

Presentation for Euroreg 2014

Limits of global convergence – The European TV industry in global competition

27 March 2014 • Lluís Borrell, Roland Husson, Nico Flores

Some key questions

- What do we mean by the ‘European TV industry’?
 - What are its **fundamentals**?
 - What is **changing**?
 - How will these changes shape the **industry** overtime?
 - Are there **threats** to the European TV industry?
 - What do the changes and threats mean for EU **policy and regulation**?

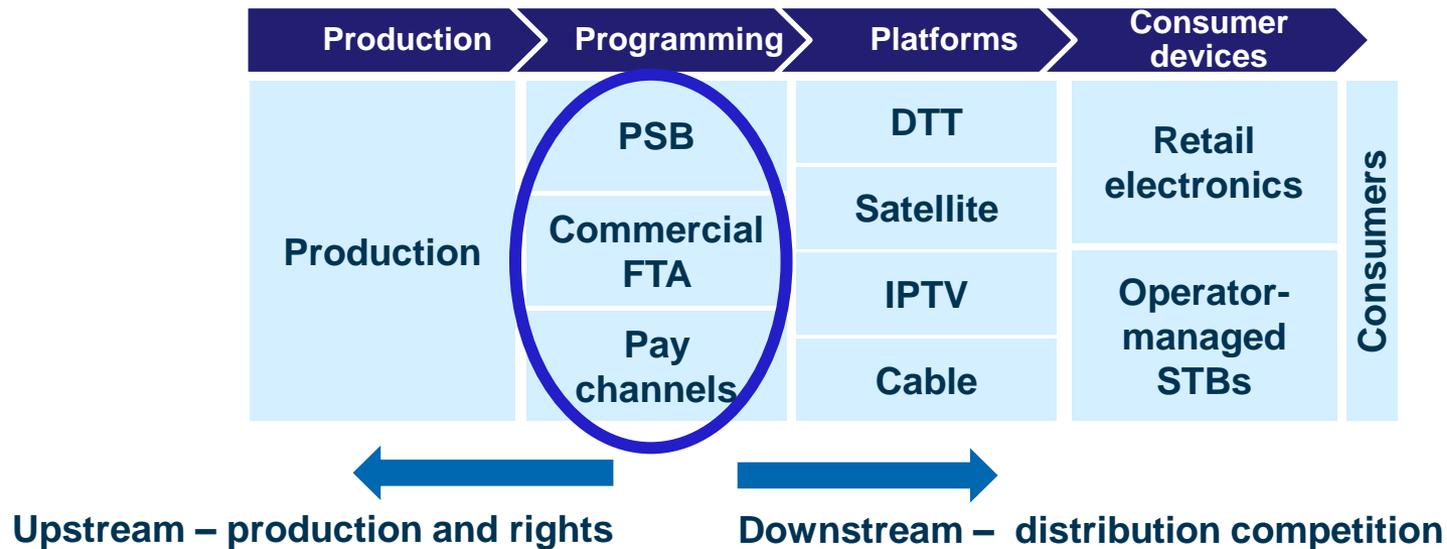
This is a lot of key information for only 15 minutes!!
This presentation aims at structuring the issues
to help the discussion

Contents – key messages

- The EU TV industry is a **rich ecosystem** with over €100bn in revenue: 1/3 invested in content and around €15bn in **European works**
 - this is supported by a media and telecoms policy based on a **strong national broadcasters’** regime
- **Internet-based TV lowers the entry barriers** to TV distribution and opens up an unprecedented level of **global competition**
 - we are seeing **exponential growth in the short term** but there is **long-term uncertainty** about scale/timing of impact
- However, there is a **perception of threat** to the overall EU TV ecosystem and ‘European works’ in particular
 - this has opened up a **wide public policy debate** which is yet very uncertain - **complex to transpose into the new TV ecosystem**

The EU TV industry is a rich ecosystem with over EUR100bn revenue - 1/3 spent in content ...

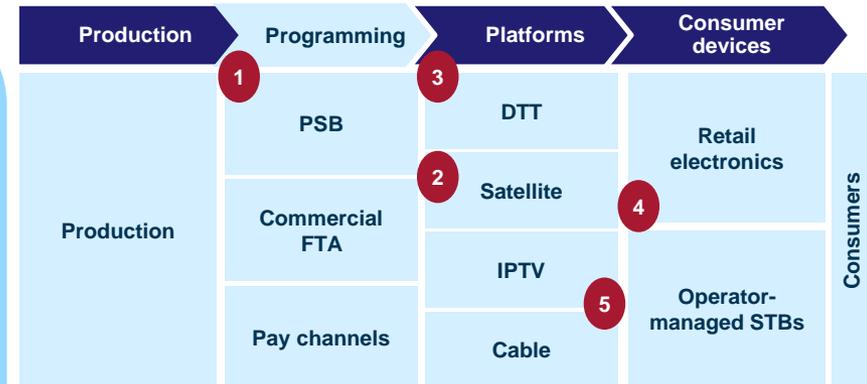
Traditional TV value chain – key players and revenue flows



