Seminar Presentation:
"New Media Developments
in Western Europe"

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May 22, 1986

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This seminar was sponsored by the Center for Telecommunications and Information Studies, Graduate School of Business, 809 Uris, Columbia University, New York, NY, 10027, (212) 280-4222.

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I think that one of the most interesting facets of the development of the new media industries internationally--not just in Europe--is the collection of some of the terrible stories that have emerged from this not-so-new-anymore revolution in technology and in television specifically. I'd like to talk a little bit about one such story, that of Coronet, with which those of you who follow the European media industry are no doubt familiar. I think it offers a great many lessons on a wide range of topics for those who are interested in the development of that industry. I think it tells us a little bit about some of the technological, commercial, and economic issues connected with the development of new media. But probably most importantly of all, it tells us something about the political issues. When discussing Coronet before various groups I always like to say right at the outset that I believe that the whole affair was about 99% politics and 1% business. The story of the project reflects this to a large degree.

Because it received so much attention in '84 and '85, there are a great many misconceptions about what has happened and what is happening with Coronet. I think that in order for us all to have a sort of common base of information from which to proceed,

I might do well to start at the beginning, even at the risk of repeating some things that some of you may already know.

The Coronet project was started in 1983 by an American and satellite/telecommunications industry enterpreneur by the name of Clay Whitehead, who had been the president of Hughes Communications, one of the two largest manufacturers of telecommunications satellites in the world. Hughes had created the first dedicated television satellite distribution system in the world, the Galaxy Satellite System. There were two such satellites built in the United States in four years, Galaxy One and Two; both of them were launched about seven years ago. Today, they are the primary carriers of cable television transmission in the country and many of you may be familiar with them.

Following the success of this program, Whitehead came up with the idea of establishing a European variation on the Galaxy theme, which was to be the first private, Pan-European television satellite. Now all of those adjectives turn out to be very pregnant and important to the story. The fact that it was a private satellite to begin with was quite unusual for Europe, where there were no private satellites--in fact, there are none to this day, while in the United States there are about thirty. It was to be not only a private satellite but one dedicated to the distribution of commercial television programs--and in 1983 there was <u>no</u> private, Pan-European television distribution at all. And in many countries there was no commercial television at

all. In addition to these factors, Coronet was also unique in that it endeavored to be a regional television transmission satellite. The Europeans had long tried to come up with regional satellites of various kinds and had been most notably successful in doing so with the Eutelsat satellite system, which was, or is, the European "counterpart," if you will, to the Intelsat system. Eutelsat has as its primary purpose the provision of telecommunications transmission services to its European PTT members, although its surplus capacity has historically been used occasionally for television distribution and is in fact being increasingly so used.

The Coronet satellite had as its basic philosophical underpinning a couple of business assumptions. The first was that there would be deregulatory moves in the European television industry that would create increasing numbers of new commercial broadcasters, who would need to distribute their signals to national and regional audiences. The second assumption was that Coronet's technology--which differed from that then currently under consideration (primarily in the U.K., Germany, and France)--for the construction of national, high-powered DBS satellites, was not any longer the most efficient way to provide satellite-delivered television.

As you may know, there were and are, (or merely "were," depending on how you look at it) three different major national DBS projects in Europe. In the U.K. there was Unisat, in France there was TDF, and in Germany there was TV-Sat, all of which were

similar in design in that they were to use high-powered DBS satellites with seven or fewer channels. The French, for example, had four. Coronet, on the other hand, was designed as a medium-power telecommunications system with 24 transponders, or channels, of which 16 were to be used for television distribution and eight held in reserve as spares. Coronet was therefore proposing to offer a much larger number of channels and use a much cheaper satellite, because medium-power telecommunications satellites are rather well-developed, almost to the point of being mass-produced items, and thus the cost of the satellite itself was about a third of the British and French versions. In addition, the number of channels offered was far greater, so that the cost per channel was very significantly less than that of the three other projects.

The basic strategy of Coronet was, and still is, to provide its distribution capacity to new media broadcasters that wish to operate on a national or regional basis, broadcasting to cable systems, collective antennae, and individual reception dishes. The fact that Coronet sought to transmit to all three of the most common methods of reception was another significant difference between it and other European systems--planned or existing--for satellite distribution. It also intended to broadcast both pay- and advertising-supported television, and therefore to use a scrambled signal. And from the very beginning, Coronet was meant to be a regional satellite system, which goal influenced a number of elements of the project's design. For example, the

decision to provide three message and distribution cables, collective antennae, and individual reception was a reflection of the vast differences between the telecommunications infrastructures and regulatory environments of various European countries. In those countries where there was already an extensive cable network--such as Belgium, which is almost 90% wired--the ability to distribute to cable systems was both interesting and potentially profitable. In other countries, where cable was nonexistent or very young, as in France and Germany, it would be necessary to distribute through other means. In both of those countries collective antennae, particularly in urban areas on large apartment blocks, as well as individual reception dishes in rural areas, were considered to provide a viable method of distribution.

