

## EDITORIAL

### Music at the heart of the information society

Content is a key dimension of new information society services, both in terms of the attractiveness of competing services, economic growth and job creation. A key European asset in this respect is the strength of its sound recording industry.

In contrast to the US domination of the world's audiovisual market, three of the world's six largest music groups are European: Germany's Bertelsmann Music Group, PolyGram, which is 75%-owned by the Netherlands' Philips, and Britain's Thorn-EMI. The others are America's Time Warner, Canada's MCA and Japan's Sony.

Together, the six "majors" control about 75% of the world's market for pre-recorded music, which was worth 31.5 billion Ecu in 1995, up 50% from 1991. As for the three European players, they control about 40% of this market. In 1995, the European Union (EU) and the USA each accounted for 31% of the global market and Japan 19%.

In addition to these six giants, there are hundreds of small companies specialising in musics that have small or local audiences. These SMEs are viable because production costs in the music sector are low compared to the audiovisual programme industry.

The fact that 60% of recordings sold in the EU originate there illustrates the weight of local music. Even though a large proportion came from Britain, national music represents 45% to 50% of the market in countries like Finland, France and Italy.

Recordings represent an important component of the services supplied by other industries, in particular radio and TV broadcasters and audiovisual producers. It also plays an important role in multimedia software, CD-ROMs or video games.

Some emerging new services are specifically related to music, in particular Music-on-Demand, the on-line delivery of recordings or radio broadcasting over the Internet.

But for it to flourish, the recording industry is totally dependent on an appropriate level of copyright protection. This is essential for rightsholders to control the commercial use of their works as well as to prevent pirating. While the EU provides one of the

world's highest level of copyright protection, a level-playing field is also needed at global level.

Major steps to adapt existing copyright law, which in fact reaches well beyond the scope of sound recording, to new digital technologies were taken by the World Intellectual Property Organisation (WIPO) Diplomatic Conference on certain copyrights and neighbouring rights held in Geneva in December 1996.

The conference, which was attended by representatives of 120 states and 78 organisations, adopted two treaties, respectively on copyrights and on performances and phonograms, hence updating 25-year old conventions and introducing new provisions responding to the challenge of on-line communications, in particular the Internet.

## EUROPE

Trends: Germany is in the spotlight with major shifts of alliances in the telecoms sector and mounting difficulties facing Kirch both at legal and market levels. Digital TV tops the news in Spain, with a government decision to impose decoding specification, as well as in the UK, with the creation of terrestrial digital broadcasting consortium led by BSkyB. In France, the emphasis is on the creation of a major multimedia pole capable of competing in the global market place around CGE, Havas and Canal+, which indicates that convergence is also gaining momentum in Europe.

## INFRASTRUCTURE

Stream, the multimedia subsidiary of the Italian telecoms holding STET, has said it would invest about 5 billion Ecu in the development of a cable network based on the digital video broadcasting (DVB) standard to connect 10 million homes by 1998.

## MULTIMEDIA SERVICES AND PRODUCTS

The German computer manufacturer Siemens Nixdorf Informationsysteme (SNI) unveiled plans to launch a 600 Ecu worth network computer (NC), the Scenic Pro Net 2.

The device would be based upon Intel's Pentium microprocessor and have 16 Mbit of memory. It would run Microsoft's Windows PC operating system and Internet browser downloaded from a network. The Scenic would also be extendible for users who require more stand-alone functionalities with an optional hard disk, floppy drive and CD-ROM.

The move is particularly interesting in that Siemens has chosen to adopt America's Intel and Microsoft technology rather than

opting for the Network Computer Reference Platform 1 (NCRP), open technical specifications based on Internet standards endorsed in 1996 by a broad alliance comprising 50 companies led by America's Oracle, IBM, Sun Microsystems, Apple and Netscape in a move to actually erode the market dominance of Microsoft and Intel.

## LEGISLATION AND POLICIES

The Spanish government has adopted rules to secure the compatibility of digital TV decoding technologies so that a single set-top box provides access to all digital bouquets.

While the government argues that the move aims at facilitating consumers' life, it has outraged Canal Satellite, a digital satellite broadcasting (DSB) service launched on January 30, whose set-top box could be outlawed if it doesn't comply with the government decoding specifications, which have yet to be defined.

Canal Satellite, which is led by the Spanish media giant Grupo Prisa and the French pay-TV group Canal+, argues that in reality, the government's decision is aimed at supporting a rival DSB consortium, DTS, due for launch later this year.

It says the move was triggered by the recent shift of alliance of the private broadcaster Antenna 3, which decided to quit DTS and join forces with Canal Satellite.

DTS comprises the national telecoms operator Telefonica, the public broadcaster Television Espanola (TVE) and the Mexican TV group Grupo Televisa.

The Hamburg District Court bared Kirch, the German leader in digital satellite broadcasting (DSB), to advertise and sell its DSB service DF1 outside Bavaria.

