

Report on the International Seminar on Cable TV Policies and Practices

Department of Planning

Foreword

In order to facilitate the exchange of ideas and experiences, the National Communications Commission (NCC), on April 8, 2014, co-hosted the International Seminar on Cable TV Policies and Practices with Cable and Satellite Broadcast Association of Asia (CASBAA). Scholars and experts from Hong Kong, Singapore, South Korea, the UK and the US were invited to share their observations and analysis on the trends of the cable television industry and developments in related regulation.

In all, approximately 100 guests from many leading television channels and communications companies attended the meeting, including representatives from 21st Century Fox, Disney Taiwan, Yong Xin Multimedia, STBA, Sony Picture Television, Viacom, HBO, Discovery, CNBC Asia Pacific, AsiaSat, AXN, BBC, Eurosport Asia-Pacific, etc.

During his opening keynote speech, NCC Chairperson, Dr. Shyr described how digital convergence has gone from an abstract concept to a real development, encompassing mobile services, voice services, visual services, and broadband, and has brought numerous challenges and opportunities to the industry. He also highlighted the significant jump in the digitization rate of cable TV in Taiwan over the past year, which at more than 52 percent represents a 27.06 percent increase from the first quarter of 2013. With the technological advancement in digital compression,

services, such as high speed internet, pay channels, pay-per-view, as well as other innovative services, have become readily available. The chairperson also reiterated that since the establishment of NCC in 2006, the core objectives have always been to accommodate convergence, encourage the sound development of communications, safeguard the rights of the public, protect the interests of consumers, and promote cultural diversity.



Chairperson Shyr Shi-Hao gives his opening speech.

Source:<http://www.casbaa.com/events/event-photo-gallery/category/275-20140408twrt>

During the seminar, NCC Deputy Director Chi Hsiao-Cheng had the opportunity to outline the future plans of the commission with respect to cable TV policy in Taiwan. The following paragraphs include a summary of the main arguments of representatives from Taiwan, Hong Kong, Korea, Singapore, the UK, and the US.

Taiwan: Planning for Future Cable TV Policy

Mr. Chi first gave an updated overview of the communications and broadcasting industry in Taiwan. It was noted that the pay TV market is still dominated by cable corporations, which account for 4.98m subscribers - 75 percent of which subscribe to one of the five MSOs. In October 2013, the 4G auction was completed; the penetration rate of digital cable TV was 52.33 percent in the first quarter of 2014; broadband service in Taiwan shows steady growth. Meanwhile, according to AGB Nielson, the advertising market of Taiwan in 2013 was worth TWD200 billion. Considering the decline in traditional newsprint media and terrestrial TV, the growth of the internet, as well as corresponding developments in new technology, offer potentially huge profits.

In response to concerns regarding the plan of flexible cable TV subscription fees, the NCC also emphasized that after proposing the 2017 cable TV tiering plan, it has continued to compile and analyze feedback.

Mr. Chi explained how regulations concerning fees for cable TV should adopt more flexible criteria adhering to five fundamental principles: consumer choice, innovation, transparency of information, protecting consumers' rights, and local public services.

To motivate the cable industry, the NCC would not exclude applying deregulation policies while expecting greater consumer choice and higher quality content and application services. The NCC will hold a public meeting in the near future to reach a consensus on these issues as soon as possible.



Deputy Director Chi Hsiao-Cheng explains planning for future cable TV policies

Source: <http://www.casbaa.com/events/event-photo-gallery/category/275-20140408twrt>.



Key issues

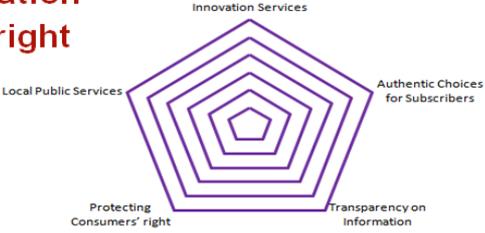


How to make industrial development and taking into account the interests of consumers?

To sum up 5 basic principles

- Innovation Services
- Authentic Choices for Subscribers
- Transparency on Information
- Protecting Consumers' right
- Local Public Services

★ According to the Article 51 of Cable Radio and Television Act, the special municipal or county/city government is entitled to review the subscription fees annually.