The project began in earnest in the summer of '83, which is when I was first introduced to it. I was in charge of international project finance at Solomon Brothers and Coronet was one of our clients. The initial boost to the project had been provided by Home Box Office, which provided its seed equity, but more important than this was the development of a good relationship with the government of the Grand Duchy of Luxembourg, a country whose role in European television far exceeds its size. Luxembourgers like to call themselves giants among the mini-states of Europe, which in fact they are. A country of about 100 square miles and a population of about 250,000 people, Luxembourg is a trilingual nation, with French,

German, and Luxembourgish all being official languages. It is also the home of the largest and oldest commercial broadcaster on the continent of Europe, RTL, also known as CLT, and is as a result very sensitive to and interested in the television industry.

Luxembourg, like all countries in Europe pursuant to the 1977 World Administrative Radio Conference, has been allocated certain direct broadcast satellite locations and orbital positions. The DBS positions to which it was entitled were passed on to the country's star company, RTL, for that firm's use in developing its own television satellite, which it tried to do in the late '70s in the form of a project that was called Luxsat. This effort, however, failed for a variety of reasons, many of them political. The most important of these was that while RTL is the largest commercial broadcaster in Europe, is one of the largest companies in Luxembourg, and is the largest taxpayer in Luxembourg, it is through its uniquely Gallic system of organization in fact controlled by a nationalized French company, and therefore by the French government. This arrangement created a political quagmire that prevented the project from ever being completed. The Luxembourgeois thus felt very frustrated in that as a small country, they felt that they were missing out on satellite television. And pretty much everyone in Luxembourg agreed that this was not good. So when we approached them, we pointed out that the Coronet project might be the perfect answer to their problem in that it required not a DBS orbit slot, but an

FSS orbit slot, or Fixed Satellite Service orbit slot. The distinction between the two is really an anachronistic, legal one left over from the WARC '77 meeting. Today, the technical distinction is in reality non-existent--in this industry, three or four years is a long time, and 10 years is doubly so. At the time of WARC '77, it was considered technologically impossible to broadcast directly to homes using lower- or medium-powered television satellites. Fixed Satellite Service satellites were thus not considered viable for television distribution purposes and there was therefore no special allocation made of orbital slots for them, nor was a very stringent regime designed to govern their subsequent distribution. It basically came down to a first-come, first-served situation, where those who wanted to use unallocated slots could register their intention to do so with the International Telecommunications Union in Geneva and, following a certain procedure, go ahead and use them. Coronet was designed to use just such a slot, and in discussions with the Luxembourg government, it was agreed that the project would in fact provide a very neat solution to their problem.

They were relieved, I think, to find that they had not given away their only opportunity to broadcast by satellite, that alongside the DBS slots, which were and are still held by RTL, an alternative had been made available by advances in technology, which was to use Fixed Satellite Service satellites for television distribution. It was on that basis that an agreement was struck with the government of Pierre Werner, who was Prime

Minister at the time, leading a coalition Christian Democratic-Liberal government. Luxembourg is a unique and interesting place in that it is sort of German one day and French the next, depending on the issue. Politically, the Christian Democratic and Liberal parties are almost identical to their German counterparts. The Luxembourgeois Socialist party is almost identical to, and in fact we like to refer to it as a branch office of, the French Socialist Party. When Coronet began, the Christian Democrats and Liberals made up the governing coalition and the Socialists were in opposition, and it was with that government that we negotiated a franchise to use Luxembourg's FSS orbit slots, which we were first to help them register for. In exchange for the use of the Luxembourgeois slots, we were to do several exciting things for the Grand Duchy. Number one, we had reluctantly agreed to pay 50% of our income in taxes and royalties. Number two, we were to build an uplink tracking, telemetry, and control station in Luxembourg, as well as a post-production facility for common use of our 16 television network customers, which facility was to employ about 300 people. Number three, we agreed that the company would abide by a great many restrictions, particularly concerning its shareholders, the use of its channels, and the content of the programming. As regards shareholding, we agreed that the company would be 90% European and 10% American; that is, that the original American shareholder, HBO, would be the only American company that would be allowed a shareholding; they already owned

