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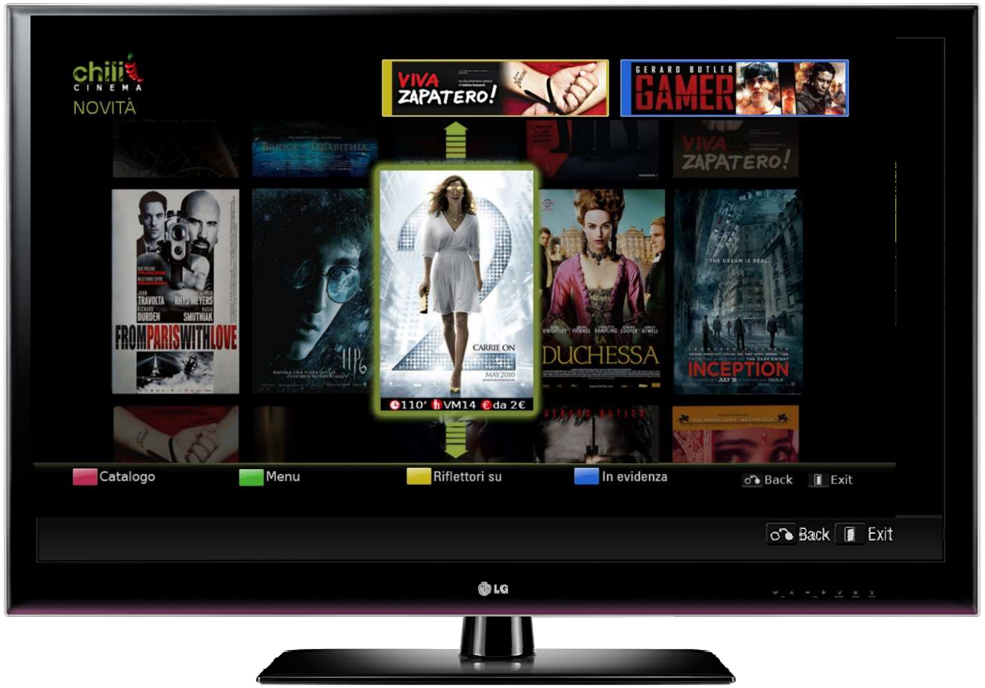
Regulatory challenges to foster the development of European VOD platforms

