Single entity can help channel healthy pay-TV competition

By BURTON ONG FOR THE STRAITS TIMES

THE introduction of competition in Singapore’s pay-TV market has led to mixed results.

Viewers now have a wider range of channels to choose from. But this comes at a price—subscribers are tied to rigid “bundled packages” that largely exclude them from picking specific channels a la carte.

And telcos are dangling substantial rebates to new mobile and broadband customers, who also sign up for their pay-TV channels. But these are not extended to their pre-existing customers.

Meanwhile, basic cable television fees have been rising. Then there have been the costly skirmishes over the years to clinch the European and English football league broadcasts.

In sum, it is easy to see why subscribers are less than convinced about the merits of having SingTel compete against StarHub in the pay-TV market.

Contrast this messy outcome with liberalisation in other networked industries that require oversight by regulators—the telephony, broadband and energy markets. This has led to far more encouraging results; that is, competition in these markets has not provoked the same degree of turbulence as that encountered in the pay-TV market.

It may be argued that this has to do with the nature of the goods and services concerned—the telephony, broadband and energy sectors may be deemed quasi-utilities or “essentials”, compared to the “luxury good” character of pay-TV services.

The upshot: Regulators are probably more vigilant and proactive when it comes to markets for such essentials. They are probably more willing to, say, act decisively against players whose actions prejudice consumer welfare.

A key reason why introducing competition in the broadband and energy marketplaces has been smoother is the way significant structural changes were carried out for these industries.

Importantly, the physical infrastructure needed to connect market players to their customers was hived off to a neutral third party. Bottlenecks, a likely barrier to market entry, were averted.

Players in the high-speed fibre optic broadband market buy bandwidth from OpenNet, which owns the Next Generation Nationwide Broadband Network, for resale to retail subscribers, while players in the commercial gas supply market buy capacity from PowerGas, which owns the gas pipes, to fulfill the orders of end-users.

Can such regulatory wisdom be transplanted into the pay-TV market? At first glance, one might think so, because the two pay-TV service providers transmit their programmes through different proprietary networks.

Closer scrutiny, however, points to one area of overlap that could possibly be more efficiently managed by a neutral third party: programme content.

Both operators offer many of the same channels, especially foreign and sports channels but negotiate separately with content providers before offering cable programme packages to their subscribers.

Wouldn’t it be more sensible for a single entity to negotiate with content providers—on behalf of all market participants—so that all acquired content is available on non-discriminatory licensing terms to all pay-TV service providers?

If so, the market operators would then have to compete with each other on the basis of non-content based parameters. Both players would have access to the same pool of channels and would have to compete primarily on the basis of attractiveness of the packages offered, innovations in technology platforms and any value-added services they proffer.

Current cross-carriage rules may have been introduced with similar intentions, but they are cumbersome to administer and opaque to boot. As things stand, there will continue to be considerable uncertainty over whether an agreement with a content provider is “exclusive” or not—thus illusory, if not illegitimate.

Robust competition should always be celebrated. But serious concerns emerge when it crosses over into destructive competition that ultimately harms consumers who have to pay higher prices.

It is ironic that the last time competition in a deregulated market produced perverse outcomes investors were reluctant to negotiate directly with content providers on an individual basis.

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were quite different from the issues now facing the pay-TV market, one common lesson is this: For consumers to really benefit from competition in a liberalised telecommunications market, substantial regulatory intervention is necessary to shape the parameters of the competitive process.

Opening up a market to competition is not an end in itself. It is just as important to consider what steps have to be taken, including structural adjustments to the market, to facilitate particular modes of competition that produce desirable outcomes.

In this case, the goal is to provide the public with competitively priced pay-TV subscription services, a wide selection of unbundle channels from high-quality content providers, as well as efficient customer support and after-sales services. Customer satisfaction does not hinge on whether pay-TV service providers can negotiate directly with content providers on an individual basis...