



THE ROLE OF INTEGRATED DIGITAL TELEVISION SETS IN ACHIEVING DIGITAL SWITCHOVER

Response by the Digital TV Group

Summary

The DTG would first suggest that the government consider what the purpose of any legislation in this area should be. We believe that the primary purpose of legislation would be:

- (i) to protect the consumer from unwise purchases of analogue devices in the run-up to analogue switch-off;
- (ii) to provide an environment where its industries can flourish and benefit the wealth of the nation.

Speeding up the switch-over process would be a welcome bonus but should not be the primary reason, we would argue.

The DTG believes that the mandation of digital tuners for TVs will have a part to play in achieving the overall aim of early analogue switchover. However, there is an important caveat – that any degree of mandation is introduced with the full co-operation of European receiver manufacturers and in a carefully managed process to allow manufacturers to adjust production with due notice and avoiding the imposition of changes that would reduce their success and profitability.

Any European Commission directive on the mandation of digital tuners should recognise the different timescales for digital conversion across different member states. Timescales must be set that allow manufacturers an orderly transition of products for each territory.

Within each territory, mandation should be applied at different times to different types of products, applying first to large screen TVs where the extra cost of a digital tuner is a small percentage of the whole, and later to small screen commodity products.

Legislation should apply to VCR products and separates (plasma / TFT screens with separate electronics boxes). Some thought needs to be given to arguments against the application of mandation to VCRs and small screen TVs and this is further considered below.

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ABOUT THE DTG

The Digital Television Group (DTG) welcomes the DTI / DCMS consultation on the role of iDTVs in achieving digital switchover. Established in 1996, the DTG is an Industry association whose members co-ordinated the UK launch of digital terrestrial television. Its membership has grown to more than 100 organisations representing all sections of the digital television industry including broadcasters, network operators, consumer electronics manufacturers and retailers, and consumer groups.

Given the wide collective industry experience of its members, the DTG is ideally placed to comment on the most appropriate regulatory structure to deliver the Government's communications objectives.

This response has been drawn up in consultation with its members and represents a consensus of the views expressed. Individual members may, of course, have particular objectives and may submit their own responses to this consultation, which may differ in detail to this collective response.

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INTRODUCTION

The possibility of mandating digital tuners in TV products was first raised over two years ago at a meeting between Industry leaders and Patricia Hewitt at ITV Digital. The idea was embodied in the Government's Digital Action Plan and the current consultation stems from that.

The consultation makes it plain that the Government believes it is not possible to enable legislation in the UK alone, because of European single market considerations. Such legislation would have to come from the European Commission and apply to all European territories. Yet TV markets in Europe are very diverse – overall legislation could be quite counter-productive in some countries, as considered in the BIPE report. Yet, in the USA, the FCC have punched through initial opposition from the CEA and gained industry support for a move to introduce mandation to the American market.

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WHAT IS THE PURPOSE OF LEGISLATION?

Before considering what might be gained from a regulated introduction of digital consumers, it is worth considering what is the purpose of regulation in general and what the government's duties are in this area.

- All governments have a duty to protect its citizens. In this case, it is to ensure that consumers do not unwisely purchase a TV set that will become useless before it has fulfilled a reasonable lifetime.

One could argue that a low-cost converter box could provide a solution to a consumer whose new analogue TV ceases to work after only a few years but this may not be practical for portable TVs, for example.

One could argue that an information campaign, so that the consumer is positively informed of the limited lifetime of an analogue product when it is purchased. Against that, knowing about analogue switch-off may not stop the consumer from feeling aggrieved when it happens.

We are thus, clearly facing a situation of 'market failure.'

- The other duty of government is to provide an environment where its industries can flourish and benefit the wealth of the nation. Regulation can often be counter-productive, or have an unexpected effect, if it does not have the support of the industry being regulated. If it does have Industry support, why regulate? Why not just let Industry agreement fulfill the objective?

The answer is, of course, that with free trade, there will always be foreign manufacturers and importers, which will seek to fill a gap in the market and undermine the purpose of the voluntary agreement of bigger players.

We would therefore argue that the government should first consider whether it has a duty to act in this area, before considering whether it has a desire to act in pursuit of its objective of early analogue switch-off.

WHAT IS AN IDTV?

Before considering the questions posed in the consultation, it is worth taking a moment to define what is meant by the phrase "integrated digital television."

