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Dear Jane, Dear Catherine

THE ROLE OF INTEGRATED DIGITAL TELEVISION SETS IN ACHIEVING DIGITAL SWITCHOVER

Ref: Consultation Document issued with Press Release dated 27th June 2002

Thank you for the Consultation Document and the opportunity to comment on the proposal to mandate idTVs as a means of accelerating the take-up of digital television in the UK.

Intellect represents companies manufacturing television sets and their component and semi-conductor suppliers.

Our conclusions are that:-

- IdTVs have a very important role in the take-up of digital television.
- Mandating idTVs might be appropriate on a European-wide basis but only when a majority of European households have migrated to digital television.
- Mandating idTVs in the UK at present can not be enforced and *could* cause serious adverse consumer reactions.
- A voluntary agreement or concordat between manufacturers on the supply of analogue television sets might be an option but would require prior approval from the competition authorities before any discussion.
- Given high quality Free-To-View services universally available on digital terrestrial television, digital take-up should accelerate.

Intellect fully supports the Government's objective of Digital Switchover by 2010 and believe it remains achievable given the right combination of circumstances.

Yours sincerely



H Peltor
Director, Consumer Electronics

Attachments: 1. Intellect Paper 2. Response to Questions.

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THE ROLE OF INTEGRATED DIGITAL TELEVISION (idTV) RECEIVERS IN ACHIEVING DIGITAL SWITCHOVER

- References:
- a. DTI/DCMS Consultation Document dated 27th June 2002.
 - b. Digital Television 2002 – Final Report by MORI for DCMS dated May 2002.
 - c. Digital Decisions : Viewer Choice and Digital Television – Viewers Panel Report for DCMS dated December 2001.
 - d. Digital Switchover in Broadcasting – A Study by BIPE for the European Commission dated 12th April 2002.

INTRODUCTION

1. **Intellect** welcomes the Consultation (Ref. a) as part of the Digital TV Action Plan process to gather views and develop policy for Digital Switchover in the UK. Intellect represents companies manufacturing television sets and their component and semi-conductor suppliers.
2. The focus of this response is the TV manufacturers' views on the proposal to mandate the fitting of a digital decoder in all large screen television sets as a means of accelerating the rate of replacement of analogue television sets with integrated digital television (idTV) receivers.
3. The Consultation Document summarises the deployment of digital television in the UK since the launch in autumn 1998. The recent collapse of ITV Digital in April 2002 has seriously disrupted this deployment but now provides an opportunity to revise the UK's strategy for digital television in the light of experience.
4. The take-up of digital television in the UK has been very rapid, reaching 44% by January 2002 but since then slipping back to 41% (Ref b). A penetration of "65% by 2007 is probably the most optimistic expectation" according to MORI (Ref b, page 8). This would badly undershoot the progress towards the Digital Switchover target of "by 2010".
5. Subscription of digital Pay-TV has dominated UK television throughout its short history and with the demise of ITV Digital, Satellite Pay-TV is now dominant. To succeed digital television must also appeal to those many householders (about 40%) who want Free-To-View services only (Ref.c, Viewers' Panel , page 11, para 3.2.2). Furthermore, the Viewers' Panel reported (Ref c page 9, para 3.1.3) "In general, analogue viewers seem to expect digital terrestrial to be as widely available as analogue terrestrial".
6. The immediate requirements must be to raise awareness of the Free-To-View services provided by the public service broadcasters and to make substantial improvements to the coverage and signal quality of digital terrestrial television. The objective must be to accelerate the growth of conversion to digital of Free-To-View homes. The receiver equipment requirement will be for low cost digital converters (LCDC) and idTVs.