- **National broadcasters** – PSB, commercial but also pay – play a **central role** to the whole TV ecosystem in the EU
- However, EU-28 is a **fragmented** market due to its cultural and linguistic diversity

... based on strong media policy, EU's countries economies and evolving regulation

- **Member States' media policy** – Media and telecoms policy promoting public interest, cultural diversity, plurality and universality
- **Country-based economies (EU-28)** – different scales, languages, cultures and different TV platform mix (i.e. terrestrial, cable, satellite and IPTV)
- **Regulation** – it has adapted over time in a 'national broadcaster'-based TV regime (1989–2007). Includes the following remedies:

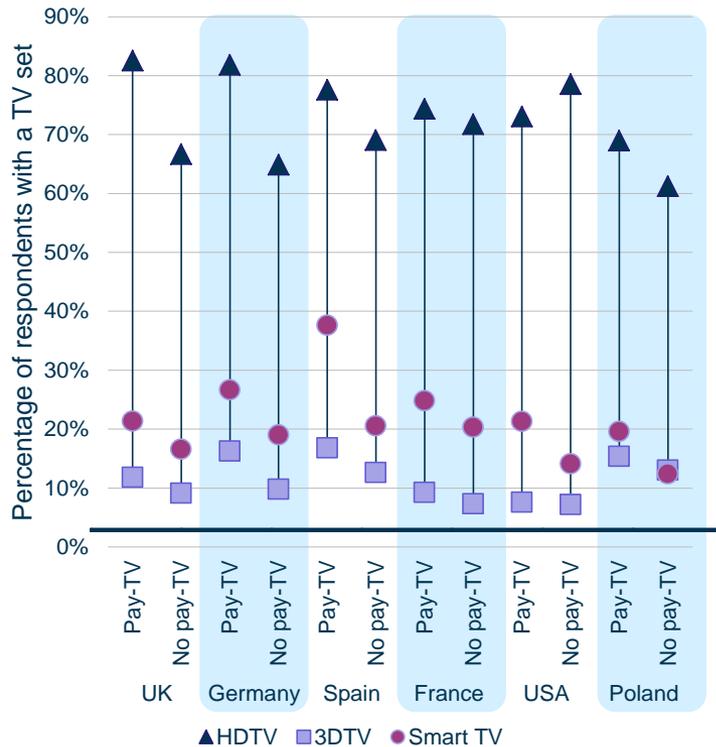


Remedies:

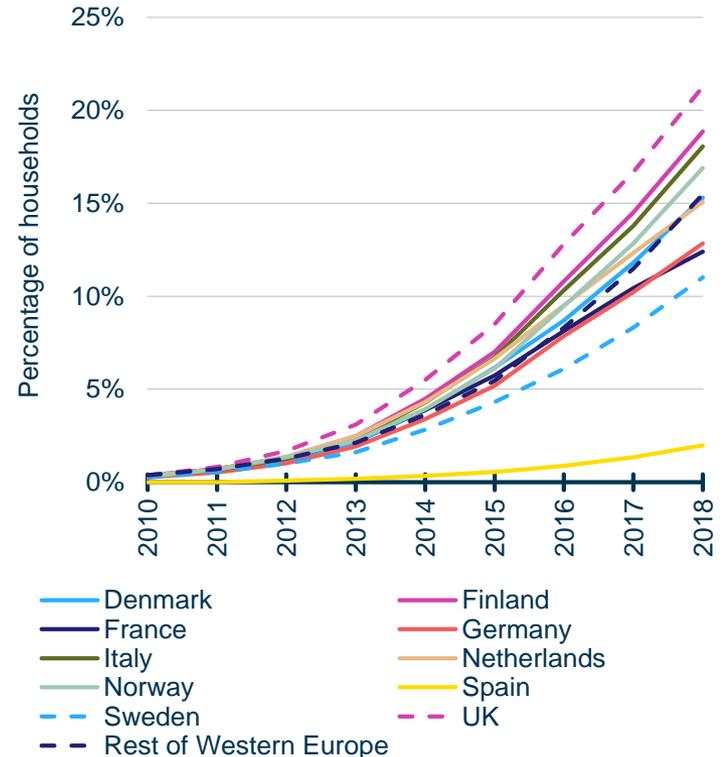
- 1 Production **quotas** (AVMS) → for PSB and commercial channels (1989)
- 2 AVMS revision → clarifies the implementation of the '**country of origin**' principle (1997)
- 3 **Must carry/must offer** (Universal Service Directive) → to pay-TV platforms (2002)
- 4 Appropriate **prominence** (Access Directive) → for managed STBs (2002)
- 5 AVMS amended to incorporate **non-linear TV**, mainly VOD services (2007)

Contrary to TV, IP-based TV is growing rapidly and could offer an 'homogenous' EU OTT platform by 2020...