The consumer perspective is that an IDTV should look like an integrated package – i.e. that it has been designed as a single entity without a nest of untidy interconnecting wires – and should behave like an integrated package – eg that it should operate with a single remote control. It is a 'bundled' display-cum-tuner package. Whether it is in one box or more is immaterial to the definition.

Ease of use is an important criteria. Experience shows that interconnection of set-top boxes is rarely done correctly by the consumer and is quite frequently wrong in the

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hands of 'professional' installers. Consumers have failed to grasp the logic of using a single tuner set-top box with both a TV and a VCR. Many people watch BBC and ITV on analogue, even though they could see the same programme in digital with superior quality / widescreen.

WIDESCREEN

The remarkable success of the analogue widescreen market provides the core revenue to the consumer electronics manufacturing and retail markets. It is critical that we do not risk the buoyancy of that market by regulation in isolation of the infrastructure problems that are affecting trade and consumer confidence today.

Currently all idTVs are widescreen, but sell in very small numbers compared to their analogue equivalents.

The number of analogue widescreen sets in the UK was 5,504,000 at the end of June 2002 giving a penetration of 22% of households. Penetration is estimated to be 27% of UK households by end 2002. The widescreen penetration in digital households is approximately twice the general figure. Analogue widescreen set sales are the largest selling item in the UK electrical sector, with total sales to-date of some £3.5 bn. Sales are currently increasing at 49% a year. We expect to see 50% widescreen penetration in all UK households by end 2004.

This analogue widescreen television market in the UK is the largest in Europe. The figures at the end of September 01 show the UK with 46% of the total European market, with the next highest country achieving 14%. The UK brown goods market has overtaken the brown goods market in Germany due to UK widescreen sales.

Currently, a large number of UK programmes are made and transmitted in widescreen on digital channels. This can be as much as 80% of prime time programming on major channels. The widescreen standard is unique in being common to all new developments including high definition. This is influencing international programme markets, which are beginning to require widescreen programmes for high definition channels.

Progress has been achieved due to considerable combined efforts by UK broadcasters, programme makers and receiver and broadcast equipment manufacturers, all of whom have supported widescreen, so that the public can invest in widescreen sets – analogue or digital - with confidence. Digital channels provide the only fully satisfactory method of viewing widescreen broadcasts.

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RESPONSE TO THE QUESTIONS

Q1 To what extent do you think consumers can benefit from having digital decoders included in television sets? Are some consumers, such as those with disabilities, particularly affected?

There is no doubt that at some stage in the future digital television will completely supplant the existing analogue services. The arguments in favour of digital TV have been well rehearsed elsewhere. Broadcasters want to see an early changeover to digital because of the extra cost of simulcasting analogue and digital services and because spectrum currently occupied by analogue transmissions is to some extent needed to complete digital terrestrial coverage.

As with previous transitions, in the early stages of switchover an add-on adapter box is attractive as a low-cost way of converting an existing TV to receive the new transitions. But it also has drawbacks, in that it does not always neatly integrate to the TV cluster in the living room and the user has to contend with an additional remote control.

Thus, as the technology matures and as coverage improves, and as the value to the consumer of the content offering appears more attractive than simple analogue TV, we would expect that they will take a greater market share and eventually supplant analogue products completely. Digital terrestrial is different to other platforms in this respect, since the use of open standards and free-to-air broadcasts means that digital tuners can be built in to a wide range of CE products in just the same way that analogue tuners are currently fitted.

Integrated products have particular advantages in a number of situations, particularly where portable products are moved between rooms (for example small screen TVs which are allowed in children's rooms only at certain times). They are generally easier to operate and have particular advantages also to people with certain disabilities.

Q2 How far do you think iDTVs can contribute to encouraging take-up of digital services?

IDTVs are currently a very small part of the market for the following reasons:

- Availability of 'free' set-top boxes from subscription providers in the pay TV market.
- Uncertain signal coverage causing returns of idTVs to retailers, making analogue TV plus set-top box an easier sell since if signal problems occur only the set-top box need be returned.
- Uncertainties about the future of digital, exacerbated by the failure of ITV Digital
- Limited promotion of idTVs due to poor retail staff training.

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All of these factors will diminish with time. In the near future, sales will concentrate on low cost converter products. These volume sales at the bottom end of the market will in turn encourage iDTV sales at the mid / high end.