Ljublijana, March 6th 2013

Chili TV – a new viewer experience

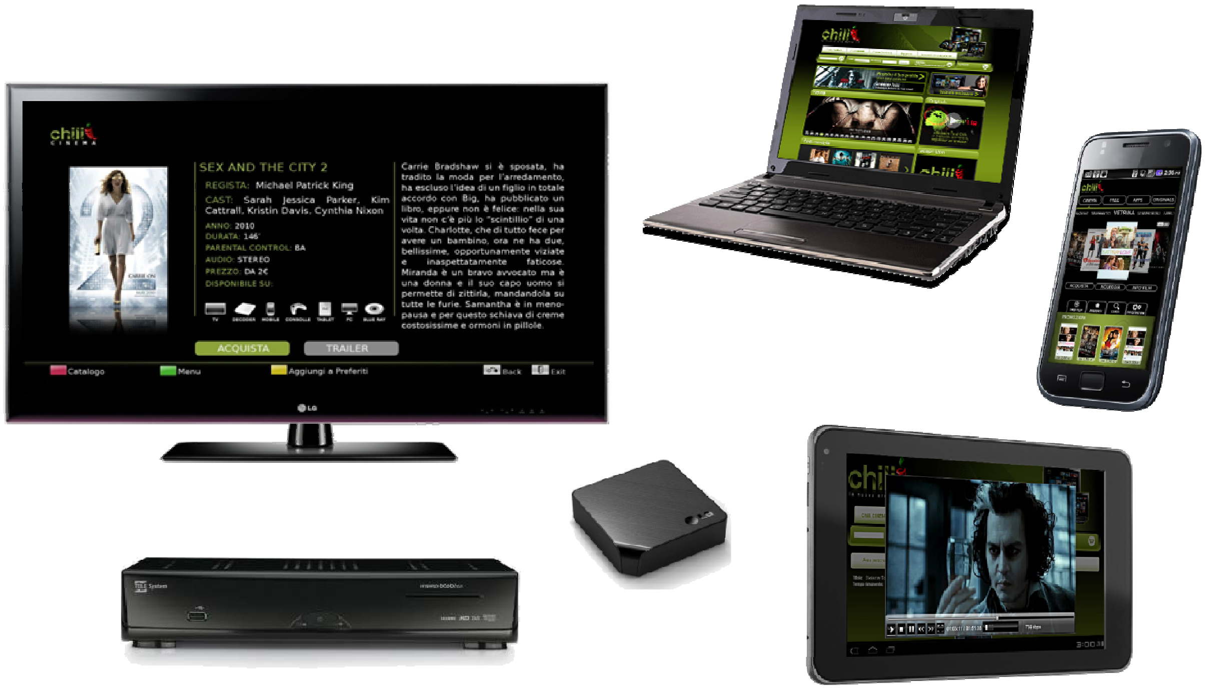


A VOD platform offering a huge catalogue, available to all households, irrespective of what broadband operator the user subscribes to

No set-top box necessary: contents available across multiple connected devices

A free and a premium section including Rental VOD and EST

Back to television



- a multidevice approach leveraging partnership with a range of manufacturer
- A great potential to change viewer habits exploiting the full potential of new HD devices

Devices distributed in Italy by end 2016

Connected TV: 15mln
PC: 18 mln
Tablets: 6 mln

Why development of OTT TV matters

Creating demand for “bandwidth intensive” applications supports the business case for NGN networks and the **achievement of DA targets**

No more scarcity connected to the limitations of TV and movie theatres schedules: VOD represents a **unique opportunity for cultural diversity**, EU content and niche products

Credible and **robust legal offer** represents the most powerful response to illegal download

