BSG response to BBC Trust consultation

"Consultation by the BBC Trust on an application from the BBC Executive to define and promote an IP television standard ('Project Canvas')"

21 April 2009

Introduction

The Broadband Stakeholder Group (BSG) welcomes the opportunity to respond to the BBC Trust's consultation on the application from the BBC Executive to define and promote an IP television standard ('Project Canvas').

The BSG brings together a wide range of organisations from across the broadband value chain and views on Canvas vary depending on where individual stakeholders sit in that value chain. Furthermore, there are a range of interpretations across the value chain as to what the consultation suggests Canvas will be in practice. As such it is not the aim of our response to take a view for or against the BBC Executive's proposal as currently put forward, but rather to highlight the issues we believe that the Trust will need to examine in detail in order to ensure a comprehensive assessment of the proposal.

Over the last few years it has become increasingly apparent that there is a symbiotic relationship between the market for on-demand video content and the market for broadband. Around the world we have seen developments and advances in one market helping to drive demand and innovation in the other. Given this close relationship between what the Digital Britain report calls the pipes and the poetry, it is highly likely that the BBC's proposals for Project Canvas will have significant implications across the broadband value chain.

That these proposals are being put forward at a time when the telecoms sector is making its first tentative steps in the difficult transition from current to next generation broadband makes the need to understand these implications all the more important. If one of the BBC's objectives is indeed to support the development of a digital Britain, careful thought should be given to how positive synergies can be built between Project Canvas and the evolution of broadband in the UK.

We believe that it is possible to envisage both positive and negative scenarios for the way in which Canvas might impact upon Digital Britain and the transition towards next generation broadband more specifically. We believe that these possible scenarios need to be considered in detail as part of the BBC Trust's evaluation.

Potential market implications of project Canvas

1. Cost implications for network operators

   - The potential impact of project Canvas on ISP network costs is covered in some detail in the BBC Executive's proposal and we understand that further detailed work is ongoing to model the likely cost implications for different ISPs. Clearly, if implemented, Canvas would lead to a significant increase in the volume of video

traffic flowing over ISP networks and this is likely to lead to a significant increase in backhaul costs incurred by ISPs.

- The cost impact on individual ISPs will vary, depending on the nature of their networks. LLU operators could respond by upgrading their backhaul networks to cope with these additional costs however non-LLU operators using BT's IP stream will have less flexibility to mitigate these costs.

- In the longer term, as was highlighted in the recent study undertaken for Ofcom by Analysys Mason, backhaul costs (cost per Mb) could decline as operators move to Gigabit Ethernet backhaul links that are more easily scalable.

- One potential advantage of Canvas is that it could provide an opportunity to optimise the use of broadcast infrastructure for the delivery of on demand content, for example through Push VOD to a PVR. It makes sense to make the best use of broadcast infrastructure for content that is likely to have mass audience appeal, which would reduce some of the potential costs on the IP network.

- Other solutions such as streaming optimisation, dynamic buffering, and advanced compression, could all help to reduce data volumes and costs. However, this would be dependent upon close collaboration between the BBC and ISPs.

- The potential increase in network costs needs to be considered in the context of the counterfactual in which it is highly likely that there will be an increase in the volume of over-the-top video traffic regardless of whether Canvas is implemented. In a positive scenario, Canvas would provide an opportunity for the industry to manage this traffic more efficiently.

- It is also likely that the customer service costs of ISPs will increase as a result of the implementation of Canvas. ISPs are likely to be the first port of call for customers experiencing problems with the set up or operation of their Canvas devices and are also likely to have to deal with complaints from customers about the quality of service as content moves from a PC environment, widely recognised as best efforts by consumers, to the television environment where expectations about quality are far higher.

2. Strategic implications for network operators

Canvas and next generation broadband

- As mentioned above, the publication of the Canvas proposal comes at a pivotal moment as the market begins the transition from current to next generation broadband.

- Virgin Media is leading the way, rolling out a new 50 Mbps broadband service across its network based on DOCSIS 3.0 technology. BT is set to follow suit investing £1.5bn in deploying new fibre to the cabinet (FTTC) technology that will make available similar services to about 40 per cent of UK homes by 2012. However, we are still at a relatively nascent stage in the shift to next generation broadband and many ISPs are only just starting to consider their strategic approach to this transition.

- Around the world, access to compelling content has been seen as integral to the consumer value proposition for next generation broadband. The opportunity to provide HD content on demand direct to the television provides a clear opportunity for ISPs to up-sell a premium broadband service to consumers. The prospect of Canvas being launched in the UK is therefore bound to have an impact on the long-term commercial strategies of ISPs.