The ruling followed an injunction filed by the German pay-TV group Premiere, in which Kirch has a 25% stake but which is controlled by arch-rival Bertelsmann and the French pay-TV group Canal+. Kirch won a temporary suspension of the ruling in appeal.

Meanwhile, the German Constitutional Court overturned a decision from the Berlin/Brandenburg media authority barring Kirch from advertising and selling its sports channel DSF outside Bavaria. But DSF is still under scrutiny of the German Administrative Court.

These legal difficulties come on top of Kirch's struggle to get DF1 off the ground -- it has only 20,000 subscribers instead of a planned 250,000 --, mounting pressure in digital TV with the launch of a pilot service by Premiere, and reluctance from the British pay-TV leader BSkyB to finalise the purchase of a 49% stake in DF1.

A German local court in Bavaria dropped one-year old charges against the US commercial on-line service CompuServe for breaking German law by allegedly distributing pornographic material and neo-nazi propaganda. The company responded by blocking access to over 200 Internet sites identified by German authorities.

The German government has awarded the country's fourth digital mobile license to E2 Mobilfunk, a joint venture controlled 62.5% by the German industrial group Viag and 37.5% by its UK telecoms partner BT. It will compete with D1, owned by Deutsche Telekom, D2, a subsidiary of Mannesmann, and E-Plus, controlled by Thyssen.

The Turkish Constitutional Court has given its green light to government plans to sell-off 49% of the national telecoms operator Turk Telecom, probably by July 1997.

## MARKET AND COMPANIES

The Norwegian state-owned telecoms operator Telenor has said it would take a 10% stake in Viag Interkom, a German telecoms joint venture between the German industrial group Viag and the leading British telecoms operator BT.

Meanwhile, the UK telecoms group Cable & Wireless (C&W) and the German industrial group Veba agreed to dissolve their telecoms partnership. Veba would buy C&W's 45% stake in their German joint venture Vebacom for 1.1 billion Ecu, while C&W would buy Veba's 50% stake in their European joint venture C&W Europe for 46 million Ecu. However, Veba said it intends to retain its 10% stake in C&W.

The move should not pose a threat to the planned merger of the telecoms activities of Veba and of the German energy utility RWE. This would follow RWE's recent decision to discontinue a planned alliance with Viag Interkom.

The UK media groups BSkyB, Carlton Communications and Granada Group have agreed to form a consortium, British Digital Broadcasting (BDB), which would invest 400 million Ecu in the launch in 1998 of digital TV based on terrestrial broadcasting.

BDB, which has also concluded a programming accord with the British public broadcaster BBC, will now seek to win a license as well as approval from the UK Independent Television Commission. It could also come under scrutiny of British competition authorities as a result of BSkyB's domination of the British pay-TV market.

The Dutch electronics giant Philips has agreed to transfer its multimedia software activities to France's Infogrames Entertainment, Europe's leader in entertainment software, in exchange of an increase of its stake in Infogrames from 13% to up to 34%.

The creation of a big French multimedia pole capable of competing at world level is back on the agenda with the rapprochement

between the water utility company *Companie Générale des Eaux (CGE)* and France's largest media group *Havas*.

Under the deal, CGE would become the major shareholder of *Havas* with a 30% stake up from 2%. In exchange, *Havas* would take over CGE's shares of the French pay-TV group *Canal+* (including shares bought back from the telecoms manufacturer *Alcatel* which would cut its stake to 7%), hence becoming the main shareholder with a 40% stake.

*Havas* would remain *Canal+*'s main shareholder with 34% even after the completion of the merger with South Africa's *Nethold*, which will create Europe's largest pay-TV group. It would also take over CGE's audiovisual production arm, *Générale d'Images*.

As a result, CGE, which also intends to divest its cable TV assets, would refocus its activities on telecoms, which are expected to raise to 25% of its turnover by 2000. Indeed, its telecoms arm *Cégétel* leads an alliance comprising amongst others Britain's *BT*, which is set to become the major rival to the incumbent operator *France Télécom*.

As for *Havas*, it would become a vertically integrated company controlling the entire chain of audiovisual activities from production to distribution. Based on their respective strengths in telecoms and content, CGE and *Havas* would jointly develop new products.

## SOCIAL, SOCIETAL AND CULTURAL

The Danish telecoms operator *Tele Danmark* has unveiled plans to cut 2,000 jobs or 12% of its workforce over the next 18 months in a move to remain competitive.

*Tele Danmark*, the country's former monopoly, already faces strong competition in the cellular market from *Sonofon*. Furthermore, *Sonofon* and the Swedish operator *Telia* have both unveiled plans to enter into full-scale competition with *Tele Danmark*.

## NORTH AMERICA

Trends: In the USA, the focus is on *AOL*'s difficulties, the erosion of *Netscape*'s market dominance and the emergence of on-line book selling.

## MULTIMEDIA SERVICES AND PRODUCTS

Barnes & Noble, the largest US book retailer, has announced a partnership with America OnLine (AOL), the world's leading commercial on-line service, to develop an on-line database of over one million titles to sell books over the networks.