The 5 basic principles regarding consumers' right and industrial development

Hong Kong: Challenges facing TV Policy

Professor Grace Leung from the School of Journalism and Communication, Chinese University of HK, described how that during the colonial days, the policy objectives of the Hong Kong government were to encourage investment and innovation in the broadcasting industry, promote fair and effective competition, and enhance Hong Kong's position as a regional broadcasting hub. Since then, Hong Kong has been embracing a liberalized, light-handed and pro-competition regulatory environment to facilitate broadcasting services to flourish. In 1998, Hong Kong conducted a review of TV policies, which included the role of government in the age of convergence, common use of different networks, neutrality, a pro-competition regulatory mechanism, maximizing choice, facilitating IT development, disbanding the vertical integration of broadcasting and telecom sectors, etc.

Professor Leung also described how Hong Kong citizens have access to over 700 local and overseas television channels and 28 radio channels. More than 83 percent of households are broadband service subscribers — the second highest penetration in Asia, and the mobile phone penetration is over 238 percent. She also explained that there are four types of TV licenses: domestic free, domestic pay, non-domestic, and other licensable - each of which adheres to different regulatory standards.

Pay TV market at a glance

<p>Wharf's I-cable (since 1993)</p> <ul style="list-style-type: none"> - Cable TV services (1.1 million) - Broadband internet access service - VOIP telephony service - MMOB (multi media on board) 	<p>PCCW's NOW broadband TV (since 2003)</p> <ul style="list-style-type: none"> - IPTV service (1.27 million households) - Broadband internet access - Fixed telephone line - Mobile telephone service 
<p>TVB Network Vision (since 2000)</p> <ul style="list-style-type: none"> - Distributed through satellite, IPTV (Now Broadband TV) and broadband service (Hutchison Telecom) - Provides 40 local and international TV channels - Will offer VOD in future 	<p>Hong Kong Broadband TV (since 2003) (non-licencee)</p> <ul style="list-style-type: none"> - Internet TV - Broadband internet access (1.4 million subscribers) - VOIP telephone line 

Hong Kong Pay TV market at a glance

Source : Dr. Grace Leung, School of Journalism and Communication, Chinese University of HK

Korea: Facing a more competitive pay TV market; relaxing regulations on cable TV

Dr. Yoo S. Yang shared the history of cable TV industry in Korea and competitors from other pay TV platforms in recent years.

The cable TV service in Korea launched in 1995 and digital cable TV service started in 2005. By 2013, the digital penetration rate was close to 50 percent, with 14.8 million subscribers (6.2 mil. digital/ 8.6 mil. analog). Since 2008, the government has been inclined to deregulate the media industry in light of the convergence trend of communications and broadcasting.

Currently, 92 system operators (SOs) provide service in 77 franchise areas, among them 5 MSOs running 77 SOs dominate the cable market and account for 80 percent of cable subscribers. These MSOs are vertically integrated, running MPPs (Multiple

Program Providers) and strongly influence the channeling business in Korea. Differing from Taiwan, the TV advertising market in Korea is dominated by the terrestrial broadcast groups – KBS, MBC, SBS, and their subsidiaries that run multiple cable channels. In 2012, these media groups accounted for 61 percent of the total television advertising revenue.

Despite the slight decline in total number of subscribers from 15.2 million down to 14.8 million, the cable industry has shown a sharp increase in its total revenue over the past 5 years (home shopping channels account for almost 50 percent). These days, cable TV operators also provide digital services, such as TV shopping, interactive gaming, interactive learning, stock market trading, personal video service, APP store, UHD channel, OTT, etc.

The cable industry in Korea is now regulated by two separate regulatory bodies, the Ministry of Science ICT and Future Planning and Korea Communications Commission. The MSIP is in charge of communications policies, pay TV network policies (Cable, IPTV, Satellite, Program Providers) and KCC is responsible for licensing and re-licensing of terrestrial broadcast networks and general program channels and ex-post regulation of broadcast business (illegal practices).