- Because the commercial implications for individual ISPs will vary depending upon whether or not they have an existing pay TV platform, it is difficult to assess what impact Canvas might have on the overall transition to next generation broadband. Whilst Canvas could drive demand for premium broadband services [although this is highly speculative as discussed below], it could also undermine the competitive advantage that players with an existing pay TV platform would hope to leverage in the transition to next generation. The impacts of Canvas on the commercial strategies of ISPs will therefore be complex and difficult to unravel, yet of real and important significance to the objective of helping to deliver digital Britain.

Opportunities to shift towards tiered pricing

- It is possible that Canvas could be beneficial for ISPs by providing a consumer value proposition that enables the transition to tiered pricing models and opportunities to up-sell premium broadband services with guaranteed quality of service. However, it is highly uncertain at this stage whether up-selling opportunities will exist in practice and whether ISPs would have any opportunity to defray the additional costs of supporting the Canvas service.

Development of the user interface (UI)

- The development of the user interface (UI) on the Canvas platform is highly relevant and will have commercial significance for players across the value chain.

- The UI will determine how different types of content are featured and signposted on a Canvas platform and will impact on the ability of individual ISPs to differentiate their service. Without the ability to differentiate, premium 'Canvas-quality' broadband services could quickly become commoditised.

- The proposal of a specified UI seems to be out of step with the presentation of Canvas as a set of open standards. As it is proposed, there is the possibility that this would position the BBC as a gatekeeper to content, rather than Canvas as a gateway to a wide range of innovative content. This is something that we think the Trust should look at in more detail, particularly considering how much control the BBC needs to exert over Canvas in order to ensure that its public purposes are delivered effectively.

The need to enable new revenue opportunities

- As outlined above there are likely to be significant cost implications for service providers as well as implications for the development of their own commercial strategies. As such, it is important that the Canvas proposal is developed in such a way that supports new forms of revenue throughout the value chain and provides an attractive offering to consumers which they value and will be willing to pay for.

- There is the risk that if revenue generation opportunities are not realised, the increased costs to service providers could be passed onto consumers, negatively impacting take-up of broadband services.

Canvas and the importance of PSB content

- Detailed discussions also need to take place on the potential implications of Canvas on the incentives of public service broadcasters to make their content available to alternative platforms. BBC and other PSB on-demand and archive content is likely to continue to be central to the consumer value proposition. As such, the issue of how this content is made available on a wholesale basis to other platforms other than a branded Canvas platform will be important.

Accessing the Canvas platform

- There needs to be more detail on the access model for Canvas – how content providers can get onto a Canvas platform, for what cost and on what terms. This includes the important question of whether DRM is attached to content going onto a Canvas platform (which will also affect cost issues).

3. Customer expectations and the customer experience

- Customer expectations about quality of content viewed over a television tend to be very different to expectations about content viewed over a PC screen. The performance of broadband networks varies considerably depending on line length and other factors, and in some locations it will be difficult for ISPs to provide a quality of service sufficient to support Canvas. In addition customers on basic broadband packages are likely to find that even modest Canvas usage causes them to exceed their broadband fair usage policies. These will be difficult messages to convey to consumers and there will be a need for all parties to work together to effectively communicate to ensure that consumers have an informed and reasonable understanding of what to expect.

- The suggested mechanism of a Canvas kitemark could be an effective solution here in relation to Quality of Service guarantees and allowing service providers to differentiate tiered service propositions. Yet getting the detail of this right will again require close co-ordination between the BBC and service providers.

- Furthermore, it is unclear from the proposal as it stands who will own the customer relationship for Canvas. In the case of a set-top box, there is the scenario that there is a branded set-top box, sold by a retailer, delivering BBC and other content over a broadband connection supplied by a particular service provider. Establishing who will manage the customer relationship and how, is an important consideration that requires investigation as the Canvas proposal is developed. As mentioned above, if responsibility for the customer service relationship falls to the ISP this will have significant cost implications.

4. Implications for content regulation

- The BBC Executive's proposal seems to suggest that Canvas would operate as an open platform that encourages a wide array of different content to be available on the platform to appeal to the consumer and drive take-up. Furthermore the proposal also suggests that the BBC will take a light-touch approach to editorial control, which will

be the responsibility of content providers, save a basic commitment to state that material satisfies basic standards relating to harm and offence. We strongly advise that this is an area that the Trust should pay very close attention to.

- Currently, the government is in the process of implementing the Audiovisual Media Services (AVMS) Directive into UK law. This will establish a new co-regulatory structure for VOD services in the UK, defined as *"mass media services whose principal purpose is to provide television programming to the public on demand"*. If the Canvas platform intends to go wider than pure VOD catch-up/archive content to include content typically accessed through the internet, then this potentially presents some regulatory challenges.

- There are a number of different scenarios here that warrant consideration. Would a "take-down" policy be suitable and in line with the regulatory framework? Would content have to be checked pre-load to the platform? If so, this would incur costs, and would perhaps unhelpfully position the BBC as a gatekeeper and custodian, with a right to make judgments on the nature of content, undermining the open nature of the platform and incurring contractual and resource costs for involved parties.

