

**e.tv BRIEFING ON DIGITAL MIGRATION TO PARLIAMENT'S PORTFOLIO COMMITTEE ON
COMMUNICATIONS**

17 JUNE 2008

1. Introduction

e.tv thanks the portfolio committee for the opportunity to make this submission. Throughout the digital migration policy-making process, e.tv has played a significant role in policy formulation and we hope to continue this participation as we move towards a digital future.

However, e.tv is concerned at the ongoing delays in the finalization of the digital migration policy. Our presentation will show that these delays will delay the commercial launch of digital terrestrial television ("DTT") far beyond what was initially expected. In the circumstances, e.tv supports the initiative of the SABC in establishing a DTT trial which is inclusive of all stakeholders as this will assist in addressing some of the issues which may arise with the commercial launch. In support of the trial, e.tv will partner the SABC in the trial phase which is planned to start in November 2008.

Today, we will outline our concerns to you in respect of the following areas:

- Frequency planning
- Set top box specifications and manufacturing process
- Regulatory processes
- Timelines
- Market conditions necessary for a successful migration
- Tariffs and subsidies

We need to bear in mind that the process of digital migration is a massive undertaking which impacts on the lives of each and every South African and which has critical implications for the future of the media industry. Migration will require eight million South African households to buy a set top box ("STB") in order to receive digital services and will have to be carefully managed to ensure the continued stability and viability of the broadcasting industry.

In this presentation we would like to demonstrate the implications of the delay in the issuing of the digital migration policy. It is important to understand that the issuing of the policy paper does not signal the end of the policy process and the beginning of the launch phase for DTT. The policy must go through certain prescribed procedures set out in the Electronic Communications ("EC") Act before it can be implemented. The Minister must consult ICASA on the policy and must publish it in the Government Gazette to obtain views of interested persons. Submissions must be submitted in not less than 30 days. Thereafter a final version of the policy direction must be published in the Gazette. After this a series of other lengthy procedural steps (all set out below) have to be followed concerning the frequency plan, the set top boxes and various regulatory and licensing procedures.

You will see from this presentation that no commercial launch is possible for at least 16 months after the policy paper has been issued. This means that a commercial launch in 2008 is impossible. We raise this point so that it is clear to the committee that, in the event that DTT has not launched by this time next year, it is not the fault of either ICASA or the incumbent stakeholders.

There have been repeated undertakings (since last year's budget speech) that the release of the policy paper is imminent, but we remain in exactly the same position as we were in April 2007. This lack of certainty over the past year has had a detrimental impact on planning and budgeting by incumbent broadcasters for the DTT rollout.

Before dealing with these concerns, we would like to draw the committee's attention to certain background information about e.tv which will put our presentation in context.

2. Background

e.tv is South Africa's second most-watched channel and holds a 20% share of the South African audience. It has a 45% local content quota and specific licence obligations relating to South African drama, languages, news, children's and information programming. In terms of its licence conditions, its public service obligations are closer to SABC1 and SABC2 than to SABC3. Contrary to what one may expect, e.tv's greatest competitors for audiences and advertising are the public service divisions of the SABC rather than SABC3. SABC1, despite its public broadcasting service ("PBS") status, has

historically attracted more advertising revenue than any other television channel in South Africa.

As e.tv was licensed on UHF – a frequency band which was not being used by other broadcasters – we have direct experience of the difficulties faced by a broadcaster when launching a new service which has transmission characteristics which differ from what viewers are used to. Even with an intensive aerial campaign, it took e.tv years to ensure that it had sufficient viewers who could receive its signal, in order to become a viable business.

Because digital migration involves the UHF spectrum, the potential prejudice to e.tv is greater than to other broadcasters.

3. Frequency planning

The migration of analogue to digital involves the development of a new frequency plan which takes account of existing services and plans a phased rollout of new digital services. This is critical to the viability of incumbent services. Certain plans which we understand are being considered on the basis of the RRC-06 plan may involve the analogue to analogue migration of millions of viewers prior to the rollout of DTT in order to make space for digital transmission. In effect, this means the risk that millions of viewers may be compelled to retune their TV sets to another analogue signal to continue receiving their channels. This will quite evidently be devastating to incumbent broadcasters.

