FOCUS ON THE CHALLENGES OF CONNECTED TV

Connected TV is an internet-enabled TV which for the first time connects linear and non-linear media services in one device. In connected TV the boundaries between online and TV disappear, giving rise to the question of whether the existing regulations are prepared for this. In fact, the Audiovisual Media Services (AVMS) Directive regulating the linear signals is quite strict, but regulations drafted for non-linear services are not adapted to the present and future situation. The big question remains whether it makes sense to keep this division and how to develop legislation, and the AVMS Directive in particular for the challenges of the future.

Background

On 4 May 2012, the first report on the application of the AVMS Directive was adopted[1]. "The report shows that the AVMS Directive is working, but internet-driven changes such as Connected TV mean we cannot be complacent." Vice President Neelie Kroes said. Consequently, in order to assess what adjustments should be made to the existing regulatory framework and the AVMS Directive in particular, the EC published, on 24 April 2013, a policy document in the field[2] and started a consultation on this question[3].

The market penetration of Connected TV devices seems to be skyrocketing (likely to cover one fifth of all TV sets in the world by 2016, regardless of the fact that the use of their capabilities is quite limited). Several concerns have already been formulated in certain Member States. The European Internet Foundation recently organised an event to debate and assess which regulatory and practical issues need to be addressed for Connected TV to fully realise its economic and cultural potential[4].

The European Parliament has prepared an own initiative report on the implementation of the Audiovisual Media Services Directive[5], and another one on Connected TV[6].

Note on the Challenges of Connected TV

This briefing is designed to provide an overview of the complex factors which affect the development of Connected TV (also known as Hybrid TV or/and 'Smart TV') in the European Union and provide legislators with the keys to understanding where and how the EU legislative and regulatory framework may be relevant to its evolution.

Available in: EN, DE, FR

Executive Summary in all EU languages

Technological Mapping

This connected, multi-screen universe is characterised by a high level of fragmentation in technological solutions and standards, a product of complex factors and interaction between markets and technologies. Amongst the actual technology standards in current use in the European Union for Connected TV are HbbTV, Freeview in the UK and MHP in Italia. These standards have to compete with or accommodate other standards like Android or iOS which are embedded on various tablets, cell phones and TV sets and other bespoke standards such as X BOX 360 and PS3, which are reaching millions of users with game consoles already TV compatible. However, legacy linear TV is demonstrating considerable resilience in the face of the expanding multi-screen paradigm, and will probably remain a key feature of the content delivery landscape for a very long time to come, even if access to the broadcast signal might in future be through a click on an app, rather than a channel number.

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1 First Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on *the application of Directive 2010/13/EU "Audiovisual Media Service Directive"*, European Commission Brussels, 4.5.2012 COM(2012) 203 final

2 European Commission, Green Paper *Preparing for a Fully Converged Audiovisual World: Growth, Creation and Values*, Brussels, 24.4.2013, COM(2013) 231 final.

3 http://ec.europa.eu/digital-agenda/en/public-consultations-media-issues#online-consultations

4 https://www.eifonline.org/component/events/event/52-connected-tv.html

5 REPORT on the *Implementation of the Audiovisual Media Services Directive* (2012/2132(INI)) 28.2.2013.

6 REPORT on *Connected TV* (2012/2300(INI)) 10.6.2013.

Standards and interoperability /multiscreen

Growth opportunities are hampered by the proliferation of proprietary solutions, lack of common standards, and asymmetric levels of infrastructural and technological developments across the EU. The consumer's increasingly fluid perimeter of content consumption and mobility is at the centre of the battle for the control of the convergence space by the major stakeholders in the roll-out of connected TV. The lack of interoperability obliges every operator to develop specific interfaces for different devices. However, the three European standards (HbbTV, Freeview and MHP) embedded in TV sets may be compatible with HTML5 and proprietary systems.