- The issue of a specified UI also raises some questions here, regarding who will make the decisions on how to feature the different types of content available. There is also the issue of how tools to navigate content such as parental controls would be developed and controlled.

- What is also relevant here is the access model that is established for content providers to put material onto the Canvas platform and how this will impact on relationships between content providers and other platform owners.

5. CE equipment vendors

- Further thought is required as to how the Canvas proposal will effectively coalesce existing standards in the market and the work of the various standards bodies at a European and global level. This is particularly important given that equipment vendors and set-top box manufacturers develop products for the global marketplace.

- On a related point, this will inform conversations about the likely retail cost of a Canvas compliant set-top box. Not only will close partnership be required to discuss the specifications that will inform the nature of the box, but again, will need to be viewed in the wider context of a product portfolio supplied beyond the UK market.

- Without a detailed specification, it is difficult for a cost and price to be set and beyond this the prospect of further differentiation of the capabilities of a Canvas enabled set-top box will be important for vendor commercial strategies.

- This is an area where the timescales of the Canvas proposal and the Trust consultation process are particularly challenging. A clear and transparent engagement process involving all vendors needs to be established to engender a true partnership approach.

Potential impact of Canvas for the future Digital Britain

Considering the potential market implications set out above it is possible to envisage a range of scenarios that could be either positive or negative for Digital Britain.

The most positive scenario that we can envisage depends on enabling a potentially virtuous circle where Canvas acts as a driver of broadband take-up, supporting the development of new revenue opportunities throughout the value chain. This scenario would involve:

- Canvas as a compelling consumer proposition driving broadband take-up and building an understanding of the value of higher quality tiered services.

- Service providers being able to use Canvas as a lever to offer tiered pricing for broadband packages and using this revenue to both recoup costs for the increasing level of traffic over the network and to invest in network upgrades.

- Canvas operating as a gateway for consumers to find new innovative content and for content providers to locate new audiences effectively through access to a wider addressable market.

- Canvas complimenting and not cannibalising the UK Pay TV market.

- Canvas standards building on existing European and global standards to support the scale provision of set-top boxes by global vendors.

However, achieving this outcome will depend on closer and more meaningful engagement with the full range of commercial stakeholders to ensure that their viewpoints have a real input into the development of Canvas. However, ensuring such collaboration across the value chain is not easy. The Canvas proposal links the content industry and infrastructure providers in a way that could be beneficial to both sides. However, these two industries have historically worked in different environments and in different ways. They need to be brought together effectively so that they understand each other's perspectives if the Canvas proposal is to work in practice.

If commercial incentives are not aligned effectively and the opportunities to create new revenue opportunities for players throughout the value chain are not realised, this could result in a scenario where:

- Canvas results in an increase in traffic, passing on costs throughout the value chain without achieving revenue generation.

- This could result in the passing on of costs to consumers without an improved value proposition, stagnating take-up.

- Canvas chills private sector investment in alternative platforms.

Conclusions

Our response has aimed to set out the potential market implications of Canvas for the UK broadband value chain and the potential prizes and pitfalls that Canvas may bring to the communications market.

We would strongly urge both the BBC Trust and the BBC Executive to ensure that they invest the necessary time required to work through the difficult issues with all stakeholders in sufficient detail so that the initial consideration of Canvas is effective and sets the right basis for its ongoing scrutiny and development. We also believe that further formal consultation should take place as the details of the Canvas proposal are further developed.

The BSG believes that there is the real risk that the initial consultative stages of Canvas are done at too rapid a pace to allow for real engagement with all stakeholders on the potential market implications of Canvas for the development of their commercial stages at a point in time where the UK communications market is at the very beginning of a transition phase towards a next generation broadband environment.

Should the Canvas proposal be left open to regulatory challenge, we believe that this could have a detrimental effect on the evolution of the UK communications market as a whole, putting a chill on other market developments, as commercial players await the outcome of that assessment.

The Canvas proposal points to a number of potential benefits that would contribute to the vision of a vibrant Digital Britain, where value creation throughout the broadband chain drives services, incentivises network investment and offers increased choice for the consumer. However, this outcome will only be achieved through effective cooperation and collaboration across the broadband value chain.

About the BSG

The BSG is the UK government's leading advisory group on broadband. It provides a neutral forum for organisations across the converging broadband value chain to discuss and resolve key policy, regulatory and commercial issues, with the ultimate aim of helping to create a strong and competitive UK knowledge economy.

The BSG's diverse network includes telecoms operators, manufacturers, investors, ISPs, broadcasters, new media companies, mobile operators, content producers and rights holders, as well as government departments, Ofcom, Regional Development Agencies, devolved administrations and others.