Ownership of advanced TVs, by country and type of subscriber (2013)



Household penetration of OTT video services on TV sets, by country, Western Europe, 2013–2018



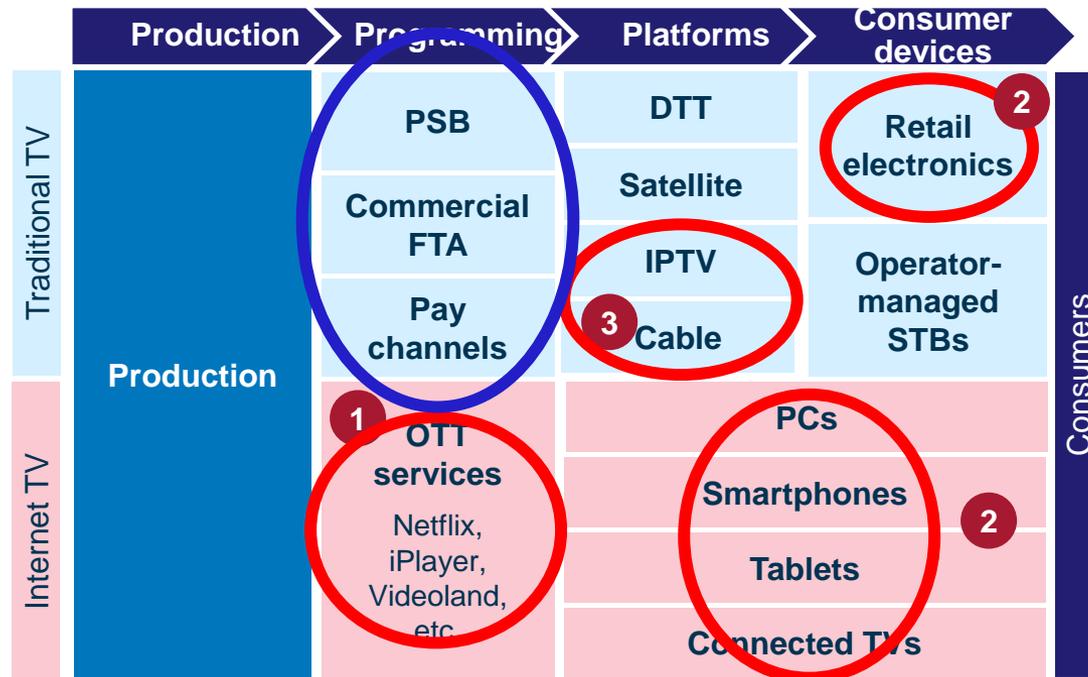
Broadband and superfast broadband enables on-demand TV over IP in a mass market... or will do between now and 2020 (EC Digital Agenda)

This is very different than fragmented, country-based traditional TV markets

Source: AMR "Pay-TV and OTT video services in Western Europe: forecasts and analysis 2013–2018", AMR "The Connected Consumer Survey 2013: TV and video".

... lowering distribution entry barriers and heralding pan-European and global competition