UK GOVERNMENT OBJECTIVE

7. The UK Government has committed to achieving Digital Switchover between 2006 and 2010 so that analogue terrestrial television can be switched off. The criteria for switching off analogue terrestrial television are that, firstly, everyone who can currently receive the main public service broadcasting services in analogue, would be able to receive them on a digital system; and, secondly, 95% of viewers should have access to digital receiver equipment.
8. **Intellect** fully supports the UK Government's objective for digital switchover which we still believe is achievable given the right combination of circumstances. Intellect also believe that the Digital Television

Action Plan with the family of Working Groups, the Stakeholders Group and the Steering Board, provide the best framework in which Government and industry can work in partnership to formulate the policy and deliver the overall objective – Digital Switchover by 2010.

9. The benefits to UK of achieving Digital Switchover by 2010 include:
 - Retaining a world lead in digital television technology.
 - Retaining high-value TV manufacturing.
 - Retaining research and development facilities and a skilled workforce.
 - Contributing to the transformation of the UK's communications infrastructure.
10. The benefits to consumers of digital television are more services (moving from 5 analogue to 24 digital Free-To-View) covering a wider range of interests and activities; better picture quality and 16:9 Widescreen; better sound quality; and interactive services.
11. The UK Government also intends to re-assign a number of analogue terrestrial television channels after switch off for both broadcasting and non-broadcasting purposes. Unfortunately, the Press depicts this in simplistic terms as a potential source of revenue and the only reason for migrating UK to all-digital television. Clearly, there is a wider public interest to be considered in the allocation, assignment and management of this spectrum.
12. However, all concerned need to guard against a public perception building up that viewers will be coerced into changing to digital television to provide income for the Treasury : such a perception being currently held at this sensitive stage of the deployment of digital television in the UK would be especially unhelpful.

UK DIGITAL TELEVISION – PROGRESS TO DATE AND MARKET DEVELOPMENT

13. Following the launch of digital television in the UK in the autumn of 1998, digital television ownership reached 44% of the population by January 2002. This rapid take-up has been led by BSKYB who are continuing to gain subscribers to their satellite services. Throughout the short history of digital television in the UK, Pay-TV has dominated and the UK public has assumed that digital television equates to Pay-TV.
14. However, some 40% of UK householders have no wish to subscribe to digital Pay-TV. Such householders could be persuaded to migrate to digital television if there were attractive Free-To-View services available on digital terrestrial television (DTT).
15. Unfortunately, DTT coverage and signal quality across the UK is very variable and these failings were contributory factors in the demise of ITV Digital. The award by the ITC of multiplexes B,C and D to the BBC/Crown Castle consortium provides an opportunity for a reinvigoration of UK policy towards DTT and could do much to restore consumer and industry confidence in digital television. The planned October 2002 launch by the BBC consortium of 24 Free-To-View services provides an excellent opportunity to stimulate the Free-To-View market.
16. In anticipation of the October 2002 re-launch, a choice of Free-To-View digital Set-Top-Boxes is being made available at competitive prices of £99 to £150. It seems very likely initially that these will form the majority of digital receiver purchases, reaching perhaps 500 thousand in 2002 and 1.5 million in 2003. Such purchases will probably be linked to sales of analogue Widescreen television receivers. However, we expect idTVs to at least double from 125 thousand per year in 2002 to some 300 thousand in 2003 in response to the BBC/Crown Castle consortium launch.
17. It should follow thereafter that the market for idTVs continues to accelerate providing that DTT coverage and signal quality continues to extend and improve. If DTT had been more reliable in 2000 and 2001

sales of idTVs would have trebled. Meanwhile, an increasing volume of digital decoders placed either in Set-Top-Boxes or idTV receivers, should steadily reduce the cost so that the price differential between an idTV receiver and the combined cost of digital Set-Top-Box and analogue television receiver, should diminish to the point where the idTV receiver has the greater attraction to the consumer. Greater confidence in DTT reception will encourage the consumer to opt for an idTV even with a price differential in favour of a Set-Top-Box.