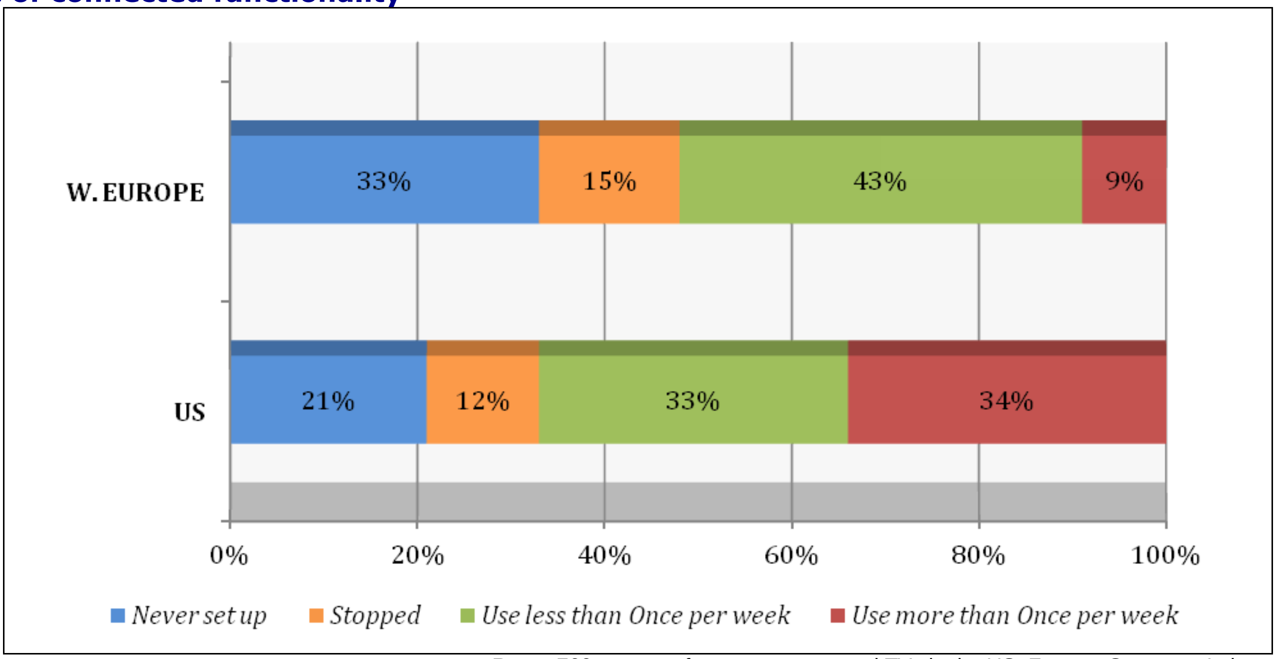
Market mapping

By the end of 2012, the world's installed base of smart TVs had reached 104 million, of which 22.7 % in the big five European countries (no figures for EU27). On average, only one third of Smart TV households are effectively connected to the Internet and used as "smart".

Smart TV Installed Base by Country (Millions of Units)	2012
Japan	21.1
United States	15.8
China	13.8
Germany	7.1
UK	6.8
France	4.2
South Korea	3.5
Russia	3.1
Italy	2.9
Spain	2.7
Total	81.0

Source: Media Consulting Group

Use of connected functionality



Base: 760 owners of smart or connected TVs in the US, France, Germany, Italy and UK.
Source: Strategy Analytics' Digital Home Observatory service, May 2012

The connected TV 'food chain'

The cross-over between stakeholder sectors of Connected TV is multi-directional: whilst audiovisual content groups are increasingly pushing to integrate vertically into all stages of the economic cycle of content, from development and production, to editoralisation and distribution, telecom operators and internet service providers are integrating horizontally into content publishing, retail and distribution. Simultaneously, some of the Over-The-Top (OTT) online video brands which had confined themselves to high volume, low-value user-generated-content (UGC) or specific genres in their start-up years, are consolidating their presence in the market for packaging and distributing professionally-made premium content. OTTs and internet service providers (ISP) are entering new areas of content aggregation and distribution in the convergent connected TV space.

These movements of content integration within the connected TV hardware involve the development of new types of partnerships between manufacturers and other stakeholders, including producers, distributors, broadcasters, or OTT services with Video on Demand (VoD) offers, etc. In essence, the partnership model gives all stakeholders, including the larger conglomerates, opportunities to meet several strategic objectives at once, e.g. rationalisation of R&D, development of a consumer base and increase in the average revenue per user (ARPU).