Korea has differential restrictions on different network types of the pay TV business. Over the past years, cable TV broadcasters had been subject to stricter regulations than IPTV, like the limitation of one third of 77 franchise areas and one third of total cable subscribers. More recently, KCC and MSIP revised the ordinance for fair competition between the cable and IPTV platforms.

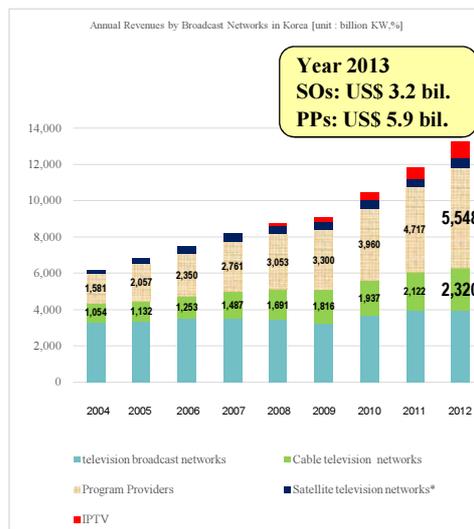
The number of IPTV subscribers is expected to reach 10

million by the end of 2014. Generally, cable broadcasters face challenges from IPTV and OTT services providers, the licenses fees from terrestrial TV(KBS, MBC, SBS), as well as the recent intention of KCC to relax restrictions on terrestrial broadcast advertising.

However, Dr. Yoo S. Yang also explained how cable broadcasters could take advantage of the recent regulatory changes, including raising the number of subscribers, relaxing restrictions on foreign investment and advertising. Cable TV businesses could also benefit by providing digital services.

In accordance with the global development, the Korea government also applies the principle of the so called “same service, same regulation,” which aims to align the industry from price competition to service-based competition.

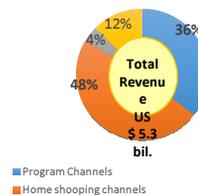
Cable Industry: Revenues



- **Home shopping channels** account for almost 50% of the total revenue among program providers.



PPs Annual Revenue in 2012



Cable industry revenues in Korea

Source: Dr. Yoo S. Yang, Graduate School of International Studies, Chung Ang University

Singapore: Good scores on independence and transparency, but improvements needed in content regulation

Nigel Mukherjee, Commercial Director, Ogilvy & Mather Asia Pacific, shared his observations on pay TV industry in Singapore and the UK. In his opinion, pay TV, free-to-air TV and telecoms markets have converged, and converged markets require converged regulation. He described how he thought the EU has set the benchmark by focusing regulation less on services, more on networks. Mr. Mukherjee stated that a growing market, competitive entry, and an unlicensed internet have also emerged as challenges for Singapore regulators. There are two regulatory bodies in Singapore, the Media Development Authority and the Information Development Authority, which although have yet to be integrated, do coordinate in many ways. Mukherjee commented that Singapore's regulatory authority generally follows good practice, and has good scores on independency and transparency. What remains to be improved is its close attention on content regulation.

Singapore – the market & regulators

Growing market, competitive entry, unlicensed internet posing a challenge.

StarHub
550k subs
Broadband
MDA license

SingTel mio TV
400k subs
Broadband
MDA license

M-Box
New Internet
No license

mda
Media Development Authority
Singapore
Broadcasting regulation

iDA SINGAPORE
INFOCOMM DEVELOPMENT AUTHORITY
Telecom regulation

- Not integrated BUT joined up
- Generally follow good practice
- Mostly independent
- Transparent
- Pays close attention to content

