



DRIVING THE INNOVATION ECONOMY

By Laura Ipsen for Cisco Systems, Inc.

There is a growing body of evidence to demonstrate the link between investment in ICT (information and communications technology) and economic growth. The Net Impact studies, commissioned by Cisco Systems, show how connectivity can drive significant improvements in productivity. For example, the study findings estimate that Internet business solutions could contribute roughly 36 percent of the productivity growth rate.

This message has not been lost on the EU, which has rightly placed this at the heart of its Lisbon agenda with i2010 strategy. Commissioner Viviane Reding has referred to the latest EU25 data, which show that the ICT sector, while representing just over 5% of the EU GDP, actually drives 25% of overall growth and about 40% of the increase in productivity. However, she also pointed out, and most economists agree, that weaker and later investment in ICT by the European economy has widened the productivity gap with the U.S. Larger ICT sector investment has yielded as much as 60% of U.S. productivity growth. The Commissioner has called this gap between the U.S. and Europe an “opportunity gap” which needs to be bridged.

It is now time to make this aspiration a reality, but this also presents governments and regulators everywhere with new challenges. The pace of change is moving so fast that any attempt to control how new services operate is likely to be counterproductive and could unintentionally stifle innovation.

The EU also faces a particular challenge in that much of its regulation is aimed at removing barriers to the development of a single market among the 25 member states at the same time as recognizing the context of a rapidly evolving global market for information services.

Efforts to speed up the integration of an EU



market through the application of principles such as the “country of origin” rule are positive. But there is increasingly a need to be mindful of any gap between the regulatory burdens for businesses within the EU as against those outside. This

is especially true for knowledge economy services that can operate from anywhere and have the agility to re-locate in response to adverse regulatory conditions.

There is a huge amount of risk involved in any new business and not all business models will survive to maturity. The evolution of new business models in the information age has accelerated at a rapid pace such that many of the traditional legal and regulatory processes that often take years to complete cannot keep up with these new business models.

The current debate within the Commission about the revision of the Television Without Frontiers Directive is a case in point for this new regulatory challenge.

If the audiovisual services sector is left to its own devices, we can expect to see massive growth as new distribution channels create new business models for audiovisual content. Fixed line and wireless telecommunications providers will enter the market for audiovisual content offering a huge boost to the creative sector and more choice to the consumer.

The low cost of IP-based distribution systems means that a much greater range of cultural content will be offered than was ever possible through the more limited broadcast TV channels. This ‘long-tail’ effect which we have seen with Amazon and other online services shows us that many thousands of titles that usually only sell a small quantity can now reach as large an audience as the blockbuster titles. New forms of distribu-



EU INTERNET ‘WITHOUT’ FRONTIERS DIRECTIVE:

Will It Support the Lisbon Goals?

By Robin Pauley for BT.

European politicians are currently considering applying traditional broadcasting rules to the new online world. The Internet “online” business model is changing consumer expectations and challenge traditional thinking. Is the use of broadcast rules the right response and will the new draft -Directive grow Europe’s Information Age economy?

The “TV Without Frontiers” Directive debate must acknowledge the radical change in audiovisual markets now underway. “Do-it-yourself” content will play an increasing role in future, the number of on-line sources for commercial audiovisual content will multiply exponentially and their uses will change.

Perhaps the most significant shift for broadcasters will be a move from having viewers to managing customers. Interactivity delivers the opportunity to know your customer, their preferences, their viewing habits, their purchase patterns. Customer Relationship Management will be a key skill in this new future. We will see more use of “preference recommendation” technology appearing alongside content promotion where the message “people like you watched content like this” will drive hard-earned eyeballs to higher-margin content.

We will see viewing not only fragmenting from real-time to time-shifted (through Personal Video Recorders (PVR) and Video on Demand (VOD)) and from mass-market to niche, but also from the television to other portable viewing devices both around the home and on the move. In late 2005 BT announced its own vision for next generation TV which will include PVR, VOD, “catch-up TV” and a range of interactive services.

Tracking this diverse viewing behavior will present a real challenge and will put greater pressure on advertising-funded programming. Interactivity will, however, open new, revenue streams that will be critical to content owners and commissioners. Consumers will demand more and more control of their viewing behavior and trying to legislate it will not work.

Set against these dynamic changes in the market, the extension of TVWF provisions to non-linear services



is not appropriate and may stifle the innovations and investments needed for a robust European digital marketplace. EU Member states will in any event seek to ensure that such services respect minimum standards relating to protection of minors, misleading advertising, etc—even in the absence

of EU legislation. As far as freedom to provide services across borders is concerned, non-linear content providers can already rely on the EU E-Commerce Directive.

New EU regulation of non-linear AV services is not required to create a “level playing field”. Linear and non-linear services are fundamentally different and provide more opportunity for the exercise of user choice and parental control, so it is far from self-evident that they should be regulated in the same way. In addition, non-linear services are already subject to regulatory and practical constraints, so distortions of competition are unlikely to arise; indeed, competition will be intense.

Premature EU regulation of non-linear services threatens to disrupt development of an emerging audiovisual industry whose business models are still in the evolutionary phase. New legislation will be difficult to enforce and may soon be discredited, thereby undermining legal certainty for market players. The uncertainty prevailing between presentation of a legislative proposal and its final implementation will be particularly damaging to investment in an industry in its critical embryo phase. And an attempt to regulate a nascent industry carries a particularly high risk of unintended consequences. Meeting Europe’s “Lisbon Agenda” goals means allowing this market to flourish.

Ultimately, whatever the new services and means of delivery, consumers will always have the “off” button. It would be helpful, and arguably wise, for legislators to remember that they too have an “off” button; they do not have to extend one-way media regulations to two-way interactive markets that do not need it and can grow most quickly without it. **t**

OVERSET

tion therefore represent a great opportunity for all of the variety of cultural and linguistic communities within Europe to bring their creations to an entire EU and worldwide audience.

This market is likely to evolve and mature without the need for regulatory intervention. Like other forms of e-Commerce we can expect it to develop self-regulatory schemes for good practices in response to market forces exerted by the consumers it serves. Indeed, imposition of burdensome regulation, especially at such an early stage in the development of Internet video, could have the unfortunate unintended effect of reducing demand for broadband services, adoption and investment.

The spirit of the Lisbon agenda means that we should ask hard questions about whether any additional regulatory requirements are really necessary. In the case of audiovisual content delivered over the Internet, that case has not yet been made to the satisfaction of many of the players who stand willing to invest in this new field of business. If economic growth really is at the heart of the EU agenda then these concerns should be considered carefully. **t**

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