IDTV RECEIVERS

18. idTV receivers are comparatively easy and convenient products to install and operate. They should be perceived by consumers as the natural replacement for the analogue television receiver, with the added attraction of 16:9 Widescreen. For the UK and other countries dominated by terrestrial television we consider that the idTV receiver with a digital terrestrial decoder is likely to prove the most popular version, although idTV receivers which combine terrestrial and satellite are also likely to be marketed.
19. idTV receivers are a bridge to maintaining the traditional TV set manufacturing industry which otherwise might fragment into a Set-Top-Box and monitor industry. To mandate digital decoders in all large television sets would seem therefore an obligation, which should be well received by TV manufacturers.
20. Manufacturers have been considering this proposal very carefully : individual views depend partly on their companies' current degree of commitment to supplying idTV receivers to the market. This supply is heavily influenced by the needs/wishes of consumers and the retailers.

EUROPEAN UNION

21. While products have to meet regulated standards for reasons of safety for example, instinctively manufacturers abhor the mandating of components and features in their products. It is all too easy to distort the market or select the wrong technology. The Consultation Document has pointed to the legal difficulties in terms of the European Single Market and the need to avoid setting a technical barrier to trade. The European Commission has become very reluctant to impose technical standards (cf. the failure of the MAC Directive) and more inclined to encourage consensus among industry and consumer groups through the use of Memorandum of Understanding.
22. In their study for the European Commission, "Digital Switchover in Broadcasting", BIPE conclude (Ref d, page 10, Part 1) that a compulsory digital tuner measure:-
 - ".....would be useful in the sense that it would produce – mechanical acceleration of migration by the automatic conversion of all households which replace their TV set....."
 - "We do not think that it is essential, to the extent that other solutions exist..... distributing digital converters could produce almost similar effects".
 - "Finally, we believe that the cost/benefit balance is an uncertain factor depends on the national context and the political evaluation of certain effects....."
 - "However, we think that the potential benefits will exceed the slight added cost and the risks attached to a measure of this type in the majority of cases, if steps are nonetheless taken to limit risks of competitive distortion to the greatest degree possible."
 - "(BIPE)..... stressed that this analysis only covers minimum level idTVs and not those with Pay TV module, memory, built-in API, etc."
23. BIPE need to progress their cost/benefit analysis and it is important that the European Commission considers the issue of mandating idTV receivers. However, most manufacturers believe that there are serious practical difficulties in enforcing a mandate for idTV receivers. Such difficulties may decline when a significant majority of European homes have connected to digital television. Allied to this will be the need for Digital Switchover dates to have been announced by all Member States. Until these

conditions have been met mandating of idTVs is likely to be circumvented; and, we think therefore, is unlikely to be approved by the European Commission.

24. Thus the UK, one of the early leaders in digital television, should look to other measures to accelerate digital conversion.
25. Meanwhile, the European Commission will have an increasingly important role as honest broker in co-ordinating spectrum management and the Digital Switchover dates of all the Member States.

CONSUMER ISSUES

26. The attitude of consumer groups is of critical importance in considering the viability of mandating idTVs given the political implications. In their Report to DCMS (Ref. C, page 16, 4.2.3) the Viewers' Panel "consider that it could be unwise to require that only digital televisions can be sold in future. While this could ensure that idTVs fall in price and become available in smaller sizes", and "Mandating the sale of idTVs might restrict innovation and could well limit viewers' access to new features....."
27. The Viewers' Panel also concluded (Ref. C, page 7) "When 70% of consumers have access to digital equipment we will know that a significant milestone has been passed, and can clarify the timetable further". In MORI's report to DCMS (Ref. b, page 3) it is projected that "65% of Britons will be digital viewers by 2007".
28. In the current situation with less than half the UK connected to digital television the idea of mandating idTVs is likely to be badly received and could be perceived as a deliberate act of coercion and an unfair restriction on consumer choice. It would be valuable to know the OFT's views on this. No industry would wish to be associated with mandating in such a situation.