Extended TV value chain – new global competition

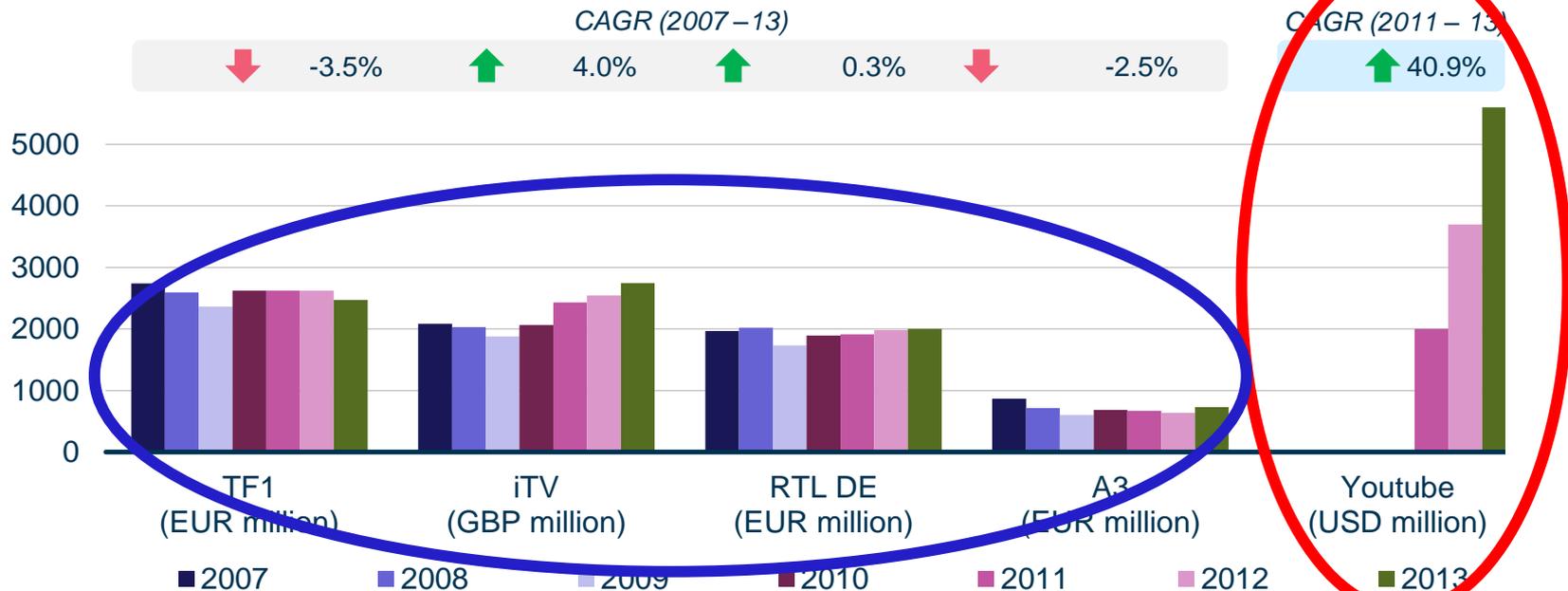


Key new global competitors often but not only from the US taking advantage of the size of their national markets as well as other players targeting their «diaspora»

- 1 **Internet players** (e.g. Netflix, YouTube)
- 2 **Manufacturer of connected devices** (e.g. Samsung)
- 3 **Telecom operators** (e.g. fixed and mobile operators increasingly offering OTT services and buying rights, such as Movistar and BT Retail)

The size of new global competitors might challenge the ‘power’ and “share” of ‘incumbents’

Evolution of revenues for Europe’s commercial TV groups (2007–13) and global YouTube operations (2011–13)



The scale of global competitors allows them to start challenging ‘incumbents’ in rights acquisitions and also invest in new R&D whilst eroding market share of revenues

- YouTube’s revenue equals that of iTV, TF1 and RTL DE together – and growing faster
- Netflix’s revenue is over USD4100m more than each of the leading commercial broadcasters in Europe and growing at 17% p.a.
- Global players from consumer electronics like Samsung have also significant financial power

Overall, the central broadcaster role and country-based TV regime might be threatened

- **Upstream**
 - uncertainty on EU **production** (quotas or else)
 - increasing competition on **rights** by global players
- **Downstream**
 - consumers and **audiences** will fragment across platforms and services
 - new players will continuously erode **market share** of broadcasters
 - **discovery and prominence** at the core of the debate
- **Overall competition**
 - greater importance of competition issues between **platforms and content** (net neutrality, retransmission fees)
 - **asymmetry** of regulation (traditional and IP-based TV) will become more evident
- **Country and EU policy**
 - ‘**country**’-level is challenged with global groups (lowest taxes and regulation standards) – Ireland and Luxemburg
 - **telecoms and media** policy increasingly interrelated

Your views – “incumbents” vs new entrants - on the **scale and timing of changes and long-term threat** on the EU TV industry will **determine commercial and regulatory decisions** – IP based could also become an opportunity though

This potential threat has already opened a wide, far reaching and uncertain public policy debate

AVMS directive: new adaptation or re-thinking ?

- **Growing debate** (UK, France, Germany... EC Green paper)
 - momentum with the new EC after June 2014 elections
- **A wide range of issues and options**, but simple adaptations are likely to be insufficient to deal with the **future TV ecosystem**.
 - Whether or not to regulate? How much to regulate?
 - Could radical changes in territoriality be envisaged? The ‘**country-of-origin principle**’ in question? **De-regulation**?
- At the two extremes **difficult to reconcile**, probably:
 - **full harmonisation** (same rules everywhere in single market)
 - ‘**country of destination**’ principle (national ecosystems)

Greater facts and evidence are needed as they will help understanding the changes and provide transparency in assessing the market changes impact on policy goals and the potential remedies or options – **there might be a need in first instance to promote common terminology and associated data**

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