e.tv is also concerned that the RRC-06 plan and the subsequent draft policy issued by the DoC last year, make provision for two fixed (DVB-T) broadcasting multiplexes and two mobile (DVB-H) broadcasting multiplexes. Our concern is that, in trying to accommodate DVB-H – which is not in commercial use in South Africa and which has not yet demonstrated a proven business model anywhere in the world – incumbent broadcasters like e.tv and the SABC will be unduly prejudiced. Moreover, the allocation of so much valuable broadcasting spectrum to mobile broadcasting (which will inevitably serve only high income earners and therefore a minuscule part of the population), would limit the rollout of broadcasting services that serve the programming needs of the majority of South Africans. It would also limit the number of television services available on DTT and therefore impact on the attractiveness of DTT in relation

to the take-up of STBs. In the United Kingdom, a decision was taken to prioritise broadcasting services during the digital migration process and to review the status of mobile broadcasting only after the switch-off of the analogue signal. e.tv submits that given South Africa's developmental needs, the necessity for (1) the protection of incumbent broadcasters and (2) the introduction of new public service channels which address minority languages and cultures far outweighs the allocation of valuable broadcasting spectrum to a technology with an untested business model that, if at all successful, will serve only the upper income audience. We submit that DVB-H should be subjected to a thorough study which considers its feasibility and its economic impact on other services before it is introduced in South Africa.

The frequency plan, insofar as it relates to DTT, cannot be finalized before the policy is issued. Once the policy is issued, the following steps have to be taken:

- (i) ICASA must develop the proposed frequency plan – they cannot do this until they have a policy framework which will determine how the plan is structured
- (ii) ICASA must publish the proposed frequency plan
- (iii) Interested parties have the opportunity to make written representations on the proposed plan within a specified period (given the complexity of the issues raised above, ICASA will have to allow a reasonably long period (30 days) for comments)
- (iv) Hearings may be held (again, given the complexity of the issues, ICASA would probably choose to hold hearings and this may take several days if not weeks)
- (v) ICASA will then need to consider the submissions made before finalizing the plan
- (vi) The plan must then be submitted to the Minister for approval
- (vii) The Minister has 30 days to approve the plan or notify the Authority that further consultation is required
- (viii) The Authority must publish the plan after approval by the Minister
- (ix) Sentech will need to configure the transmission network according to the new frequency plan
- (x) The issuing or amendment of radio frequency licences necessary for digital migration can happen only once the plan has been published.

Conservatively this process could, at best, take nine to twelve months from the date of the publication of the policy paper. Given the contentious issues referred to above and the fact that decisions on the frequency plan can fundamentally and irreversibly affect incumbent broadcasters, it is likely that the process could take much longer.

4. STB specification

e.tv has made various submissions concerning the STB specification. In summary, e.tv's submissions argue that policy should ensure that entry-level STBs should be:

- Affordable
- Accessible (no conditional access)
- User-friendly
- Mindful of the fact that an STB is a bridging mechanism until digital television sets are affordable and widely available

However, we would also like to address the timelines for the finalisation of the specification and manufacture of the STBs and the extent to which this affects commercial launch.

In March this year, the DoC announced to this committee that the STB specification would be forwarded to the SABS the following week. In the weeks following, repeated undertakings were made by the DoC to submit the specification to the SABS. The SABS itself was informed by the DoC that it would submit the long-form specification (necessary to kick-start the SABS processes) before the end of March. To date the long-form specification has still not been submitted to SABS and the special sub-committee established by SABS to consider the STB specification has been unable to take the matter further.

The final STB specification cannot be finalized before the policy is issued. Once the policy is issued, at least the following steps have to be taken:

- (i) The specification must be prepared according to the policy and SABS' formal requirements
- (ii) The SABS sub-committee must meet to discuss and agree on the specification
- (iii) Historically, SABS has operated on the basis of consensus
- (iv) Once there is consensus, the specification is published for public comment
- (v) The public has 60 days in which to make comment
- (vi) SABS may make any changes required after public comments have been received
- (vii) SABS issues the standard
- (viii) Thereafter ICASA would have to set up a type approval process for the STBs.

The specification would have to be made available to the manufacturing industry to start production of the STBs. The lead time for this is nine to twelve months. The STBs would then have to be tested, delivered and sold from retail outlets following a marketing campaign to drive take-up of the STBs. This could take a further three to five months.

5. Regulatory and licensing procedures

Once the policy paper is published ICASA will, among other issues, have to evaluate the market and the extent to which it can sustain new channels. ICASA will have to determine the number of channels, allocate the channels and determine the radio frequency licences in respect of these services.

In addition to any regulatory policy processes which ICASA may choose to follow, ICASA will need to follow a licensing procedure which could take between three to six months.

Once the licences have been issued, it will take the broadcasters six months to develop and launch the new channels as this will involve the employment of additional personnel, the securing of programming rights, marketing, etc.