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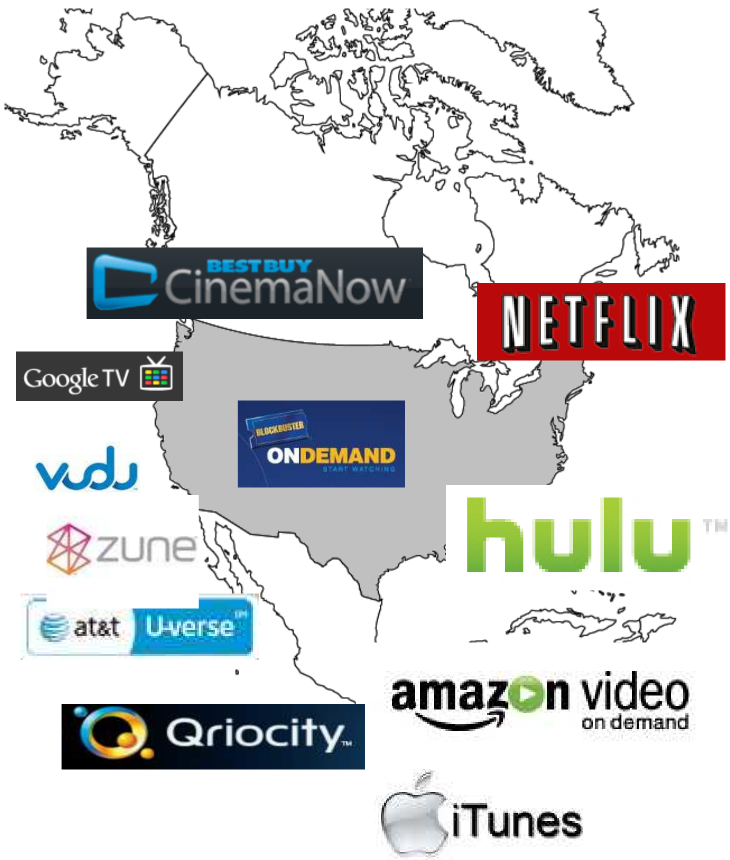
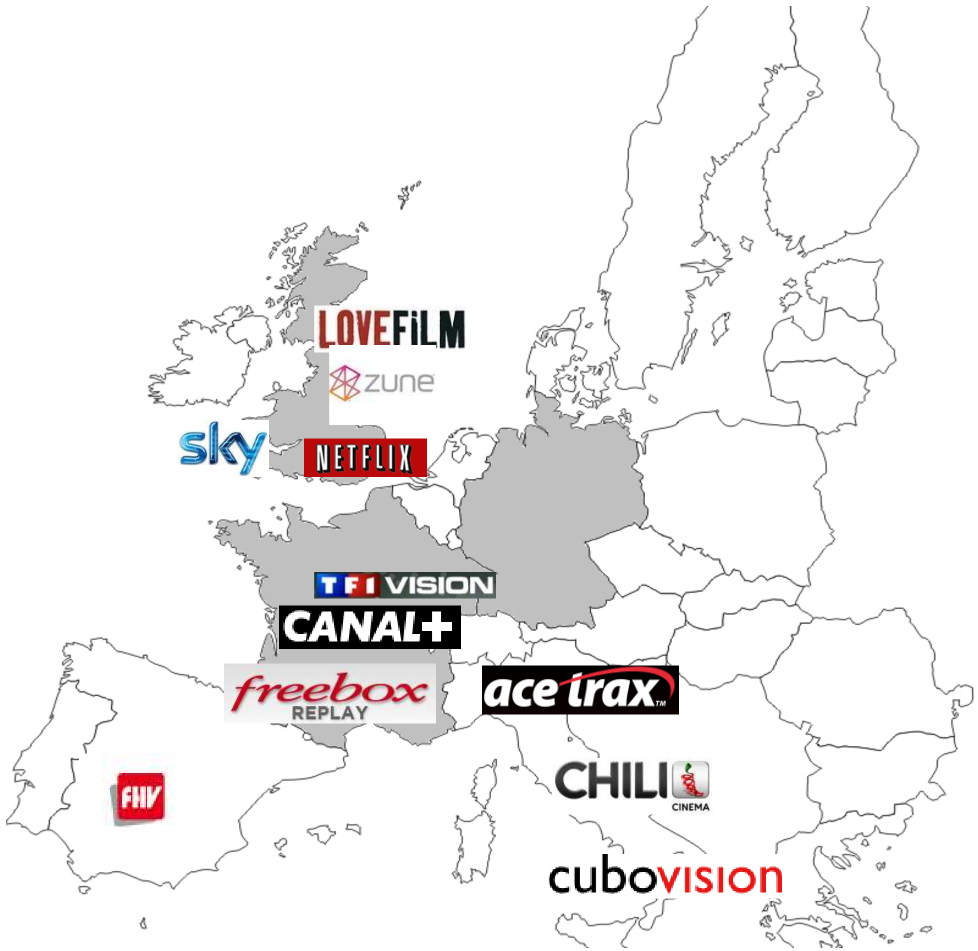
Why isn't VOD market developing in EU?



US VOD **1.8 bil $**



EUROPE VOD **0.9 bil $** (mainly UK & France)

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A closer look at the US market

Three business models emerging

Transactional

Users rent/dowload specific content paying a fee for each title

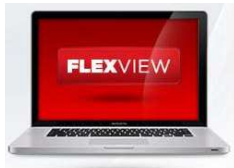
This model has the potential to become the substitute of home video rental

Subscription or advertising based

Users can access libraries and catalogues paying a monthly subscription fee or for free (advertising based)

TV everywhere

Extension of the traditional cable/satellite subscription Traditional aggregators make premium content available on demand on multiple screens to their subscribers



Only the third category is emerging in most EU countries. Little competitive pressure on traditional TV distributors to accelerate their online distribution plans

Licensing mechanisms are still a barrier to VOD

The capability of new players to emerge depends from:

Availability: capability to aggregate complete catalogues, turning the "long tail" into a business proposition

Time to market: make content available when demand and willingness to pay are higher