The gradual shift to non-linear consumption will impact content financing

The trend towards increased non-linear consumption will continue, with significant differences between European countries, reflecting asymmetries in levels of broadband infrastructure developments and cultural habits. Consumption of video content "on demand" including UGC, VoD, and catch-up TV has become increasingly important thanks to the roll out of universal broadband and Internet use: by far the most significant share of non-linear viewing on today’s connected TVs is captured by linear broadcasters’ catch up and complementary services. However, in due course, the overall market impact on the audiovisual value chain of the combined viewing of services by pure OTT players not affiliated with broadcasters might be much stronger than their share of audience. These developments may impact the revenue flow of linear broadcasters and their capacity to invest in content.

Consumer take-up and consumer experience

Viewers are increasingly using the second (or third) screen to stream or download content which originates from – or might iterate to – the main screen. In response to this important behavioural development, both traditional and new media conglomerates are developing new applications for tablets and smartphones to permit the seamless transfer of content from first to second screen and back.

Regulatory challenges

There are a number of regulatory issues which are linked to the European development of connected TV:

- Issues related to EU citizens' fundamental rights and consumer protection (e.g. protection of minors, consumer information, privacy and personal data, right of reply, right of correction, defamation or slander, libel).
- Issues related to EU policy and, in particular, Single Market and cultural policies (technical standards, interoperability, access to technology, promotion and financing of European works, equal access to legitimate content, must carry).
- Issues relating specifically to Internal Market regulation, anti-trust and competition (monopolies and abuse of dominant position, discriminatory pricing, competitive bottlenecks for content distribution, content discoverability on search).
- Several directives (AVMS, universal service, e-commerce and distance selling, Citizen rights and electronic communication, Radios spectrum, Access) could be impacted.

Conclusions

Proprietary applications are not the dominant model but only one of the strands of the Connected TV experience. Linear broadcasting retains a powerful hold on the consumption pattern of the average European user. Connected TV stakeholders are developing ecosystem-building strategies based on partnerships and/or mergers and acquisitions in which European SMEs can play a role. These consolidation strategies enable stakeholders to package cost effectively the entire range of applications meant to convert the consumer to the Connected TV experience.

Connected TV offers an outstanding opportunity to provide a solution to issues that limit the circulation of European works, the educational dimension of television, the interactive enrichment of content, and the dissemination of multilingualism. Connected TV will offer unprecedented possibilities to enhance access to culture, education and information for all European citizens suffering from physical or cognitive disabilities, and thus will contribute not only to Europe’s economic growth but also to its social cohesion and general well-being.

Recommendations

The time is for neither a 'big bang' style de-regulatory push nor a standstill. Instead, targeted regulatory adjustments may be appropriate in areas where such intervention may help drive innovation, ensure competition on fair terms and protect the consumer.

For premium content, the European creative community may require on-going, long-term incentive policies to remedy persistent market failure and the uneven playing field with content offers from third countries. Such incentives should be accompanied by rules of engagement which will ensure that this content is discoverable, identifiable and their original format respected, with no third party able to monetise add-ons around their content without consent.

There may be a locus for a limited review of relevant aspects of existing directives, to ensure the fitness to purpose of EU regulation in relation to the development of this cutting edge sector.

Directives potentially relevant to Connected TV issues

Directives	CTV related issues
AVMS (2010/13/EU)	Advertising, protection of minors, cultural diversity, Hybrid TV, accessibility, exclusive rights, media literacy, right of reply
Universal service directive (2002/22/EC)	'Must carry',' must offer', must-be-found
E commerce and Distance selling Directive (97/7/EC)	Consumer protection, right of cancellation
Citizen's rights and electronic communications (2002/58/EC)	Right of reply, right of correction Defamation, slander, libel Invasion of privacy, Personal data, privacy, Right to be forgotten
Access (2002/19/EC)	Interoperability/standards/ Must carry/must offer/must be found

The European Parliament has a positive role to play in fostering consultations between stakeholders, to ensure that equal access for all European citizens remains at the heart of the development of Connected TV.

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