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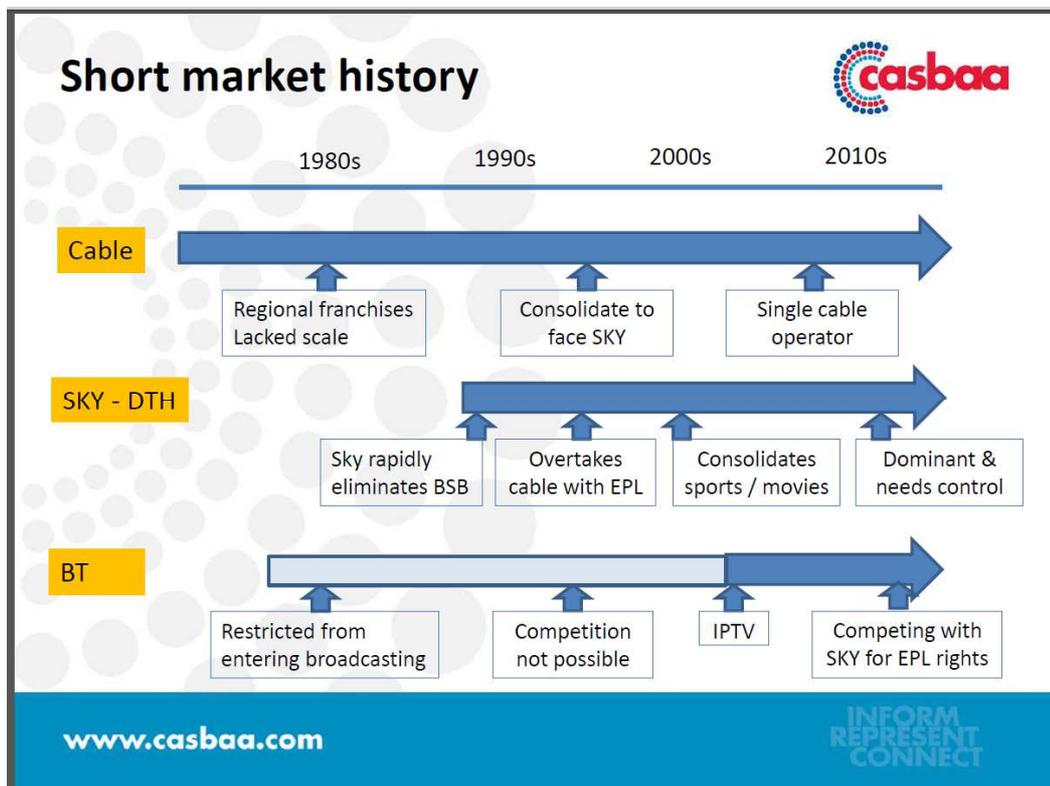
Singapore's market and regulators

Source: Nigel Mukherjee, Commercial Director, Ogilvy & Mather Asia Pacific

The UK: Hot issue - broadcasting of sporting events

According to Nigel Mukherjee's report, pay TV business in the UK enjoys a competitive market led by Sky, which accounts for 10.5m subscribers, compared to five million subscribers with Virgin Media and one million with BT Vision's IPTV. Mukherjee thought that Ofcom (and its predecessor Oftel) has been setting effective practices since 1984. During the 1984-1994 period, when the cable industry needed to be protected to grow, Ofcom kept BT, which had too much market power, out of broadcasting and resisted consolidation. In the 1990s, however, when Direct to Home satellite launched and started to bid for sports rights, Ofcom encouraged free competition for content and imposed no rate regulation. With the growing influence of DTH, Ofcom still believes competition delivers efficient solutions. Since 2009, the hot issue has mainly

focused on rights to broadcast sporting events and whether the auction winner has too much power over them. For example, control of the EPL as a single package gives too much power to Sky, which earns very high profits on its wholesale business – higher than retail. Ofcom is considering breaking up the rights to introduce competitive entry – Setanta, ESPN, BT, or regulating wholesale prices based on assumed retail margins. Whatever the solution, Mukherjee thought it will undoubtedly cause intense disagreement. Mukherjee stressed that the sport issue is at the cutting edge of regulation and requires detailed analysis.