Flexibility: capability to experiment different models and marketing approach

Exclusive deals for VOD distribution signed by traditional aggregators prevents new players from putting together complete catalogues

Windowing system still conceived to advantage traditional distribution. Current movies made available for VOD 3 months after home video

Rigidity in retail prices imposed in the contracts prevents flexibility

The existing legal offers are not consistent with the demand

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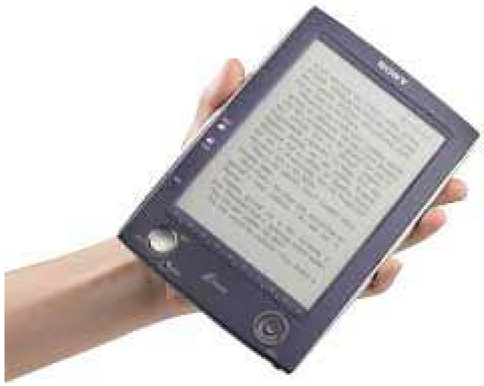
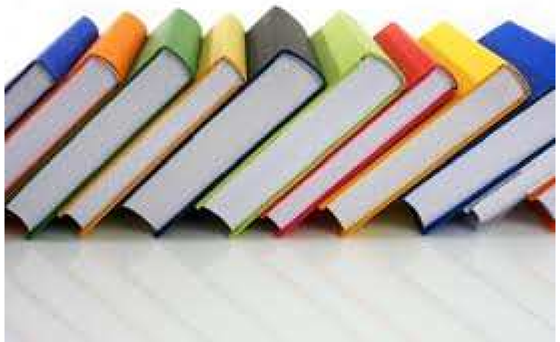
Digital single market: differences in VAT regimes advantage US-based operators

Apply reduced VAT to all cultural products → in Italy buying a physical book or a DVD (sold in bundle with a newspaper) in subject to a 5% VAT, **buying an e-book or a movie is subject to 23% VAT**

Eliminate fragmentation in VAT regimes → US-based VOD companies establishes their EU services in Luxembourg and leverage a huge discount in VAT (even when selling to Italian customers).

Eliminate fragmentation in administrative procedures → unlike other countries, an italy-based VOD services is required to collect a huge amount of data from their customes





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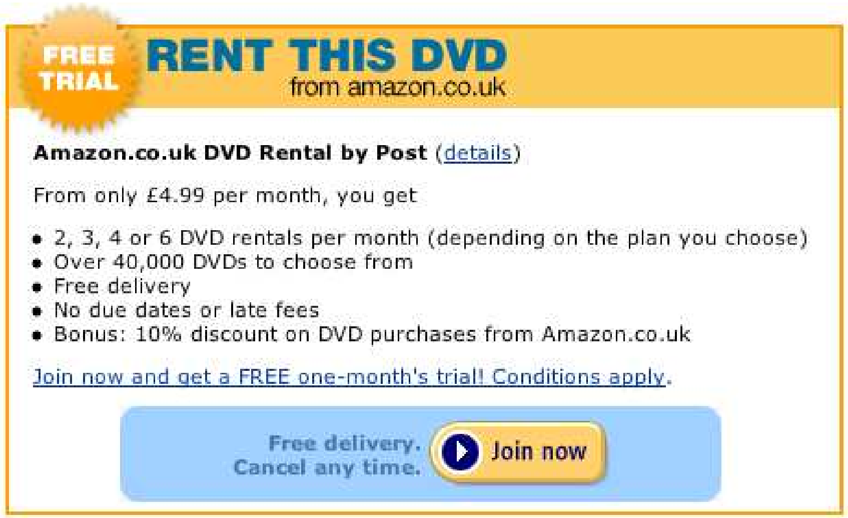
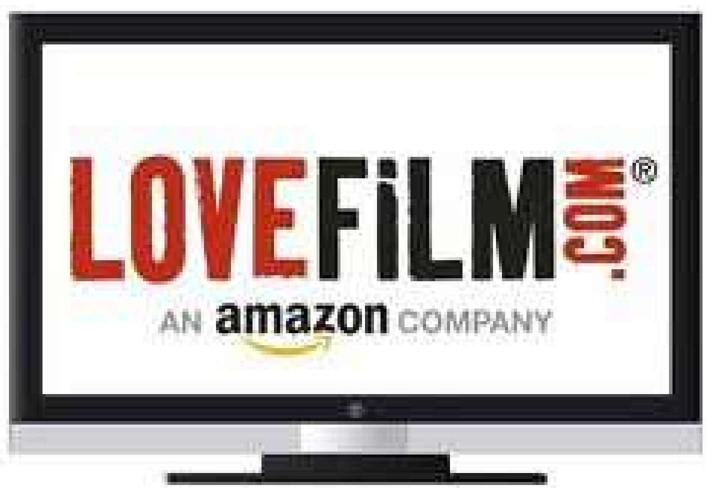
Is regulation discouraging dematerialization?

