitive market (free, low-cost, pay ?)
  - The new ways of offering existing services
    - Examples : "mixed" services combining broadcast and on-demand offers.
  - The development of new platforms dedicated services ?
- Regulator :
  - Technical choices and spectrum optimization
  - Few tools for encouraging competition (opinions, beauty contests, art.42-3)
  - The daily challenge of monitoring the new platforms
  - The occasion of a tighter cooperation with the Telecom and Post Authority (ARCEP) on convergence issues
  - The need for stronger connexions between CSA competition authorities ?