6. Summary of timelines

If we assume that the publication of the DoC policy takes place on Day 1, the following is a best estimate of timelines to commercial launch:

DAY 1: PUBLICATION OF DoC POLICY

DAY 31: CLOSING DATE FOR COMMENTS REQUIRED IN TERMS OF ECA

DoC starts evaluating comments submitted (*estimate 21 days*)

DAY 52: FINAL VERSION OF POLICY DIRECTION PUBLISHED

ICASA starts to develop frequency plan based on policy direction
(*estimate 30 days*)

STB specification developed in accordance with policy direction
(*estimate 14 days*)

ICASA starts market evaluation in preparation for licensing process
(estimate 90 days)

DAY 66: STB SPECIFICATION SUBMITTED TO SABS

SABS sub-committee begins to consider and debate draft specification
to reach consensus
(estimate 60 days)

DAY 80: FREQUENCY PLAN PUBLISHED FOR COMMENT

DAY 110: COMMENTS DUE TO ICASA ON FREQUENCY PLAN

ICASA holds hearings and finalises frequency plan
(estimate 42 days)

DAY 126: STB SPECIFICATION PUBLISHED FOR COMMENT

DAY 142: ICASA STARTS LICENSING PROCESS

(estimate 120 days)

DAY 152: ICASA SENDS FINAL FREQUENCY PLAN TO MINISTER FOR APPROVAL

Minister considers plan and (assuming no further consultation required)
approves plan
(estimate 30 days)

DAY 182: ICASA PUBLISHES FINAL FREQUENCY PLAN

Sentech starts to configure transmission network according to
frequency plan
(timeline unknown)
ICASA to review existing radio frequency licences
(timeline unknown)

DAY 186: DEADLINE FOR PUBLIC COMMENTS ON STB

SABS to start amending STB specification to take account of public
comments
(estimate 30 days)

DAY 216: SABS ISSUES STANDARD

ICASA starts developing type approval process

(estimate 30 days)

Manufacturers to design, test, produce and deliver STBs to retailers

(estimate 270 days)

DAY 262: ICASA ISSUES LICENCES

Broadcasters start preparation of channels

Launch marketing campaign begins

(launch date dependent on wide availability of STBs)

DAY 486: STBS READY FOR SALE AT RETAIL OUTLETS**DAY 500: LAUNCH OF COMMERCIAL SERVICE**

Therefore from the date the policy paper is published to the date of commercial launch is, at best, **one year four months and 20 days**. To illustrate, assuming the DoC publishes the policy paper on 11 July 2008, the earliest possible commercial launch date for DTT will be **1 December 2009**.

7. Conditions necessary for a successful commercial launch

To ensure the success of digital migration in the very short timeframes which have been established (i.e. switch-off of analogue signal in 2011), the following conditions are critical:

- (i) Mass availability of cheap reliable STBs;
- (ii) Sufficient number of channels to incentivise viewers to buy the STBs;
- (iii) Consistent and reliable mass communication to viewers which encourages the take-up of STBs.

In this context, recent statements by the Ministry of Communications that STBs will only be required in 2011 is of deep concern. There is little point in broadcasters and other stakeholders (including the state) incurring the huge costs of launching new channels between now and 2011 if the public is being informed by government that they do not need to buy STBs until switch-off. The danger of such statements is that we end up with

8 million households scrambling to buy STBs in the last few months before the switch-off of the analogue signal. The idea behind a dual illumination period is to positively incentivize early take-up of STBs (as an enhanced viewer service) – and not to leave STB purchases until the last minute when there is a threat of losing services which will create a negative response to DTT from viewers.

8. Tariffs and subsidies

e.tv would like to draw the committee's attention to the fact that the cost of digital migration to incumbent broadcasters is considerable.

Firstly, broadcasters cannot be expected to pay the costs of the dual illumination of their analogue signals – this is purely a simulcast of their existing service and therefore no additional revenue can be earned on the digital transmission. All broadcasters (and not just the SABC) will have to be subsidized for these costs which will run into tens of millions of rands per annum. e.tv has, in other submissions on this issue, raised the issue of Sentech's tariffs and the importance of introducing tariff regulation.

Secondly, the introduction of new channels will fragment audiences and will drive down advertising rates. It is unlikely, particularly given the current economic environment, that advertising spend available to broadcasters will increase – it is more likely that the available spend will have to be shared across more channels. As more channels mean higher costs for broadcasters, this will have an adverse financial impact on incumbents. Moreover, as e.tv is entirely dependent on advertising revenue as its sole revenue source, this will be even more prejudicial to e.tv.

e.tv supports the idea of more public funding for the SABC if such funding is to be used strictly for public service programming and not to subsidise commercial programming ventures. However, it notes with concern, that the SABC is seeking subsidies for DTT (including opportunity costs for lost revenue) in circumstances where the SABC remains a dominant commercial broadcaster in South Africa. In the event that the SABC is granted subsidies for its existing services (all of which operate on a commercial basis) this will worsen the existing uncompetitive environment in the broadcasting market. Not only will it prejudice e.tv further but it will create a situation where it is impossible to introduce viable new entrants to the market at a later stage.

9. Conclusion

e.tv thanks the committee for the opportunity to present its views on the digital migration process and is happy to address any further queries which the committee may have on this matter.

e.tv

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