a 10% chunk of the company. Secondly, we agreed that the Americans who were involved in the project--myself and Whitehead--would be the only ones that would be involved with the project. In fact, I was the only American that was in Luxembourg. We agreed that the official language of the company would be French, which it was. We agreed that all of the transponders would be leased exclusively to bona fide European television broadcasters; and by that we meant companies that were majority-owned by Europeans. We had said that we would lease the transponders to broadcasters, both existing and new, who wished to reach the Western European market, of which we covered about 85%--a circle reaching from Madrid to Vienna and Rome to Stockholm and including most of the British Isles. And with that caveat we also agreed to be bound by the European Parliament's edict edict on programming content: 65% of the programming was to be of European manufacture and if the quotas for any regional European broadcaster changed, ours would change accordingly.

With this we began the project and proceeded to lease out about six of the 16 transponders. We purchased a satellite from RTA, which was the only company that was prepared to bid for the contract. We made a launch reservation with Ariane, as well as with the space shuttle, which is common practice in the satellite industry. And we then started in on fighting the political battles that confronted us in Europe. We were in a very difficult position in that we were a private, enterpreneurial venture in an industry that was exclusively government-

controlled, particularly in satellite telecommunications. As such, we were of the view that we were a Luxembourgeois company and that the existing regulatory environment allowed for the broadcasting of television programming from one European Community member state to another according to rules that were already to a certain extent in place. During the life of Coronet, these rules became even more sharply focused by the Commission's Green Paper on television, which was in some measure a result of the Coronet controversy. Despite this view, or perhaps because of it, we were quite sorely tested in most jurisdictions. We were sued in five or six different countries, we were sued in the European Court of Justice, we were sued by Eutelsat in front of the ITU--which surprised everyone, including ITU itself, which is not a judicial body--and managed with varying degrees of success either to win or at least gain a stay of execution in all these various courts.

What finally happened, however, is that the French government, in its opposition to Coronet, resorted not to judicial but to political pressures. When there was an election in Luxembourg, the incumbent government was defeated and replaced by a coalition of the Christian Democrats and the Socialists. At that point the French, who were quite serious about launching their four-channel TDF satellite, about which you have all undoubtedly heard a great deal recently, had become increasingly alarmed that Coronet was going to be a very significant commercial threat. Coronet was marketing transponders offering

coverage of all of Europe--as opposed to just France--at about one-fifth of TDF's price. As a result, the new coalition government agreed to the nationalization of Coronet and the creation of a new entity called SCS, which took over the Coronet project, bought out the original shareholders and enterpreneurs for about 60 cents on the dollar, and is now proceeding with the original project, almost unchanged except for a very different kind of management group, under the name of SCS. The company is controlled primarily by banks who are themselves controlled by the government of Luxembourg, and it is basically just another public-sector project. SCS plans to launch its satellite 6 to 9 months after the French satellite.

Now I think that the facts of the Coronet case, which I have quickly outlined, are important to any discussion of the ramifications of the project. It's taken me quite a long time to figure out what is really happening, what it really means, and I don't think any of us know yet how it's going finally to check out. But I will make one or two concluding comments by way of drawing some lessons from the experience. First, it is certainly true that the European media industry is different from the American and the development of new media broadcasting cannot be approached in the same way as in the United States. We were conscious of that from the outset. One difference is that, as one of my favorite ads that's being run right now by a European accounting firm says, there's no such thing as "Europe." There is a great diversity. There is barely any cooperation on

anything from standpoints of technology and regulation. This point is brought home particularly well by the inability of European industry ministers to agree on a broadcast standard for satellite television, much less on any of the more political issues surrounding satellite and television. This diversity is also evident in the debates--especially the one in Germany--on what kind of television individual countries or regions within countries should have. These are intensely political issues, and it is exceedingly difficult for Europeans themselves, much less Americans, to see clearly enough to be able to make significant investments.

I think that as a result of much of my work this year I've been able to draw one fundamental and underlying conclusion about everything relating not only to television, but also to telecommunications and the high-tech industry in Europe, and even to the European economy as a whole. And if you look at the ways such industries develop in the United States or Japan versus how they develop in Europe, one of the things I think one invariably uncovers is a structural difference between the way innovation is handled. In the United States enterpreneurs and venture capitalists are very frequently engines of technological change, in Europe much less so. In the whole of Europe today there is about one-quarter as much venture capital available as in the United States. As a result, Europeans themselves have been reluctant to take risks in telecommunications because of the role of politics and the unwillingness of government agencies to