With its AVMS the EU Commission introduced a regulatory framework for non linear media which is to all extent regulated as linear broadcasting.
Although apparently creating a «level playing field» between old and new media, AVMS has created a paradox:
→ selling/renting physical DVD online falls under the e-commerce category (hence no regulation)
→selling/renting electronic copies is a «media service» and regulated

Is this consistent with policies aimed at fostering the digital economy?





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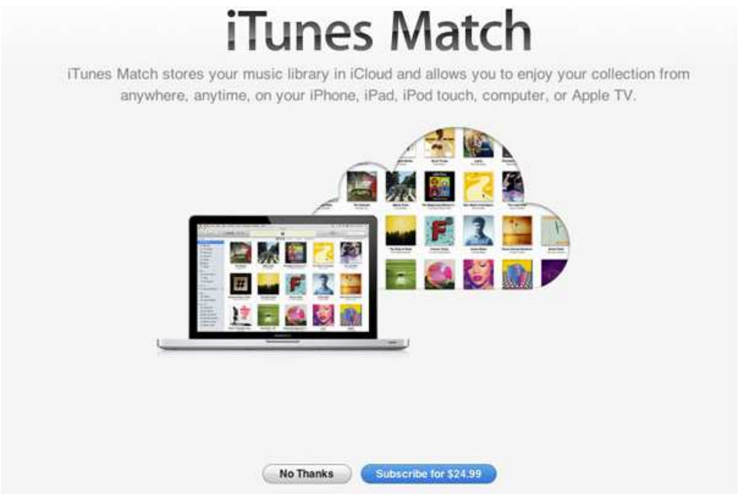
Get the cloud right

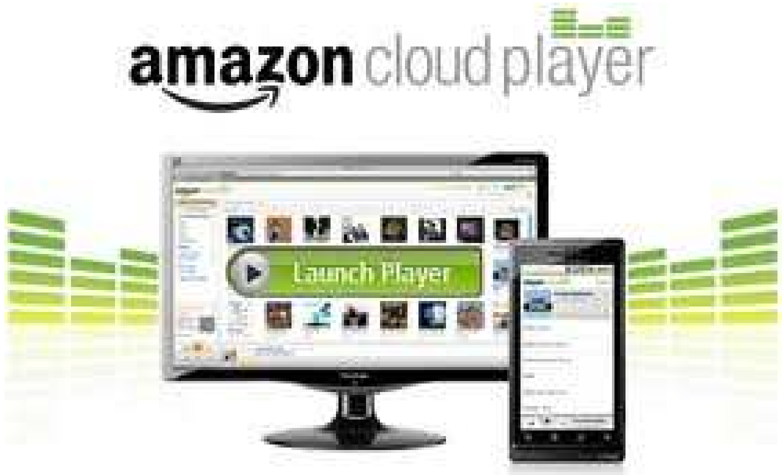
Huge uncertainties regarding the regime applicable to cloud services for audiovisual content

Based on the «private copy» exception users can make/store a copy on local storage without a licence

The same does not apply if the copy is stored on the cloud!!!

Platforms based on «re-licensing» content you already own can develop (I-Tunes match) whereas platforms based on storing your content on the cloud and playing it back from any device (Amazon cloud player) cannot develop.





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