It would compete with Borders Group, the second largest US bookseller, which also has plans to set up an on-line bookstore as well as several European retailers such as Britain's W.H. Smith Group, which launched a Web-based bookstore in October 1996, and France's La FNAC, which is in the process of getting on-line.

It would also challenge Amazon.com, a US start-up which pioneered on-line book selling. It has a catalogue of over 1 million books and software, and its revenue is growing by 20% to 30% a month. Its workforce has grown from seven to 200 over two years.

America OnLine (AOL), the world's leading commercial on-line service with 8 million subscribers, is the victim of its success: its network capacity is overwhelmed following surging use triggered by the recent introduction of a \$19.95 monthly flat rate.

The move, which was designed to remain competitive in face of growing competition from Internet access providers, has attracted 500,000 new subscribers and more than tripled usage from 30 million hours in the Summer of 1996 to 100 million in December and an expected 125 million in January. As a result, the service is jammed at peak hours.

To remedy the problem, AOL said it would invest \$350 million instead of \$250 million in network capacity improvement by June 1997.

Under threat of legal action from angry subscribers, AOL said it is also ready to reimburse some clients either in cash or free on-line time.

Adding to these problems, AOL had to shut down its service in 40 Russian cities because of skyrocketing fraud, in particular through the use of stolen credit cards.

## LEGISLATION AND POLICIES

The US Federal Communications Commission (FCC) has decided to make available 300 MHz of spectrum for new Unlicensed National Information Infrastructure (U-NII) devices that will provide high-speed wireless digital communications.

The digital devices, which do not require licensing, would support the development of wireless local area networks (LAN) providing access to the information superhighway, in particular for educational institutions, libraries and healthcare providers. Schools for instance would be able to create cheap wireless computer networks between classrooms.

The FCC also said the new rules would stimulate the growth of new industries and increase the global competitiveness of US manufacturers of U-NII devices.

## MARKET AND COMPANIES

Once unrivalled in Internet browsers and related business servers, America's Netscape is facing mounting pressure from Microsoft, the world's leader in PC software.

Between April 1996 and January 1997, Netscape's market shares slipped from 87% to 70% in browsers and from nearly 100% to 75% in the server market.

Most of the losses went to Microsoft, whose market shares jumped from 4% to 28% in browsers and to 10% in the server market (the remaining 15% went to other companies).

While the trend isn't yet reflected in the three-year old start-up's net income, which has surged by 1,600% to \$8.8 million since last year, investors have already pinpointed the trend. As a result, Netscape's stocks went down by over 35% in the last month.

The main strength of Netscape's products lies in their compatibility with all computers. But this may not be appealing to many firms which rely on Microsoft's Windows PC operating system and therefore don't mind using Windows-only compatible products.

To keep its leadership in the Internet market, Netscape is now turning towards the corporate Intranet market with a new software, Communicator. But here again, Netscape will face stiff rivalry from Microsoft and from the market leader, US computer giant IBM, with its Lotus Note groupware, which is used by over 8 million customers.

## SOCIAL, SOCIETAL AND CULTURAL

The US Commerce Department said it will award grants worth \$18.5 million under the Telecoms and Infrastructure Assistance Programme (TIIAP) to outstanding projects that use new information services and technologies to offer concrete solutions and target measurable outcomes to address specific community needs or problems.

The TIIAP is a competitive, merit-based scheme which aims at giving access to the benefits of the information society in under-deserved rural and urban areas. Non-profit organisations, colleges, universities and state entities are eligible.

Since its creation in 1994, the TIIAP has awarded over \$79 million for projects in education, healthcare, local development and more responsive public administrations.

## ASIA-PACIFIC

### MARKET AND COMPANIES

The Japanese overseas telecoms operator KDD said it has formed an alliance with nine Japanese electricity utilities in anticipation of government steps to let it compete with the incumbent operator Nippon Telegraph and Telephone (NTT) in the domestic market.

KDD said it plans to interconnect its Japan Information Highway (JIH), a 700 million Ecu worth submarine optical fibre network it would develop around the three main islands of the Japanese archipelago by mid-1999, with the utilities' private networks.

The move aims at further reducing the company's dependence upon NTT's network in view of further liberalisation, thus allowing to substantially cut tariffs. KDD added that it is also close to finalising an alliance with the Japanese long-distance operator DDI.

### OTHER PARTS OF THE WORLD

#### LEGISLATION AND POLICIES

Guatemala's telecoms state monopoly Guatel said the Guatemalan government is planning to 95% privatise it.

#### SOCIAL, SOCIETAL AND CULTURAL

Etisalat, the United Arab Emirates' telecoms monopoly, said it has introduced Proxy Service, a mandatory service that bans access to identified World Wide Web sites that breach local moral and religious values and traditions.

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E-mail subscription: [Majordomo@www.ispo.cec.be](mailto:Majordomo@www.ispo.cec.be); enter SUBSCRIBE ISTRENDS + your e-mail address