invest in the industry at all. This makes innovation exceedingly difficult. One of the repercussions of this is that a project like Coronet was essentially doomed to the fate that befell it. That is, it was destined to be taken over by the government because this was the only way in which the local business and regulatory communities were accustomed to dealing with such innovations. This is also true in less technology-sensitive areas of the television industry in Europe. There is a much greater degree of government regulation than we are accustomed to. We were originally of the opinion that the economic benefits, at least to the country of Luxembourg, created by Coronet would far exceed any of the resulting damages or problems, but we soon learned that this was really a moot point. It became much more important politically to focus on the fact that the idea for the project came from Americans and on the fact that 10% of the equity was held by Americans. Some of you probably saw the headlines, particularly in the French press, saying that Coronet was going to be a Coca-Cola satellite, was going to be the Trojan Horse for American broadcasting, and so forth. All of the factual arguments against that, along with our insistence that we were not going to lease channels to American companies, were really shoved to one side in favor of the nationalist argument that we were not Europeans. I hope that the ultimate lesson of Coronet will be that ultimately bureaucrats and politicians are not going to be able to play an active role in the development of new technology-sensitive industries,

particularly those such as satellite telecommunications, and that their more proper place is going to be in the shepherding of private initiatives so that one day these can become significant new employers. I don't know that this is necessarily the case, but I believe it certainly to be the principal lesson to be drawn from the Coronet experience.

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I believe the Coronet case provides a practical study of problems in two areas. One is the development of communications in Europe, particularly public communications. The other is the relationship between Europe and America in the field of mass media.

As Steven Koltai has said, there's "no such thing as Europe." And yet, Europeans are trying very hard to create such a thing. And I think that sooner or later the emphasis placed on what they call regional coordination or cooperation will mean that certain elements of European integration will have to succeed if Europe is to survive as a viable socioeconomic and cultural unit.

I think one has to struggle with this contradiction created by the fact that while there is no Europe, "Europe" in fact does exist and is alive and well and living in Brussels. Those of you who are at all familiar with the attempts at European unification will be aware of the fact that there is an embryonic European government in Brussels. Now this is something that very few politicians are prepared to say out loud--especially in Denmark, which is the country which is least willing to accede to

the idea of European government, as evidenced by the fact that no Danish minister is ever allowed to agree to anything in Brussels unless it has been specifically approved by the Danish Parliament beforehand. Other countries, however, realize that they'll never get anywhere that way. The United Kingdom, curiously enough, allows its ministers to sign all kinds of agreements in Brussels on the assumption that they can sell them to the House of Commons afterwards. They don't pay any mind to the House of Lords, whose Select Committee on the European Community has said that in fact all kinds of things are happening in Brussels that infringe on the sovereignty of the British Parliament. The Lords are in fact correct, for when the Community in Brussels--through the Council of Ministers and all its consulting subgroups--decides to issue a regulation, or decides to issue a directive, or decides to issue a recommendation, it is binding on the member states and takes precedence over national legislation in the same field. I don't know how many people outside Europe are aware of this but it is a very important fact, particularly in this field.

The Green Paper on television was a very fat document which in a sense represented the "discovery" of mass communication by the EEC. A former colleague of mine, for example, who produced this Green Paper, is an excellent lawyer and quite experienced in interpreting the Treaty of Rome, but he had never beforehand had the chance to grapple with the intricacies of communications. In the Green Paper, he found himself coming to the conclusion that as far as the Treaty of Rome was concerned, the important thing

was that every member state of the community have a television station which provided time for advertising. What else it did was no concern of the Community.

When we read this at the European Institute we raised one eyebrow, if not two, and said "surely there is more to European broadcasting than this." The European broadcasting tradition, of course, runs along entirely different lines, and when I came to read the part of the Directive that is now out, I was very amused to see that that the point had--after a fair amount of consulting exercise--gotten through to the Commission that broadcasting has something to do with entertainment, has something to do with information, has something to do with education. These are, in fact, the three pillars on which John Reith, the father of broadcasting in the United Kingdom not only built the BBC, but also to some extent the structure of the philosophy of broadcasting in Europe.

Europe is trying to get its act together in this field, as it has in others, at a time when the technology is forcing it to do so. Even with a medium-powered satellite, for example, one can cover between ten and twenty European countries, and of course even more with a direct-broadcast, high-powered satellite. And in Europe--as opposed to the United States, where DBS seems to be a rather dead issue--high-powered satellite transmission is very much alive and every self-respecting government intends to put a satellite of its own up. Furthermore, any self-respecting government that can't afford it

is trying to join together with others and do the same. One of the reasons why I'm here, in fact, is the Olympus satellite, which is to be put up by the European Space Agency and with which a joint European, multi-lingual program called Europa TV will be transmitted. The Dutch, the Portuguese, the Irish, the Germans, and the Italians--though not the French, significantly--are all participants. Whether Europa TV will in fact survive until the satellite is available is a point into which I will not now go.