CONCORDAT

29. The Consultation Document considers the option of manufacturers agreeing collectively to stop making large Widescreen analogue-only sets in the next two years. As the Document points out, this approach could infringe competition law. It would be impossible to even discuss this as an option unless the competition authorities provided appropriate guidance/approval that such a discussion could take place.
30. **Intellect** is not suggesting that a Concordat would be established by the manufacturers but recommends that Government seek guidance from the Office of Fair Trading. Some form of Concordat was established, it is believed, towards the end of the transition to colour and the turn-off of 405-line broadcasting in the United Kingdom in the period 1967 to 1987.

DISCUSSION

31. The concept of mandating idTVs has certain attractions and ultimately may be a necessity when the great majority of European Union householders have migrated to digital television. There is certainly a need to address this in a European context now in conjunction with the co-ordination of Digital Switchover dates and spectrum management.
32. For the UK, one of the leaders in digital television mandating idTVs is unlikely to be a viable option in the short term for years because of the impracticalities of enforcement. Furthermore, in the current digital television market in the UK, advance warning of mandating could well harden the attitudes of those who have not already migrated to digital television and cause adverse reaction from the general public.
33. There is merit in considering some form of manufacturers' Concordat but this needs authorisation by the competition authorities.
34. It is much more important to focus on the Free-To-View market which should be galvanised by the BBC/Crown Castle launch in October 2002. The attraction of 24 digital Free-To-View services (including 16:9 Widescreen) in place of 5 analogue services; and the availability of Low Cost Digital Converters as

well as high quality idTVs should do much to re-establish growth in digital television take-up. The need for a public information campaign to raise awareness and dispel confusion are also high priority activities to accompany the BBC/Crown Castle launch.

DIGITAL TERRESTRIAL TELEVISION (DTT)

35. There is no doubt that if DTT coverage had been greater and signal quality better, a great many more idTVs would have been sold already. In their Report the Viewers' Panel stated (Ref. C, page 21, 5.2.1):-

“The Panel would prefer all viewers to have a choice of platforms. In practice this choice is likely to be between digital satellite and digital terrestrial for most, while around 60% of viewers would also have the option of digital cable. This means that the 99.4% coverage target should arguably relate to digital terrestrial alone, thus ensuring that all viewers have access to a basic Free-To-Air terrestrial service, including Public Service broadcasting. However, the Panel notes that unless spectrum availability is increased, near-universal coverage cannot be achieved prior to Switchover.”

36. Manufacturers remain convinced that the key to achieving Digital Switchover by 2010 lies in achieving universal coverage of DTT before Switchover. This would facilitate a seamless migration from analogue to digital for all remaining analogue homes and cater for portable TV sets using Set-Top aerials.

CONCLUSIONS

37. We conclude that:-

- IdTVs have a very important role in digital take-up and should be seen as the natural replacement for the analogue television set.
- The poor quality of signal and limited coverage of DTT has severely hampered the sales of idTVs.
- Universal access to DTT to receive the public service broadcasts is essential for the successful achievement of Digital Switchover by 2010.
- The planned launch in October 2002 and the promotion of 24 Free-To-View services by the BBC/Crown Castle consortium will re-invigorate the take-up of digital television.
- Mandating idTVs in the UK could cause adverse consumer reaction.
- Mandating idTVs in the UK for the next few years would be difficult to enforce.
- Mandating idTVs might be appropriate on a European-wide basis but only when a significant majority of European households have migrated to digital television.
- The European Commission need to consider the mandating of idTVs together with other issues affecting the deployment of digital television in Europe, including the co-ordination of Digital Switchover in Member States and spectrum management.
- A voluntary agreement or Concordat between manufacturers on the future supply of analogue television sets might be an option but would require prior approval from the competition authorities before any discussion.

**RESPONSE TO THE DTI CONSULTATION PAPER ON THE
MANDATING OF DIGITAL BROADCAST RECEIVING CAPABILITIES INTO TV's**

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?*

A1 As shown in the preliminary results of the Go Digital trial, idTVs are a good deal simpler to operate than analogue TV sets combined with Set-Top-Boxes. This will be welcomed by all in the average household. This simplicity of operation factor may well be significant when considering users of the products that are limited by disabilities, or find difficulty in operating equipment with complex push-button sequences.