Short market history of pay TV in UK

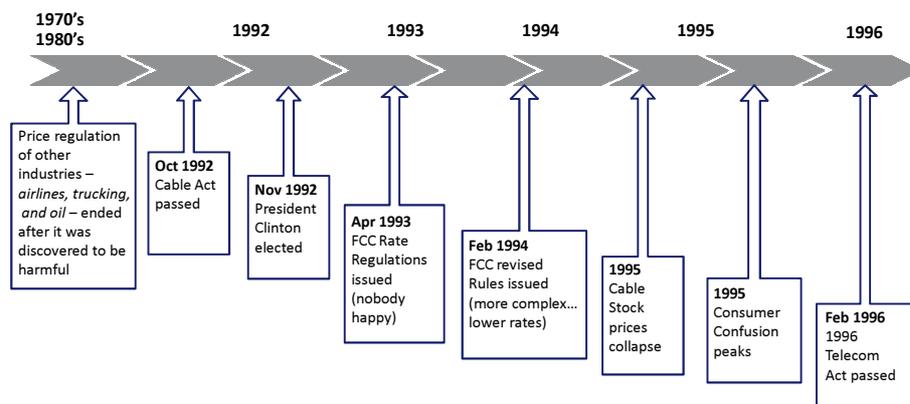
Source: Nigel Mukherjee, Commercial Director, Ogilvy & Mather Asia Pacific

The United States: Deregulation is good regulation

After briefly reviewing the history of cable TV regulation in the US, Joe Welch, SVP Government Relations Asia of 21st Century Fox, summarized that unnecessarily detailed regulation brings calamity to the industry and results in all parties- consumers, the industry and the regulator- losing.

Welsh regarded the Telecommunications Act of 1996 as the critical turning point and catalyst of the booming cable business. After the act took effect, the cable industry stock price rose sharply and companies invested substantially: USD75 billion flowed into system upgrades and over 30 million digital set top boxes were deployed, putting the cable companies in the lead in the US in broadband services. Programming investment bounced back quickly from the rate regulation days, with expenditures for original programming rising by 115 percent between 1997 and 2002. Since 1996, the cable TV industry has invested approximately USD275 billion cumulatively in high quality content and more than USD210 billion in network infrastructure. Cable and telecom is the second largest investor in the US economy while the cable industry provides nearly 2 million direct or indirect jobs. Over the past five years, by providing additional services to subscribers, the average revenue per user has increased by more than 40 percent. Welch concluded that simplicity is a regulator' s best friend and deregulation of cable TV rates is good policy.

Setting the Stage



Historical events of cable TV in the US

Source: Joe Welch, SVP Government Relations Asia, 21st Century Fox

Experts and scholars from Taiwan: Create industry value is important in the era of convergence

Representatives from Taiwan included Dr. Eric Chiang Yao-Kuo, School of Law, Chung Yuan Christian University, Dr. Jessica Chou, Associate Professor of Social Informatics, Yuan Ze University, and Dr. Xin-Wu Lin, Researcher & Director of Research Division III, Taiwan Institute of Economic Research. They also offered their analysis on cable TV regulation in Taiwan.

Prof. Chiang reminded us to watch out for what might happen in metropolitan cities where competition among cable operators is deemed to increase. He asked whether the fierce head-to-head competition in the 1990s will re-emerge 20 years later in Taiwan. Meanwhile, Prof. Chou analyzed the competition patterns between

firms of different sizes and intra-platform and inter-platform competition after cable digitization. Director Lin emphasized that media enterprises are in need of innovation and change to keep pace with developments in digital convergence. He also claimed that the point is to touch consumers' hearts and adopt creative marketing approaches to add value on products. For the regulator, it is necessary to revise related rules to yield business efficiency.

Conclusion

In the era of convergence, the divided line between communications and broadcasting has blurred. By analyzing the experiences and observations the speakers shared, it is clear that decisions on policy-making align with the latest developments in industry and that transitions are made steadily on a step-by-step process.

On one hand, the cable television industry requires continual investment to expand services and provide quality and diverse content to consumers while, on the other hand, the rapid advancements in technology and the open internet have forced the cable television industry to take the challenges from these emerging platforms seriously. Thus, the objectives of regulation for cable TV should be inclined to relax entrance requirements, stimulate innovation based on technology neutrality, create a fair environment for communication and broadcasting sectors to compete, and enhance economical growth and welfare of consumers.

At this critical point in the development of the communications industry, the seminar provided insightful regulating and business

analysis for our colleagues and entrepreneurs as well. The NCC welcomes feedback from all sides as it continues to draw up progressive and forward-looking communications policies.