But to come back to the present, this is happening as a result of the fact that Europe is a tightly packed little end of the Eurasian land mass, where peoples speaking ten or so different languages live cheek by jowl, each of them with a very strong sense of its own national importance. Steven Koltai has touched on the nationalist notions of the Luxembourgers, and in a sense the nationalist notions of European countries are proportional to their size, so you can imagine what the British, the French, and the Germans are like. Even the Dutch, who have a strong commitment to Europe, are even now wondering whether this is altogether wise, for it seems that the Dutch language may not see the light of the twenty-first century unless they do something about being at least a little more nationalistic.

At the same time there is a strong trend towards deregulation, fueled very largely, I think, by the experience of the United States. Why have all these rules? Why not let the market forces rip? Forcing this issue, of course, are a number of migrant entrepreneurs, migrant workers, as it were, such as

Mr. Murdoch and Mr. Berlusconi, who go from one country in Europe to another and say "we will run a satellite television service for you never mind what the governments say."

Governments for their part have only just begun to realize what has hit them. Up until now they have been able to take the line that they control all television, though not necessarily radio, signals that are transmitted to their population and that nobody else has a right to interfere with those. They are now discovering that it ain't necessarily so. There is Skychannel, for example, which uses a low-power satellite signal that covers Europe from roughly Lisbon to Helsinki and from Florence up to Denmark. This is a service run by Mr. Murdoch, who, after being an Australian citizen for many years has now become an American citizen and is no doubt quite willing to become a citizen of any other country were it to benefit his commercial program. He provides full-cost signals, and attempts to do so in the most practical and economical form possible. Skychannel is wiping the floor in those countries where viewers are able to receive it, in other words, those countries that have substantial cable systems. In Holland, for instance, the National Broadcasting Foundation finds that it has lost something like 60% of its audience in the 25-30 age group because they all watch Skychannel. Its programming is a mix of the sublime and the ridiculous, or the ridiculous and the sublime, if you will. But it is regarded as being generally compatible with the youth culture, and is not as contemptuous as Music Box, which is owned

partly by Granada Television and partly by Home Box Office, and broadcasts a sequence of video clips running six hours at a time that is then repeated four times a day on a low-power satellite fed into the European cable systems.

So you have there at least two Europe-wide broadcasts that bear no relationship to anything broadcast in the EEC member states, which hold a highly organized, highly stratified, wholistic view of broadcasting. Their programs include entertainment, information, education, programs for minorities, political analysis, and things of that sort. These new channels want nothing to do with that, and provide no news, no anything, nothing but entertainment. The pan-European programs are thus moving into the direction of the same kind of programming segmentation that exists in the United States, whereas the national programs are still trying to maintain the audience for their traditional, straight up-and-down public service schedules. The difficulty is that there is only 100% of an audience available to all--there ain't any more. As long as you divide that audience up in the same cozy way that it has been in Europe in the past, among two, three, or possibly four national services, you'll find on the whole that two of the them take the popular course and get say 80% of the audience between them, while there may be two possibly slightly more highbrow channels taking the other 20% between them. As long as that is so, you know where you are, the politicians know where they are, the advertisers know where they are, and the broadcasters know that

they can rely more or less on the license fees that they collect. Once you start introducing lots of other channels, then of course the whole of this edifice crumbles, and that is what is now happening in Europe. The effect of Skychannel and Music Box has been to destabilize a situation that has been highly noncompetitive for the last 25 or 30 years. So Europe has to find a new state of equilibrium, a new philosophy to cope with the situation. I think for Americans it is extremely important to understand that Europe has to some extent been forced to adapt itself to the global media environment idea that was pioneered here. The Americans must also understand that the Europeans have a very strong view of their own excellence in the broadcasting field, and a very strong view of the role of broadcasting in society, which is much more determinist, as it were, than has ever been the case here. Therefore in moving into Europe, one has to understand and to accept this. But even as a European, I'm not even sure that I would say that there is a lot in the European tradition that is worth preserving.

The other thing we have to do is in fact to decide where the regulatory pitch should be kept. Do we continue to license programs, do we let it go, if we do what will be the effect of the unlicensed services upon the licensed services? This is a very important question because there's a fairly thin line between what can be done and what cannot be done.