In the meantime, consumers need to be warned that the government intends an early cessation of analogue transmissions and that analogue TVs will require a converter box to continue to operate. Increasingly, consumers will opt to purchase an iDTV rather than a new analogue TV.

We believe that in a few years iDTVs will become an important market driver for the mid to high end market segment. The area of greater concern is the sub £100 small screen TV market where:

- (i) the cost differential of digital is a greater percentage increase
- (ii) the use of an external digital adapter is physically problematic

Q3 How far do you think iDTVs can contribute to reaching the point at which analogue terrestrial transmissions could be switched off in the UK? And in the rest of Europe?

We do not see a distinction between this question and the previous one. As iDTVs become important market drivers, so they will contribute to reaching the point where analogue may be switched off. The sooner an iDTV becomes the natural purchase in the replacement TV market, the sooner we shall get to the conditions where analogue could be switched off.

In terms of the development of digital in Europe, services on Sweden, Spain and Finland have so far failed to find any great success and the pay TV provider in Spain suffered the same fate as ITV Digital. So there is a natural delay whilst other member states review the commercial model on which their plans were based. A success is needed to point the way.

The danger for governments is that analogue TV is allowed to 'wither on the vine' such that the scarce spectrum resource is locked up with an increasingly small population of users. The impact of attractive, low-cost iDTVs, offering additional services which are attractive to consumers, will surely offer the greatest incentive for users to switchover.

Q4 How might we ensure that any proposal to make sets contain a digital decoder did not favour one platform over any other?

We understand that legislation has to be general and allow cable and satellite iDTV solutions. On the other hand, it is terrestrial analogue that is being switched off and that the objective of the exercise is to provide a low-cost alternative to the reception of existing free-to-air analogue services. We note that the EU supports open standard

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content, so perhaps the requirement should be more specific to those platforms adopting open standards.

It has been suggested that TVs should be required to have an MPEG decoder only, leaving the choice of platform to be added as a plug-in module or separate box. It seems to us that this is the 'worst of all worlds,' interfering with the manufacturers freedoms in product strategy, forcing additional cost which will be born by the consumer and not having the convenience of a truly integrated solution. In the future, the development of home local networks may make such solutions feasible but it is for the market to decide.

Q5 How might we ensure that any proposal to make sets contain a digital decoder was neutral with respect to the market models and technical choices made by individual service providers?

Any government action should allow consumers and the market place to decide which form of digital TV best replaces their analogue services, but at the same time must recognise that consumer choice facilitated by free-to-view services using open standards should be 'encouraged' by member states.

Q6 If there was a proposal to make sets contain a digital decoder, what conditions should apply? For example, should the proposal apply only to sets of a certain size, or including certain features, or from a certain date? Should it include all receivers (including VCRs) with a PAL or SECAM decoder?

The Consultation paper makes clear that the view of the British Government is that legislation would only be possible within the context of a European Commission Directive. We believe that it would be disastrous to attempt to set a single timescale across Europe, leading to a situation where our remaining major CE manufacturers abandoned TV products for more profitable areas of operation.

If legislation is to be effective, it must be subject to the setting of timescales in individual territories and implemented by NRAs with the cooperation of major manufacturers in each territory.

What conditions should apply? It seems clear to us that it should include all terrestrial tuners, including VCRs. Most manufacturers believe that the VCR will be phased out from product sales within the next few years and replaced by devices that are inherently digital. However, it would be inconsistent to exclude VCRs

The case of small screen TVs, there may be a good case for excluding them in the short term, while the cost premium of adding a digital tuner remains relatively high. This interim period – of say three years or so – should again be determined by NRAs and major manufacturers in each territory to suit local conditions.

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Legislation that applied to all tuners, would allow for monitor screens without a tuner (either analogue or digital – like some currently available plasma screens) to be excluded from a directive.

A further question is whether it should also apply to cable and satellite receiving devices, or perhaps the question is “Why should it not apply also to cable and satellite” in order to preserve a level ‘playing field.’ This is no so much a problem for the UK, where conversion to digital is well advanced on cable and completed on satellite. But in other territories migration to digital on these platforms is much less advanced. Also, cable and – particularly - satellite receivers are purchased in retail stores in a horizontal market. Support for open standards, as referred to earlier, suggests that any legislation should therefore apply to these platforms as well as terrestrial. It will be necessary to work through this scenario in the process of preparing any European Commission directive.