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

A2 idTV receivers are comparatively easy and convenient products to install and use and we believe they should be promoted as the natural replacement for the current analogue TV receiver. We further consider that the idTV receiver with a digital **terrestrial** decoder is likely to prove the most popular version, although idTV receivers which combine terrestrial and satellite are also likely to be marketed.

This trend will bring the idTV receiver to households who want to replace their main set and may not initially have considered going digital but are persuaded to do so

by the additional Free-To-View services (including 16:9 Widescreen) which are being provided by the BBC and the other Public Service Broadcasters. Bearing in mind the increasing popularity of larger screen sizes of analogue sets with 16:9 Widescreen the price differential between idTV receivers and analogue Widescreen TV sets is likely to be small enough not to discourage potential purchasers of idTVs. This price differential will be set against the price of a Set-Top-Box and should not be a disincentive. For these reasons “Digital Take Up” should begin to accelerate assuming the DTT signal quality is improved , DTT coverage is extended , sales are focused on ‘good’ DTT areas , roof top aerial installations are checked and there is a strong public information campaign.

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?*

A3 idTV receivers will be essential to achieve extensive Take Up of digital services due to the ubiquity and familiarity of analogue sets in the home and therefore idTVs being perceived as their logical replacement; and their “ease of use” factor being critical in many households that are slower to install “modern” apparently complex equipment. The process of migrating from analogue to digital is vastly simplified as a sales proposition if there is DTT coverage and a roof top aerial can be utilised. It must surely be easier to persuade a household to go Free-To-View digital through an upgraded roof top aerial (if upgrade is required) than to change to satellite or cable reception which will additionally require the household to subscribe.

We see the idTV receiver market starting to accelerate assuming DTT signal quality and coverage are substantially improved. Clearly Set-Top-Boxes will have a role in stimulating digital Take Up through combining with analogue Widescreen TV sets but the diminishing price differential should enable idTV receivers to take over from analogue TV sets **as a normal market process** within the next two to three years. Set-Top-Boxes will also be needed to connect VCRs, secondary and tertiary sets to digital. In the UK given substantial improvements in DTT signal and coverage there is an undeniable attraction in the significant change from 5 analogue services to 24 digital terrestrial services including 16:9 Widescreen as promised by the BBC/Crown Castle/BSkyB consortium. The digital receiver market will be greatly stimulated by this.

In the rest of Europe with the differing broadcasting environments it is not possible to generalise other than to suggest that in countries such as France which are predominantly DTT like the UK idTV receivers are likely to play a similar role. However the Consumer Electronics industry certainly wishes to continue manufacturing TV sets rather than surrendering to a regime of monitors and Set-Top-Boxes. A next logical step would be to high quality display devices with/without tuners. The conclusion must be that mandated idTV receivers for the whole of Europe are almost certainly not appropriate to meet the differing needs of the broadcasting environments of all the member states.

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

A4 If it is considered by all stakeholders that mandating a digital decoder into a TV receiver is advantageous for all parties, we believe care should be used to ensure platform neutrality by specifying that the receiver only needs to be capable of receiving the Must Carry Services via a digital broadcast system.

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?*

A5 See Q4

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?*

A6 The introduction of a Mandate could be achieved in three stages:

Stage 1: A requirement to label all analogue only products to indicate an Adaptor/Set-Top-Box to receive digital broadcasts would be needed following analogue terrestrial switch off.

Stage 2: A requirement for TV receivers that have a screen larger than 25 inches to be capable of receiving digital broadcasts, for definition see **Q4**).

Stage 3: A requirement for all receivers, including video equipment, to be capable of directly receiving digital broadcasts. The timing of any such implementation will be critical in order to carry positive opinion, both from the receiver manufacturing industry and the various consumer organisations. Allied to this will be the need for Free-To-View services to be universally available on digital terrestrial television.